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, you should at once hand this circular and the accompanying proxy form to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

HJ Capital (International) Holdings Company Limited

華金國際資本控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 982)

(1) EXTREME TRANSACTION AND CONNECTED TRANSACTION; (2) CONTINUING CONNECTED TRANSACTION; AND (3) NOTICE OF SPECIAL GENERAL MEETING

Financial Adviser to the Company

ANGLO CHINESE CORPORATE FINANCE, LIMITED 英高

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

SOMERLEY CAPITAL LIMITED

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

The letter from the Board is set out on pages 7 to 39 of this circular. The letter from the Independent Board Committee is set out on pages 40 to 41 of this circular. The letter from the Independent Financial Adviser is set out on pages 42 to 80 of this circular, which contains its advice to the Independent Board Committee and Independent Shareholders.

A notice convening the SGM to be held at Unit 3605, 36/F, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong on Tuesday, 14 January 2020 at 11:00 a.m. is set out on pages SGM-1 to SGM-4 of this circular. A proxy form for use at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours (i.e. Sunday, 12 January 2020 at 11:00 a.m.) before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

* *For identification purpose only*

27 December 2019

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In this circular, the following words and expressions shall have the meanings set out below, unless the context otherwise requires:

"1H 2018"	the six months ended 30 June 2018
"1H 2019"	the six months ended 30 June 2019
"Acquisition"	the proposed acquisition of the Sale Shares by the Company pursuant to the Asset Transfer Agreement as supplemented by the Sale and Purchase Agreement
"Asset Transfer Agreement"	an agreement entered into between HK Huafa and the Company on 20 December 2019 in relation to the Acquisition
"Beijing Jiujun"	Beijing Jiujun Real Estate Development Co., Ltd.* (北京九郡房地產開發有限公司), a company established in the PRC with limited liability and a direct wholly-owned subsidiary of the Target Company as at the Latest Practicable Date
"Board"	the board of Directors
"Business day(s)"	a day (other than a Saturday or Sunday or public holiday in Hong Kong and any day on which a tropical cyclone warning no.8 or above or a "black" rainstorm warning signal is hoisted in Hong Kong at any time between 9:00a.m. and 5:00p.m.) on which banks are open in Hong Kong for general commercial business
"CAGR"	compound annual growth rate
"China Index Academy" or "CIA"	China Index Academy (中國指數研究院), the Company's industry consultant
"Company"	HJ Capital (International) Holdings Company Limited (華金國際資本控股有限公司*), a company incorporated under the laws of Bermuda with limited liability and the issued Shares of which are listed and traded on the Main Board of the Stock Exchange (Stock code: 982)
"Completion"	completion of the Acquisition in accordance with the terms of the Sale and Purchase Agreement
"Completion Date"	the date of Completion, which shall take place three Business days after the last of the conditions precedent under the Sale and Purchase Agreement has been fulfilled or waived in writing by the Company, or any other date as the Company and HK Huafa may agree in writing

"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Consideration"	the consideration payable by the Company to HK Huafa for transfer of the Sale Shares pursuant to the Sale and Purchase Agreement, being RMB 733,780,000 (equivalent to approximately HK$817,211,000)
"Controlling shareholder"	has the meaning ascribed thereto under the Listing Rules
''Director(s)''	the director(s) of the Company
"Effective Date"	as ascribed in the Asset Transfer Agreement which shall have the same meaning as the Completion Date as agreed by the Company and HK Huafa
"Enlarged Group"	the enlarged Group immediately after Completion;
"Framework Agreements"	the Property Management Services Cooperation Framework Agreement and the Procurement Cooperation Framework Agreement
"FY2016"	the financial year ended 31 December 2016
"FY2017"	the financial year ended 31 December 2017
"FY2018"	the financial year ended 31 December 2018
"GFA"	gross floor area
"Group"	the Company and its subsidiaries
"HK Huafa"	Hong Kong Huafa Investment Holdings Limited (香港華發投資控股有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Zhuhai Huafa, and is an indirect controlling shareholder of the Company as at the Latest Practicable Date
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Huafa Elevator"	Zhuhai Huafa Building Elevator Engineering Co., Ltd.* (珠海華發樓宇電梯工程有限公司), a company established in the PRC with limited liability and a direct wholly-owned subsidiary of Huafa Property Management as at the Latest Practicable Date

"Huafa JLL"	Zhuhai Huafa Jones Lang LaSalle Property Management Services Co., Limited* (珠海華發仲量聯行物業服務有限公司), a company established in the PRC with limited liability and owned as to 60% by Huafa Property Management and 40% by Beijing Jones Lang LaSalle Property Management Services Co., Ltd.* (北京仲量聯行物業管理服務有限公司) as at the Latest Practicable Date
"Huafa MCS"	Zhuhai Huafa Municipal Comprehensive Services Co., Ltd.* (珠海華發市政綜合服務有限公司), a company established in the PRC with limited liability and a direct wholly-owned subsidiary of Huafa Property Management as at the Latest Practicable Date
"Huafa Property Management"	Zhuhai Huafa Property Management Services Co., Ltd.* (珠海華發物業管理服務有限公司), a company established in the PRC with limited liability and a direct wholly-owned subsidiary of Beijing Jiujun as at the Latest Practicable Date
"Huafa Property Management Group"	Huafa Property Management and its three subsidiaries, Huafa MCS, Huafa Elevator and Huafa JLL
"Huajin Investment"	Huajin Investment Company Limited (鏵金投資有限公司), a company incorporated under the laws of Samoa with limited liability, holding approximately 36.88% of the total issued Shares, and a direct wholly-owned subsidiary of HK Huafa as at the Latest Practicable Date
"Independent Board Committee"	an independent committee of the Board comprising all of the independent non-executive Directors, namely Dr. Chen Jieping, Dr. Sun Mingchun and Mr. Tse Yung Hoi, established to give recommendation to the Independent Shareholders in relation to the Acquisition and the Property Management Services Cooperation Framework Agreement
"Independent Financial Adviser" or "Somerley"	Somerley Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the Property Management Services Cooperation Framework Agreement
"Independent Shareholders"	Shareholder(s) other than Huajin Investment

"Latest Practicable Date"	24 December 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"PRC"	The People's Republic of China, which for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Procurement Cooperation Framework Agreement"	the framework agreement dated 20 December 2019 entered into between Huafa Property Management and Zhuhai Huafa in respect of Huafa Property Management's procurement of Products and Services
"Product and Services"	procurement of various types of products and services from Zhuhai Huafa and/or its associates (excluding the Group and the Target Group) pursuant to the Procurement Cooperation Framework Agreement
"Property Management Services Cooperation Framework Agreement"	the framework agreement dated 20 December 2019 entered into between Huafa Property Management and Zhuhai Huafa in respect of Huafa Property Management's provision of property management services to Zhuhai Huafa Group
"Reorganisation"	the reorganisation of the Target Group in preparation for the Acquisition
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the agreement dated 20 December 2019 entered into between the Company as purchaser, HK Huafa as seller and Concord Bright as guarantor in relation to the Acquisition
"Sale Shares"	93,000,010 ordinary shares of the Target Company, representing 100% of the issued ordinary shares of Target Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

"SGM"	the special general meeting of the Company to be convened for the Independent Shareholders to consider and, if thought fit, to approve the Acquisition, the Property Management Services Cooperation Framework Agreement and the transactions contemplated thereunder
"Share(s)"	ordinary share(s) of HK$0.00025 each in the share capital of the Company
"Shareholder(s)"	registered holder(s) of the Share(s) of the Company
"sq.m."	square meters
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Business"	the property management services and related value-added services carried on in the PRC by Huafa Property Management and its subsidiaries
"Target Company" or "Concord Bright"	Concord Bright Holdings Limited (和輝集團有限公司), a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of HK Huafa as at the Latest Practicable Date
"Target Group"	the Target Company and its subsidiaries, or, where the context so requires, in respect of the period before the Target Company became the holding company of its present subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
"Track Record Period"	the three years ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2019
"US$"	United States dollar(s), the lawful currency of the United States of America
"Zhuhai Huafa"	Zhuhai Huafa Group Company Limited* (珠海華發集團有限公司), a state-owned enterprise wholly-owned by the Zhuhai SASAC and a controlling shareholder of the Company as at the Latest Practicable Date
"Zhuhai Huafa Group"	Zhuhai Huafa and its subsidiaries and associates excluding Huafa Property Management Group
"Zhuhai Huafa Modern Service"	Zhuhai Huafa Modern Service Investment Holdings Co., Ltd.* (珠海華發現代服務投資控股有限公司), a wholly-owned subsidiary of Zhuhai Huafa Group

"Zhuhai SASAC"	State-owned Assets Supervision and Administration Commission of Zhuhai Municipal People's Government* (珠海市人民政府國有資產監督管理委員會)
"%"	per cent

For the purpose of this circular and for illustrative purposes only, unless the context otherwise requires, conversion of RMB to HK$ is based on the exchange rate of HK$1.1137 to RMB1, conversion of US$ to HK$ is based on the exchange rate of HK$7.8 to US$1 and conversion of US$ to RMB is based on the exchange rate of RMB7.002 to US$1 and should not be construed as a representation that any amount has been, could have been or may be, exchanged at this or any other rate.

HJ Capital (International) Holdings Company Limited

華金國際資本控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 982)

Executive Directors:
Mr. Li Guangning *(Chairman)*
Mr. Xie Wei *(Chief Executive Officer)*
Ms. Guo Jin
Mr. Tze Kan Fat

Non-executive Directors:
Mr. Shong Hugo
Ms. Zhang Kuihong

Independent non-executive Directors:
Dr. Chen Jieping
Dr. Sun Mingchun
Mr. Tse Yung Hoi

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal place of business in Hong Kong:
Room 3605, 36/F
Cheung Kong Center
2 Queen's Road Central
Central, Hong Kong

27 December 2019

(I) EXTREME TRANSACTION AND CONNECTED TRANSACTION;
(II) CONTINUING CONNECTED TRANSACTION; AND
(III) NOTICE OF SPECIAL GENERAL MEETING

I. INTRODUCTION

References are made to the announcements of the Company dated 25 August 2019 and 20 December 2019 in relation to, inter alia, the Acquisition and the Framework Agreements.

According to the Measures for the Administration of State-owned Assets Transaction of Enterprises (《企業國有資產交易監督管理辦法》) ([No.32] of the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)), the disposal of the Target Company being state-owned assets shall be conducted through public tender bidding procedures on an equity exchange.

On 23 August 2019, the Board submitted a bid to Guangdong United Assets and Equity Exchange* (廣東聯合產權交易中心) (the "**Equity Exchange**") of the PRC for the acquisition of the Sale Shares. The Company has received notice from the Equity Exchange on 24 August 2019 confirming that the Company has been selected as the successful bidder for the Acquisition and is required to negotiate and enter into legally-binding formal agreements (i.e. the Asset Transfer Agreement and the Sale and Purchase Agreement) with HK Huafa and/or other relevant parties.

On 20 December 2019 (after trading hours), the Company entered into (i) the Asset Transfer Agreement with HK Huafa and (ii) the Sale and Purchase Agreement with HK Huafa and Concord Bright pursuant to which the Company agreed to acquire and HK Huafa agreed to sell the Sale Shares at the Consideration of RMB733,780,000 (equivalent to approximately HK$817,211,000) which will be satisfied by cash.

On 20 December 2019 (after trading hours), Huafa Property Management entered into the Framework Agreements with Zhuhai Huafa pursuant to which upon Completion, Huafa Property Management will provide Property Management Services to and procure Products and Services from Zhuhai Huafa Group in relation to the operation of the Target Group.

The purpose of this circular is to provide the Shareholders with, inter alia, (i) further details of the Acquisition and the continuing connected transactions subsequent to Completion; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Acquisition and the Property Management Services Cooperation Framework Agreement; (iii) a letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the Property Management Services Cooperation Framework Agreement; (iv) further information about the Target Group; (v) financial information of the Group; (vi) accountants' report of the Target Business; (vii) management discussion and analysis on the Group and the Target Group; (viii) unaudited pro forma financial information of the Enlarged Group; (ix) valuation report of 100% equity interest of the Target Company by an independent valuer; and (x) a notice of the SGM.

II. THE ACQUISITION

PRINCIPAL TERMS OF THE ASSET TRANSFER AGREEMENT AND THE SALE AND PURCHASE AGREEMENT

(A) THE ASSET TRANSFER AGREEMENT

Date: 20 December 2019

Purchaser: The Company

Seller: HK Huafa

(B) THE SALE AND PURCHASE AGREEMENT

Date: 20 December 2019

Purchaser: The Company

Seller: HK Huafa

Guarantor: Concord Bright

Subject matter

The Asset Transfer Agreement is stipulated by the Equity Exchange for State-owned Property Transfer Operational Rules* (《廣東聯合產權交易中心企業國有產權轉讓操作規則》) and the Equity Exchange for State-owned Assets Trading Business Management Measures* (《廣東聯合產權交易中心國有資產交易業務管理辦法》) and is supplemented by the Sale and Purchase Agreement. The Asset Transfer Agreement encompasses generic terms determined by HK Huafa and the Equity Exchange during the tender bidding procedures for potential bidder, whereas the Sale and Purchase Agreement provides further terms and conditions of the Acquisition, determined after arm's length negotiations between HK Huafa and the Company. The Asset Transfer Agreement is required to be submitted for filing at the Equity Exchange any time after its execution.

Pursuant to the Asset Transfer Agreement and the Sale and Purchase Agreement, the Company agreed to acquire and HK Huafa agreed to sell the Sale Shares, which represent the entire issued share capital of the Target Company.

Consideration

The Consideration is RMB733,780,000 (equivalent to approximately HK$817,211,000), which is to be settled by the Company in the following manner:

(a) 30% of the Consideration, or RMB220,134,000 (equivalent to approximately HK$245,163,000) (the "**Initial Transaction Payment**"), will be settled by cash within 5 Business days after the Effective Date (the "**First Payment Date**").

(b) 70% of the Consideration, or RMB513,646,000 (equivalent to approximately HK$572,048,000) (the "**Remaining Transaction Payment**") will be settled by cash within one year from the First Payment Date (the "**Final Payment Date**").

The Consideration was determined between the Company and HK Huafa based on arm's length negotiations after taking into account, among other things, (i) the minimum tender price of RMB733,780,000; (ii) the recent financial position and performance of the Target Group; (iii) the valuation of 100% equity interest of the Target Company as at 30 June 2019 of approximately RMB805,727,000 by an independent valuer; and (iv) the business prospects of the Target Group.

Under the Measures for the Administration of State-owned Assets Transaction of Enterprises (《企業國有資產交易監督管理辦法》) ([No.32] of the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)), (i) the Company is required to pay interest for the Remaining Transaction Payment in accordance with the interest rate of the People's Bank of China for the period until full payment of the Consideration; and (ii) a legal and effective guarantee which is accepted by HK Huafa shall be provided to HK Huafa for the Remaining Transaction Payment plus interest as aforementioned. The Target Company shall upon Completion provide a guarantee to HK Huafa for the Remaining Transaction Payment plus interest.

The Company intends to use its internal resources and bank borrowings to pay the Consideration. As at the Latest Practicable Date, the Company has secured sufficient financial resources to pay the Consideration. Pursuant to a facility letter ("**Bank Facility A**"), an uncommitted revolving credit facility in the amount of up to US$30,000,000 (equivalent to approximately HK$234,000,000) has been granted to the Company, with the latest repayment date of 20 July 2020 and at an interest rate of 2.8% per annum above Hong Kong Interbank Offered Rate ("**HIBOR**"). Pursuant to a second facility offer letter ("**Bank Facility B**"), a loan facility in the principal amount of up to RMB740,000,000 (equivalent to approximately HK$824,138,000) has been granted to the Company for the purpose of payment of the Consideration, for a term of 24 months and at an interest rate of 2.8% per annum above HIBOR. As at the Latest Practicable Date, the Company has obtained an undertaking from HK Huafa in relation to providing a shareholder's loan to the Company in the amount of not more than RMB733,780,000 (equivalent to approximately HK$817,211,000) in two tranches for the purpose of payment of the Consideration (the "**Shareholder's Loan**"). The drawdown amount of the Shareholder's Loan shall not be more than RMB220,134,000 (equivalent to approximately HK$245,163,000) from 1 November 2019 to 30 June 2020 and not more than RMB513,646,000 (equivalent to approximately HK$572,048,000) from 1 November 2020 to 30 June 2021 with interest rate at 5-7% per annum on the outstanding loan amount which shall be payable monthly. The Shareholder's Loan shall be repaid within 2 years from the first drawdown date, and may be further extended by 1 year subject to agreement by both parties. The undertaking also contains specific performance obligation on the controlling shareholder, whereby the outstanding loan and accrued interest shall be immediately due and payable in the event HK Huafa ceases to be the controlling shareholder of the Company. As at the Latest Practicable Date, it is not expected that the Company will pay the Remaining Transaction Payment and interest thereon prior to the Final Payment Date.

As at the Latest Practicable Date, the Company intends to satisfy the Consideration in the following manner:

(i) drawdown of (i) approximately US$20,000,000 (equivalent to approximately RMB140,040,000 and HK$156,000,000, respectively) from Bank Facility A ("**Bank Loan A**") and (ii) approximately RMB80,094,000 (equivalent to approximately HK$89,201,000) from Bank Facility B, being approximately RMB220,134,000 (equivalent to approximately HK$245,163,000) in aggregate on the Effective Date, to satisfy the Initial Transaction Payment on the First Payment Date;

(ii) using the Group's internal resources available then and/or Bank Facility B to refinance Bank Loan A in 2020 in the event that Bank Loan A could not be renewed, which the Directors consider unlikely to happen; and

(iii) using the Group's internal resources available then and/or Bank Facility B to satisfy the Remaining Transaction Payment.

Conditions precedent

Completion of the Sale and Purchase Agreement shall be conditional on the following conditions having been fulfilled or waived in accordance with the terms of the Sale and Purchase Agreement:

(a) the Company having completed and being satisfied with the due diligence on the Target Group (including but not limited to legal, financial, tax and commercial aspects);

(b) the Stock Exchange having confirmed that (i) the transactions contemplated under the Asset Transfer Agreement and the Sale and Purchase Agreement do not constitute a "reverse takeover" transaction as defined under Rule 14.06B of the Listing Rules; and (ii) the Company would not be deemed as a new listing applicant;

(c) the Company having obtained approval from its Independent Shareholders at the SGM for the transactions contemplated under the Asset Transfer Agreement and the Sale and Purchase Agreement;

(d) the Asset Transfer Agreement having been executed by the Company and HK Huafa;

(e) there having been no material adverse changes to the Target Group;

(f) the Company having obtained and being satisfied with the PRC legal opinion on the Target Group;

(g) each of the warranties of HK Huafa contained in the Sale and Purchase Agreement being true, correct and accurate in all material respects and not misleading; none of the warranties having been breached by HK Huafa in any material respect; and

(h) all required authorisation, registration, enrolment, filing, confirmation, licensing, consent, permission and approval, notification and filing procedures (including but not limited to as a result of changes in major shareholders) in connection with the transactions contemplated under the Asset Transfer Agreement and the Sale and Purchase Agreement having been obtained or completed with government agencies, regulatory authorities, the Stock Exchange, or any regulatory agencies in another jurisdiction.

The conditions in sub-paragraphs (a), (e), (f) and/or (g) may be waived by the Company. None of the other conditions to Completion may be waived by either party.

If the above conditions are not satisfied (or waived, as the case may be) on or before 30 September 2020 (or such later date as the parties may agree), the Sale and Purchase Agreement shall terminate and no party shall have any obligations and liabilities under the Sale and Purchase Agreement save for any antecedent breaches of the terms thereof.

As at the Latest Practicable Date, conditions (a), (b), (d) and (f) have been fulfilled.

Completion

Completion shall take place on the Completion Date. Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company.

Termination

The Company and HK Huafa may, at any time prior to the Completion Date, agree in writing to terminate the Sale and Purchase Agreement before Completion.

If the Company fails to pay the Initial Transaction Payment in accordance with the Sale and Purchase Agreement, HK Huafa shall have the right to request the Company to (i) return the Sale Shares to HK Huafa within a reasonable time, and (ii) compensate HK Huafa for its reasonable direct loss. Any earnest money paid by the Company shall not be refundable.

If the Company fails to pay the Remaining Transaction Payment and any accrued interests, HK Huafa shall have the right to issue a written request to Concord Bright and request Concord Bright to settle all outstanding amounts, failing which, HK Huafa shall be entitled to (i) request the Company to return the Sale Shares to HK Huafa within a reasonable time (upon the return of the Sale Shares, HK Huafa shall refund the Initial Transaction Payment to the Company without interest), and (ii) request the Company and/or Concord Bright to compensate HK Huafa for its reasonable direct loss. Any earnest money paid by the Company shall not be refundable.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the provision of (i) financial services, including financial advisory, securities underwriting and consultancy, securities and futures brokerage, asset management, equity research and money lending services in Hong Kong; (ii) hotel management and advisory services, and consultancy services in relation to conventions, exhibitions, conferences and event planning and organisation in the PRC; and (iii) financial printing services in Hong Kong.

The Company is indirectly controlled as to 36.88% by Zhuhai Huafa which through its indirect wholly-owned subsidiary, Huajin Investment, acquired a controlling interest in the Company in 2014. Zhuhai Huafa is a state-owned enterprise in the PRC and is one of the Top 500 Chinese Enterprises, Top 500 Chinese Service Companies and Top 100 Chinese Multinational Corporations. Further, Zhuhai Huafa Industrial Co., Ltd. (600325.SH), a subsidiary of Zhuhai Huafa, is also one of China's Fortune's 500 companies and China's top 50 companies in real estate development. Zhuhai Huafa is wholly-owned by the Zhuhai SASAC and, through its subsidiaries, is principally engaged in urban operations (being primary land development, construction and development of major infrastructure facilities), property development, financial services, industrial investment, sales and trading (trading of raw materials, construction materials and commodities) as well as modern services (being the development, construction and management of facilities for conferences, education, tourism, hotel and exhibitions, including the provision of property management services).

The Company is committed to explore new business opportunities to broaden its business operation and asset base. On 17 August 2015, the Company together with HK Huafa acquired 49% interests in Johnson Cleaning Services Company Limited (莊臣有限公司) ("**Johnson Cleaning**"), which provides environmental hygiene services to a combined portfolio of government, commercial and institution sectors, and is one of the largest environmental hygiene services providers in Hong Kong in 2018. HK Huafa subsequently acquired an additional 10% interests in Johnson Cleaning on 3 November 2017. Subsequent to the listing of the holding company of Johnson Cleaning, Hong Kong Johnson Holdings Co., Ltd. (Stock code: 1955), on the Main Board of the Stock Exchange on 16 October 2019, the aggregate indirect beneficial shareholding of the Company and Zhuhai Huafa in Johnson Cleaning was diluted to 44.25%. Furthermore, on 30 June 2016, the Group expanded into financial advisory services through the acquisition of the entire equity interest in WAG Worldsec Corporate Finance Limited (華高和昇財務顧問有限公司), a corporation licensed by the SFC to carry out Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. On 13 September 2017, the Company further expanded its financial advisory services through the acquisition of the entire issued share capital of Huajin Financial (International) Holdings Limited (華金金融(國際)控股有限公司), a company together with its subsidiaries principally engaged in securities underwriting and consultancy, securities and futures brokerage and equity research businesses and holds licences to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 4 (advising on securities) regulated activities under the SFO, and a money lender's licence under the Money Lenders Ordinance (Cap 163 of the Laws of Hong Kong). In January 2019, the Group also obtained a license to carry out Type 9 (Asset Management) regulated activities under the SFO.

Since 2018, the Group has further expanded its business into hotel management and advisory services, and consultancy services in relation to conventions, exhibitions, conferences and event planning and organisation services in order to contribute to and share the benefits of the development potential of Guangdong-Hong Kong-Macau Greater Bay Area. The Acquisition is contemplated by the Company as a part of the Group's further expansion of its business scope to encompass property management services into its high-end services platform.

Having considered the above, the Directors (excluding the independent non-executive Directors whose opinion is set out in the letter from the Independent Board Committee) believe that the Acquisition is in line with the development strategy of the Group and will facilitate the sustainable growth of the Group in the long run in Hong Kong and the PRC, and the terms of the Asset Transfer Agreement and the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FINANCIAL IMPACT ON THE GROUP

Following Completion, the Target Company will become a wholly-owned subsidiary of the Company and its accounts will be consolidated into the accounts of the Group.

Possible effect on earnings

For the FY2018, the Group's profit for the year attributable to owners of the parent was approximately HK$36,000. As presented in the unaudited pro forma consolidated statement of profit or loss of the Enlarged Group as set out in Appendix IV to this circular, had the Acquisition been completed on 1 January 2018, the Enlarged Group's profit for the year attributable to owners of the parent for FY2018 would have been approximately HK$13.5 million due to the profit of approximately HK$64.9 million contributed by the Target Business and pro forma adjustments of approximately HK$51.4 million. The adjustments comprise of (i) estimated professional fees and transaction costs of approximately HK$13.5 million payable by the Company in connection with the Acquisition, which are assumed to be due upon Completion; and (ii) estimated interest expenses of approximately HK$12.5 million and HK$25.4 million relating to the external bank borrowings and the related party arising from the deferred consideration for the Acquisition. Please refer to Appendix IV to this circular for further details on the pro forma figures and adjustments.

Excluding the approximately HK$13.5 million professional fees and expenses in relation to the Acquisition which is one-off in nature, the profit attributable to the shareholders of the Enlarged Group would have been approximately HK$27.0 million.

Given that the year-on-year growth on net profit for the Target Business is 92.5% and 48.4% for FY2017 and FY2018 respectively (as further detailed in Appendix I to this circular), and taking into account the recurring income that is expected to be generated arising from expanding property projects, stable customer base, lower sensitivity to macro economy and the support from Zhuhai Huafa group, the Target Group is expected to generate long-term growth in terms of net profit and cash flows. On the other hand, the Directors are of the view that the interest expenses associated with the Acquisition will remain stable since (i) the interest rates of the bank facilities that the Company intends to use to satisfy the Consideration are HIBOR linked and the highest historical HIBOR + 2.8% is approximately 5.5% in the past 10 years; and (ii) the standby Shareholder's Loan has a fixed rate range between 5% and 7%. The cashflow from the Target Group's operation is sufficient to cover the interest expenses and is expected to increase continuously. Taking into account the Completion and the financial resources available to the Enlarged Group, including the internally generated funds, the Directors are of the opinion that the Enlarged Group has sufficient working capital for at least the next twelve months from the date of the Circular and the Acquisition will facilitate the sustainable growth of the Group in the long run.

The current bank borrowing for the consideration of the Acquisition is expected to be a relatively short-term arrangement. The Company may repay such principal upon accumulating sufficient capital from operation and arrange new loans, and depending on the financial and capital market conditions in the longer run, issue debt securities with lower interest rates and issue equity securities. The Company has no present intention to issue any forms of securities.

The Acquisition is contemplated by the Company as a part of the Group's further expansion of its business scope to encompass property management services into its high-end services platform. Therefore, the Acquisition not only significantly increases the profit attributable to the Shareholders after taking into account the interest expenses, but also enables the Enlarged Group to explore new business opportunities to broaden its business operation and income sources.

Possible effect on net assets value

As at 30 June 2019, the Group's total assets and net assets value was approximately HK$441.3 million and HK$204.0 million, respectively. As illustrated in the unaudited pro forma consolidated statement of the financial position of the Enlarged Group set out in Appendix IV to this circular, had the Acquisition been completed on 30 June 2019, total assets of the Enlarged Group as at 30 June 2019 would have been approximately HK$1,157.6 million and net liability value of the Enlarged Group would have been approximately HK$458.0 million.

As stated in note 3 of the unaudited pro forma financial information of the Enlarged Group in Appendix IV to this circular, the Acquisition is considered as a business combination under common control as the Group and the Target Business are under the common control of Zhuhai Huafa before and after the Acquisition. Accordingly, the Acquisition is accounted for using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants. The difference between the consideration of approximately RMB733.8 million and the share capital of the Target Business of approximately RMB54.8 million as at 1 January 2019, being approximately RMB679.0 million (equivalent to approximately HK$772.3 million), would be deducted from the merger reserve of equity of the Group and the Target Business of HK$313.4 million in aggregate for the purpose of determining the unaudited pro forma net liability of the Enlarged Group as at 30 June 2019 of approximately HK$458.0 million. Therefore, the net liability position of the Enlarged Group would result from accounting treatment mentioned above rather than the business operation and financial position of the Target Business. As the Company is not expected to have existing loan covenants on net asset position of the Enlarged Group upon Completion, such net liability position is not expected to have any material adverse impact on the Enlarged Group. In terms of the Enlarged Group's ability to obtain future financing, the Directors are of the view that the Enlarged Group could obtain borrowing by charging the shares and/or assets of the Target Group, or arrange borrowing through Target Group as the HK$772.3 million debit to the merger reserve is at the Company's level, having taken into account the Target Group's historical financial performance and position and its ability to obtain the ABS in the aggregate nominal value of RMB1.12 billion in 2015. For further details on the ABS, please refer to the section headed "7. Management Discussion and Analysis – Indebtedness" in Appendix I to this circular.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

As discussed in the interim report of the Company for the six months ended 30 June 2019, the Group will adhere to the restructuring of its businesses against the upcoming opportunities and challenges of Hong Kong's financial market, and will focus on enhancing the competitiveness of its current business and simultaneously continue exploring new business opportunities. The Acquisition is therefore a part of the Group's further expansion of its business scope to encompass property management services into its high-end services platform. Upon Completion, the Enlarged Group will be engaged in the provision of (i) financial services, including financial advisory, securities underwriting and consultancy, securities and futures brokerage, asset management, equity research and money lending in Hong Kong; (ii) financial printing services in Hong Kong; (iii) hotel management and advisory services, consultancy services in relation to conventions, exhibitions, conferences and event planning and organisation in the PRC; and (iv) and property management services in the PRC, which will enable the Enlarged Group to develop business with potential growth possibility generating long-term returns. By diversifying and broadening its income stream, the Enlarged Group is expected to generate stable revenue and cash flows. This will also enable the Enlarged Group to obtain equity and debt financing more easily, which will in turn enhance the Enlarged Group's profitability and attract further financing to develop its business so as to create value for its Shareholders.

Upon Completion, the Company intends to maintain the Target Group as a leading regional property management service provider with footprint all over the PRC by (i) retaining its current management team (see section headed "6. Core Management Team" in Appendix I to this circular for their biographies); (ii) enhancing its market position in the PRC; (iii) expanding its service offering in property management and value-added services; and (iv) improving operational efficiency of its front-line and administrative staff.

The Target Group is a leading residential property management service provider headquartered in Zhuhai, ranking twenty-eighth by the China Index Academy (中國指數研究院) in 2019 among the Top 100 Property Management Companies in the PRC in terms of overall strength. The Target Group commanded strong brand recognition in securing property management service engagements, especially in relation to property development projects in Zhuhai. Zhuhai Huafa Group, on the other hand, is also headquartered in Zhuhai and holds a leading position in the property development market in Zhuhai with footprint all over the PRC. Please refer to the section headed "General information on the parties to the Sale and Purchase Agreements and the Framework Agreements – Zhuhai Huafa" for further details of Zhuhai Huafa.

During the Track Record Period, Zhuhai Huafa Group solicited bids for 7, 10, 17 and 9 property development projects, respectively, and the Target Group has tendered for and signed property management contracts with all of them. The revenue generated from Zhuhai Huafa Group for FY2016, FY2017 and FY2018 amounted to approximately RMB137.6 million, RMB162.0 million and RMB240.1 million, respectively, representing an approximately 17.8% and 48.2% year-on-year increase. The strong and stable relationship between Zhuhai Huafa Group and the Target Group can be partially reflected by the steady contribution of revenue from Zhuhai Huafa Group to the Target Business's total revenue of around 30-40% for each of the three years ended 31 December 2018 and the six months ended 30 June 2019. Furthermore, no preliminary property management service contracts or existing property management agreements entered into by the Target Group with Zhuhai Huafa Group in relation to residential and non-residential properties were terminated and replaced by new property management agreements entered into with another property management service provider during the Track Record Period.

As at 30 June 2019, the total revenue-bearing GFA in relation to the provision of property management services from properties developed by Zhuhai Huafa Group amounted to approximately 11.3 million sq.m. comprising 97 properties. Zhuhai Huafa Group is currently expected to generate 31, 30 and 14 new projects in the years ending 31 December 2020, 2021 and 2022, respectively. Given the strong track record in which (i) the Target Group has successfully tendered for all property management contracts solicited by Zhuhai Huafa Group; (ii) no property management contracts with Zhuhai Huafa were terminated; (iii) the estimated pipeline projects of Zhuhai Huafa Group in the three years ending 31 December 2022; and (iv) the expected increase in revenue-bearing GFA from expansion of services to be provided to existing projects, the Directors are of the view that revenue generated from Zhuhai Huafa is expected to increase in the future.

Besides taking advantage of the existing business relationships with Zhuhai Huafa Group, by leveraging on the Target Group's increasing market penetration in the existing geographic markets, its industry ranking and brand recognition as discussed above, the high customer satisfaction rate, reputable credentials, capital resources, diverse property portfolio under management, and wide service offerings, the Target Group also strives to secure new engagements from third-party property developers to achieve organic growth and business expansion. The Target Group's revenue-bearing GFA of properties developed by independent property developers had recorded significant growth of 24.2% from 2016 to 2017 and 29.5% from 2017 to 2018, while revenue from property management services of properties developed by independent property developers had increased by 29.0% from 2016 to 2017 and 45.3% from 2017 to 2018. In particular, as at 30 June 2019, the Target Group's revenue-bearing GFA of properties developed by independent property developers was approximately 1,413,000 sq.m. The Target Group plans to further increase the revenue-bearing GFA as well as the number of properties under its management by both actively participating in quality tenders, industry forums, commercial negotiations and arranging business visits to large scale third party developers and property owners' associations, who are target customers of the Target Group in addition to the Zhuhai Huafa Group. Please refer to the section headed "5. Business – Property Management Services" in Appendix I to this circular for further details on future efforts with independent property developers.

Going forward, the Group will also strengthen the development of its hotel advisory, hotel management and exhibition services planning segment and seek potential market-oriented business opportunities for this segment. The Group will continue to monitor and review the performance of the Group's businesses for the interest of its Shareholders.

As at the Latest Practicable Date, the Company does not have any fund-raising plans on issuing equity or debt securities.

The Company has no plans to make significant changes to its current business operations immediately after Completion. Save as disclosed above, as at the Latest Practicable Date, the Company is not engaged in any negotiation, agreement, arrangement and understanding relating to the acquisition of any new business or injecting any new business into the Group.

III. CONTINUING CONNECTED TRANSACTIONS

(A) CONTINUING CONNECTED TRANSACTION SUBJECT TO THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

1. Property Management Services Cooperation Framework Agreement

Background

On 20 December 2019 (after trading hours), Huafa Property Management entered into the Property Management Services Cooperation Framework Agreement with Zhuhai Huafa, pursuant to which, subject to the Completion taking place, Huafa Property Management will provide Zhuhai Huafa and/ or its associates (excluding the Group and the Target Group) the Property Management Services (as defined below).

Details of the Property Management Services Cooperation Framework Agreement

Date	:	20 December 2019
Parties	:	(i) Huafa Property Management; and (ii) Zhuhai Huafa (together, the "**Parties**")
Services to be provided	:	Pursuant to the Property Management Services Cooperation Framework Agreement, subject to the Completion taking place, Huafa Property Management will provide to Zhuhai Huafa and/ or its associates (excluding the Group and the Target Group) the Property Management Services (as defined below).
Term of Service	:	The Property Management Services Cooperation Framework Agreement is entered into for a term commencing from the day on which all the conditions precedent set out in the section titled "conditions precedent of the Property Management Services Cooperation Framework Agreement" below are fulfilled (or waived under any circumstances, where applicable) to 31 December 2022 (the "**Term**").

Property Management Services		According to the requirements of Zhuhai Huafa, (1) providing property management services to property sales centres, sample flats, etc. held by Zhuhai Huafa and/ or its associates (excluding the Group and the Target Group) including but not limited to customer reception services, on-site security, cleaning, greening and gardening, repair and maintenance services ("**Category I Property Management Services**"); and (2) providing property management services including but not limited to security, cleaning, greening and gardening, repair and maintenance services as well as other value added services to the properties developed by Zhuhai Huafa and/ or its associates (excluding the Group and the Target Group) from the commencement of construction up to the delivery of the properties; and unsold properties, investment properties, car parks and other related areas held by Zhuhai Huafa and/ or its associates (excluding the Group and the Target Group) property management services including reception services, security, cleaning, greening and gardening and repair and maintenance services ("**Category II Property Management Services**", together with "**Category I Property Management Services**", the "**Property Management Services**").
Individual Services Agreements	:	As the Property Management Services Cooperation Framework Agreement only sets out the framework of the Property Management Services required generally, in respect of the specific services to be provided by Huafa Property Management, Huafa Property Management Group shall enter into separate services agreements to set out matters such as the scope of services, service fee charging standard, timeline and payment methods, (the "**Individual Services Agreements**") with individual company of Zhuhai Huafa Group (excluding the Group and the Target Group) requiring such Property Management Services in accordance with market practice. The service scope shall not exceed the Property Management Services and the aggregate service fees received by Huafa Property Management in respect of all Individual Services Agreements per year shall not be higher than the annual cap for the respective years.

In the event of conflicts between the terms of the Individual Services Agreements and the Property Management Services Cooperation Framework Agreement, the terms of the Property Management Services Cooperation Framework Agreement shall prevail.

Payments : The payment arrangement of the service fees (the "**Service Fees**") are made with reference to market practice and the payment arrangement of similar transactions between the Parties and independent third parties to ensure that the payment arrangement is no less favourable to Huafa Property Management than those available to independent third parties.

Pricing policy : The provision of Category I Property Management Services by the Group:

(i) each Individual Services Agreement shall be negotiated on an arm's-length basis to ensure that the relevant pricing terms are fair and reasonable and in accordance with normal commercial terms;

(ii) the Service Fees are determined after the Parties have negotiated the terms and conditions of the respective Individual Services Agreements, taking reference to the market price and the service fees of similar transactions with independent third parties to ensure that the Service Fees offered to Huafa Property Management is no less favourable than those available to independent third parties; and

(iii) When determining the Services Fees, Huafa Property Management also takes into account factors such as total labour allocation and estimated total expenses and the target net profit margin which can be represented by the formula: cost x (1 + target net profit margin).

The target net profit margin ranging from 8% to 12% is determined having regard to factors including, among others, (i) net profit margin achieved by Huafa Property Management in providing similar property management services to independent third parties; and (ii) the net profit margin charged by independent property management companies for providing similar property management services obtained through market research.

The provision of Category II Property Management Services by the Group:

(i) each Individual Services Agreement shall be negotiated on an arm's-length basis to ensure that the relevant pricing terms are fair and reasonable and in accordance with normal commercial terms;

(ii) the Service Fees are determined after the Parties have negotiated the terms and conditions of the respective Individual Services Agreements, taking reference from the market price and the service fees of similar transactions with independent third parties to ensure that the Service Fees offered to Huafa Property Management is no less favourable than those available to independent third parties; and

(iii) the Service Fees shall be determined with reference to the formula: floor area x service fee per sq.m. (unit price). For residential projects, the unit price shall be based on (i) the "pre-property management service agreement" (《前期物業管理服務合同》) signed between Huafa Property Management as the property management services provider and Zhuhai Huafa Group companies as the property developer, pursuant to which, the unit price shall not be higher than the relevant service price as set by the relevant PRC authorities ("**Guided Price**"); (ii) in the absence of the Guided Price, the unit price shall be determined with reference to the "market reference price" which takes into account the comparable market price of similar property management services provided to residential projects in the vicinity area; for commercial projects, the unit price shall be determined based on the comparable market price of similar property management services provided to commercial projects in the vicinity area and the estimated total costs for provision of property management services to that commercial building.

Market price of providing similar property management services to property projects in the vicinity areas is in general obtainable through public channels such as websites of and enquiry with third party property management companies and real estate agencies.

As advised by the Company's PRC legal adviser, NDRC is responsible for setting out the general guidance on how the price of various services and products should be formulated. Provincial or city level of NDRC and/or Commodity Price Bureau* (物價局) and/or the Housing and Urban-Rural development Bureau* (住房和城鄉建設局) ("**provincial or city level government authorities**") published the Guided Price of the relevant provinces and cities on their respective websites. The Guided Price is determined according to (i) the Price Law of the PRC (《中華人民共和國價格法》), which sets out the principles and procedures for the provincial or city level government authorities to follow when formulating the Guided Price; (ii) the Property Management Regulations* of the PRC (《中華人民共和國物業管理條例》(the "**Regulations**"); and (iii) the Administrative Measures for Property Service Charges (《物業服務收費管理辦法》) (the "**Measures**"). The Regulation and Measures set out the principal scopes and benchmark ranges of the Guided Price. Respective provincial or city level government authorities together with respective real estate administrative departments then assess the economic conditions and real estate industry conditions of those provinces and cities and formulate the applicable range of the Guided Price according to the assessment. The specific property management fee is agreed between the contractual parties within the applicable range of the Guided Price. The Guided Price is updated periodically according to the situation of various regions. For instance, the Guided Price in Zhuhai is updated once every three years.

Termination	:	The Parties and the Company may terminate the Property Management Services Cooperation Framework Agreement prior to the expiration of the Term by written consent of the Company and Huafa Property Management and Zhuhai Huafa. Upon termination of the Property Management Services Cooperation Framework Agreement, the relevant Individual Services Agreements shall also terminate accordingly.
Conditions precedent of the Property Management Services Cooperation Framework Agreement	:	The provision of the Property Management Services is conditional upon fulfilment or waiver in writing (as the case may be) of the following conditions precedent: (a) the Completion taking place; (b) the Company having obtained its Independent Shareholders' approval of the Property Management Services Cooperation Framework Agreement and the transactions contemplated thereunder; (c) Huafa Property Management has not breached any of the material representations and warranties under the Property Management Services Cooperation Framework Agreement and such representations and warranties remaining true, accurate, complete and not misleading; and (d) all necessary authorisations, registrations, filings, confirmations, permits, consents and approvals for the transactions contemplated under the Property Management Services Cooperation Framework Agreement having been obtained by Huafa Property Management and Zhuhai Huafa. Zhuhai Huafa may, in writing, relinquish or waive the fulfilment of conditions precedent set out in (c) and (d) above. The condition precedent set out in (b) above cannot be relinquished or waived by any Party to the Property Management Services Cooperation Framework Agreement. If any of the conditions precedent cannot be fulfilled (or relinquished or waived under any circumstances, where applicable) on or before 30 June 2020 (or such other date as agreed in writing between the Parties), the Property Management Services Cooperation Framework Agreement and the transactions as contemplated thereunder shall be forthwith terminated and be of no effect.

As at the Latest Practicable Date, apart from the Completion and the Independent Shareholders' approval as described in paragraphs (a) and (b) above, all conditions precedent have been fulfilled.

Actual historical transaction amount

The following table summarises the historical transaction amounts for both Category I Property Management Services and Category II Property Management Services provided by Huafa Property Management Group to Zhuhai Huafa Group for the two years ended 31 December 2018 and the six months ended 30 June 2019:

Category	For the year ended 31 December 2017	2018	For the six months ended 30 June 2019
	(RMB millions)	*(RMB millions)*	*(RMB millions)*
Actual historical transaction amount for Category I Property Management Services	118.57	181.75	93.42
Actual historical transaction amount for Category II Property Management Services	43.45	58.33	25.91
Total actual historical transaction amount	**162.02**	**240.08**	**119.33**

Annual caps and basis of determination

The proposed annual caps for the total Service Fees payable by Zhuhai Huafa Group to Huafa Property Management Group for the Property Management Services for the three years ending on 31 December 2020, 2021 and 2022 are set out below:

Category	For the year ending 31 December 2020	2021	2022
	(RMB millions)	*(RMB millions)*	*(RMB millions)*
Category I Property Management Services	297.06	363.64	381.24
Category II Property Management Services	77.42	118.62	238.66
Total	374.48	482.26	619.90

In considering the annual caps for both Category I Property Management Services and Category II Property Management Services under the Property Management Services Cooperation Framework Agreement, the Directors have considered a number of factors including:

(i) the historical service fees receivable by Huafa Property Management from Zhuhai Huafa Group in respect of existing property management projects which is expected to continue for the Term;

(ii) the estimated Service Fees(1) receivable by Huafa Property Management in respect of each property management project for the Term;

(iii) the number of existing property management projects which involves provision of property management services by Huafa Property Management to Zhuhai Huafa Group which is expected to continue for the Term, and the estimated number of new property management projects(2) and property management projects which is expected to cease for the Term; and

(iv) the indicative time of completion and delivery of the property management projects and Property Management Services required in respect of each property management project.

Notes:

(1) As disclosed in the paragraph headed "pricing policy" above, the estimated Service Fees for Category I Property Management Services shall be determined with reference to the formula: cost x (1+ target net profit margin) while the estimated Service Fees for Category II Property Management Services shall be determined with reference to the formula: floor area x service fee per sq.m. (unit price).

The increase in Service Fees proposed to be charged by Huafa Property Management is owing to: (i) the significant increase in the number of new property projects to be developed by Zhuhai Huafa Group which may require Category I Property Management Services is expected to experience a net increase of approximately 40% for the year 2020 as compared to that of the six months ended 30 June 2019, 30% for year 2021 and 6% for the year 2022 as compared to that of year 2020 and year 2021, respectively; (ii) significant increase in revenue-bearing GFA in respect of new property management projects to be delivered by Zhuhai Huafa Group which may require Category II Property Management Services is expected to experience a net increase of approximately 50% for year 2021 and 50% for year 2022 as compared to year 2020 and year 2021, respectively (there is no new property projects relating to the provision of Category II Property Management Services in 2020); and (iii) the expected increase in labour costs for maintaining sales centres, sample flats of property projects, etc. of Zhuhai Huafa as a result of the expected increase in property projects to be delivered by the Zhuhai Huafa Group.

(2) For the number of new property management projects, the Directors consider the number of property projects held by Zhuhai Huafa Group under development and property projects held by Zhuhai Huafa Group for future development which will commence construction within the Term. To estimate the expected increase in the number of property management projects, the Directors consider the property projects development plan provided by Zhuhai Huafa Group, including the relevant land transfer agreements, expected time for commencement of construction, pre-sale, completion and delivery of the relevant projects.

The executive Directors have also considered uncertainties such as property development and selling schedule, inflation and the necessity to allow flexibility for the Group to capture more business opportunities when determining the proposed annual caps.

2. Reasons and benefits of the Property Management Services Cooperation Framework Agreement

Huafa Property Management has been supplying property management services to Zhuhai Huafa since 1985. In view of the long term relationship between Huafa Property Management and Zhuhai Huafa Group, the Group intends to continue supplying property management services through Huafa Property Management to Zhuhai Huafa Group after Completion has taken place. In addition, by continuing to supply property management services to Zhuhai Huafa, the Group is expected to broaden its income stream and improve its overall operational performance. The Property Management Services Cooperation Framework Agreement has been entered into in the ordinary and usual course of business of the Group and the transactions contemplated thereunder are made on normal commercial terms and that the terms of the Property Management Services Cooperation Framework Agreement and the annual caps set out above are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

(B) CONTINUING CONNECTED TRANSACTION SUBJECT TO THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT REQUIREMENTS BUT EXEMPT FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT

1. Procurement Cooperation Framework Agreement

Background

On 20 December 2019 (after trading hours), Huafa Property Management entered into the Procurement Cooperation Framework Agreement with Zhuhai Huafa, pursuant to which, subject to the Completion taking place, Huafa Property Management will procure from Zhuhai Huafa and/or its associates (excluding the Group and the Target Group) the Products and Services.

Details of the Procurement Cooperation Framework Agreement

Date	:	20 December 2019
Parties	:	(i) Huafa Property Management; and (ii) Zhuhai Huafa

Products and and Services to be procured	:	Pursuant to the Procurement Cooperation Framework Agreement, subsequent to the Completion taking place, Huafa Property Management will procure from Zhuhai Huafa and/or its associates (excluding the Group and the Target Group) the Products and Services.
Term of Service	:	The Procurement Cooperation Framework Agreement is entered into for a term commencing from the day on which all the conditions precedent set out in the section titled "conditions precedent of the Procurement Cooperation Framework Agreement" below are fulfilled (or waived under any circumstances, where applicable) to 31 December 2022 (the "**Term of Procurement**").
Products and Services	:	Pursuant to the Procurement Cooperation Framework Agreement, Huafa Property Management will procure various types of Products and Services from Zhuhai Huafa and/ or its associates (excluding the Group and the Target Group) including: (a) products including (i) vehicles for office use and municipal engineering vehicles; (ii) office stationery, learning cards and other products; and (iii) plants for office decoration; and (b) services including (i) leasing of venues for events; (ii) visual identity logo design, printing and production; (iii) human resources services; (iv) information installation services such as development of management platform, service platform and other system services(1); and (v) employee outpatient emergency group medical insurance, and major illness insurance and accident and injury insurance. *Note:* *(1) an information installation services agreement (the "**Information Installation Services Agreement**") was entered into between the Parties in April 2019. Subsequent to Completion, the transaction contemplated under the Information Installation Services Agreement will become a connected transaction.*

Individual Procurement Agreements	:	As the Procurement Cooperation Framework Agreement only sets out the framework of the Products and Services required generally, in respect of the specific products and services to be procured by Huafa Property Management, Huafa Property Management Group shall enter into separate procurement agreements to set out matters such as the scope and standard of products and services, procurement price charging standards, and timeline and payment methods, (the "**Individual Procurement Agreements**") with individual company of Zhuhai Huafa Group (excluding the Group and the Target Group) for such required Products and Services in accordance with market practice. The scope shall not exceed the scope specified under Products and Services and the aggregate procurement price paid by Huafa Property Management in respect of all Individual Procurement Agreements per year shall not be higher than the annual cap for the respective years. In the event of conflicts between the terms of the Individual Procurement Agreements and the Procurement Cooperation Framework Agreement, the terms of the Procurement Cooperation Framework Agreement shall prevail.
Payments	:	The payment arrangement of the procurement price (the "**Procurement Price**") is made with reference to market practice and the payment arrangement of similar transactions between the Parties and independent third parties to ensure that the payment arrangement is no less favourable to Huafa Property Management than those available from independent third parties.

Pricing policy	:	The Procurement Price shall be determined after arm's-length negotiations between the Parties. The Procurement Price for the procurement of products shall be determined with reference to the (i) procurement plan of Huafa Property Management Group for the Term of Procurement and (ii) the contractual amount of individual procurement agreement signed between the Parties in the prevailing year taking into consideration inflation and the advancement and replacement of equipment (including vehicles); for the procurement of services, the Procurement Price shall be determined based on prevailing market prices and the contractual amount of Individual Procurement Agreements signed between Huafa Property Management Group and Zhuhai Huafa Group and for the employee outpatient emergency group medical insurance and major illness insurance and accident and injury insurance (the "**Insurance Plan**"), the Procurement Price shall also be determined according to the number of employees involved in the Insurance Plan.
Termination	:	The Parties and the Company may terminate the Procurement Cooperation Framework Agreement prior to the expiration of the service term by mutual written consent of the Company and Huafa Property Management and Zhuhai Huafa. Upon termination of the Procurement Cooperation Framework Agreement, the relevant Individual Procurement Agreements shall also terminate accordingly.
Conditions precedent of the Procurement Cooperation Framework Agreement	:	The provision of the Products and Services is conditional upon fulfilment or waiver in writing (as the case may be) of the following conditions precedent: (a) the Completion taking place; (b) Huafa Property Management has not breached any of the representations and warranties under the Procurement Cooperation Framework Agreement and such representations and warranties remaining true, accurate, complete and not misleading; and (c) all the necessary authorisations, registrations, filings, confirmations, permits, consents and approvals for the transactions contemplated under the Procurement Cooperation Framework Agreement having been obtained by Huafa Property Management and Zhuhai Huafa.

If any of the conditions precedent cannot be fulfilled (or relinquished or waived under any circumstances, where applicable) on or before 30 June 2020 (or such other date as agreed in writing between the Parties), the Procurement Cooperation Framework Agreement and the transaction as contemplated thereunder shall be forthwith terminated and be of no effect.

As at the Latest Practicable Date, apart from the Completion as described in paragraph (a) above, all conditions precedent have been fulfilled.

Actual historical transaction amount

The following table summarises the historical transaction amounts for the Products and Services paid by Huafa Property Management Group to Zhuhai Huafa Group for the two years ended 31 December 2018 and the six months ended 30 June 2019:

	For the year ended 31 December		For the six months ended 30 June
	2017	2018	2019
	(RMB millions)	(RMB millions)	(RMB millions)
Actual historical transaction amount	2.26	16.00(1)	0.53

Note:

(1) *total amount of approximately RMB12.8 million was incurred by Huafa Property Management Group to purchase from Zhuhai Huafa Group vehicles for provision of property management services for a then newly completed industrial park in Zhuhai.*

Annual caps and basis of determination

The proposed annual caps for the total Procurement Price for the Products and Services payable by Huafa Property Management Group to Zhuhai Huafa Group for the three years ending 31 December 2020, 2021 and 2022 are set out below:

Category	For the year ending 31 December		
	2020	2021	2022
	(RMB millions)	(RMB millions)	(RMB millions)
Products and Services	7.86(2)	5.65(3)	5.64

Notes:

(2) *The annual cap includes a second instalment payment of RMB2.97 million payable by Huafa Property Management Group to Zhuhai Huafa Group under the Information Installation Services Agreement. Following the Completion, the transactions contemplated under the Information Installation Services Agreement will become a connected transaction of the Company.*

(3) *The price of municipal engineering vehicles is in general higher than that of the vehicles for office use. Higher annual cap for the year 2021 than for the year 2022 is because the number of municipal engineering vehicles to be replaced in 2021 is expected to be more than that of the vehicles for office use.*

In considering the annual caps under the Procurement Cooperation Framework Agreement, the Directors have considered a number of factors including:

(a) the historical procurement price for the Products and Services;

(b) the number of eligible employees for the Insurance Plan. Since 2019, as part of the employees' benefits, Huafa Property Management Group commenced purchasing the Insurance Plan from a connected person in the total amount of RMB0.8 million. It is estimated that the number of eligible employees shall be increased by almost a fold during the Term of the Procurement;

(c) buffer required for higher transaction amounts due to, among other things, inflation and the advancement and replacement of equipment which Huafa Property Management Group will assess whether to replace its vehicles for its business operations after 5 years of usage; and

(d) the pricing policies regarding the Procurement Price as set out above.

2. Reasons and benefits of the Procurement Cooperation Framework Agreement

Huafa Property Management has been purchasing products and services from Zhuhai Huafa for a long period of time. In view of the long term relationship between Huafa Property Management and Zhuhai Huafa and the stable supply of product and services by Zhuhai Huafa Group, Huafa Property Management intends to continue purchasing Products and Services from Zhuhai Huafa Group to meet the needs of its general and daily business operation and administration. Accordingly, it has entered into the Procurement Cooperation Framework Agreement with Zhuhai Huafa. The Procurement Cooperation Framework Agreement has been entered into in the ordinary and usual course of business of the Group and the transactions contemplated under are made on normal commercial terms and that the terms of the Procurement Cooperation Framework Agreement and the annual caps set out above are fair and reasonable and in line with the overall interest of the Company and its Shareholders as a whole.

(C) CONTINUING CONNECTED TRANSACTIONS FULLY EXEMPT FROM THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

1. The Property Lease Agreement

Background

Huafa Property Management has entered into a property lease agreement with Zhuhai Huafa City Renewal Investment Holdings Limited* (珠海華發城市更新投資控股有限公司) ("**Huafa City**"), an indirect wholly-owned subsidiary of Zhuhai Huafa, pursuant to which, Huafa Property Management leases the premises situated at Nanping County, Zhuhai, the PRC (the "**Leased Property**") for office use to Huafa City (the "**Property Lease Agreement**").

The details of the Leased Property are as below:

Date of Property Lease Agreement	Landlord	Tenant	Premises	Term	Fees	Area of the property	Use of property
8 February 2016	Huafa Property Management	Huafa City	2nd Floor, No.199, No.1 Pingwan Road, Nanping Town, Zhuhai, the PRC	5 years from 1 March 2016 to 28 February 2021	Rent of RMB40 per sq.m. (tax inclusive) per month and property management fee of RMB18 per sq.m. (tax inclusive) per month and 5% annual increase of the fees starting from 1 March 2016	1,050 sq.m.	Office use

Under the Property Lease Agreement, the annual fees payable by Huafa City to Huafa Property Management amounts to RMB730,800, comprising RMB504,000 (tax inclusive) rent and RMB226,800 (tax inclusive) property management fee. There is a 5% annual increase of the annual fees starting from 1 March 2016.

2. Trademark Licensing Agreement

Background

Zhuhai Huafa and Huafa Property Management entered into a trademark licensing agreement on 31 August 2018 and a confirmation letter dated 25 September 2019, pursuant to which Zhuhai Huafa agreed irrevocably and unconditionally to grant Huafa Property Management a non-transferrable license to use the trademarks "華發" and "" (the "**Trademarks**") registered in the PRC commencing from the date of the Trademark Licensing Agreement to the expiry date of the Trademarks validity period on a royalty-free basis (the "**Trademark Licensing Agreement**"). The expiry date of the Trademarks validity period is dependent upon the expiry date of the individual Trademark subject to the Trademark Licensing Agreement, ranging from 13 October 2027 to 6 April 2029.

As advised by the Company's PRC legal adviser, a registered trademark is valid for ten years from the registration date and is renewable for further periods of ten years each by submission of a renewal application and payment of prescribed fee according to the relevant PRC laws and regulations. The Company's PRC legal adviser is of the view that there shall be no legal impediment to renew the relevant Trademarks. As confirmed by Zhuhai Huafa and the Company's PRC legal adviser, as long as the Trademarks are renewed, the Trademark Licensing Agreement shall be valid and effective. If Zhuhai Huafa fails to renew the relevant Trademarks and/or thus the Trademark Licensing Agreement becomes invalid, it may adversely affect the Target Group's reputation and business and results of operation as brand image is, among other things, a factor in its clients' purchase decisions. However, the Directors consider this possibility is remote.

(D) INTERNAL CONTROL MEASURES

The Group has adopted the following internal control procedures and corporate governance measures in relation to the transactions contemplated under the Framework Agreements.

(a) prior to entering into any individual agreement, the business development department of Huafa Property Management shall be responsible for collecting information from independent third parties, including (i) market price (and with respect to Category I Property Management Services, net profit margin) of providing similar property management services; (ii) with respect to residential projects of Category II Property Management Services, the Guided Price set by the relevant PRC authorities (if any) and the comparable market price of similar property management services provided to residential projects after considering the Guided Price; and (iii) with respect to commercial projects of Category II Management Services, two to three quotations of comparable market price of similar property management service provided to commercial projects in the vicinity area obtainable through public channels such as websites of and enquiry with third party property management companies and real estate agencies to ensure that the terms of the individual agreements are fair and reasonable and no less favourable to Huafa Property Management than those available to independent third parties (in case of the Property Management Services Cooperation Framework Agreement), or no less favourable from independent third parties (in case of the Procurement Cooperation Framework Agreement);

(b) after entering into any individual agreement, the senior management of Huafa Property Management shall be responsible for monitoring the individual agreements. The general manager or the deputy general manager of Huafa Property Management will review the individual agreement every three months to ensure the transactions have been carried out in compliance with the terms of such agreement and if there is any non-compliance or potential non-compliance, the responsible personnel will report the matter to the senior management of the Company for its consideration in order to find ways to resolve the matter. Further, the general manager or the deputy general manager of Huafa Property Management will report to the senior management of the Company every six months on the financial performance of individual agreements after the auditors have reviewed the same;

(c) the finance department of the Group is responsible for monitoring the service fees for the respective transactions contemplated under each of the individual agreements to ensure that they are in accordance with the Framework Agreements and the annual caps are not exceeded. In addition, the finance department will also conduct overall review on a monthly basis. Where the finance department is aware of any potential non-compliance with the pricing policies or that the annual caps will be exceeded, the finance department will escalate the matter to the senior management of the Company who will co-ordinate at the Group level to take remedial action and ensure the basis of annual caps are followed and are not exceeded;

(d) the senior management of the Company will review the draft individual agreements and will escalate the matter to the independent non-executive Directors if the senior management is of the opinion that there is any non-compliance issues. The independent non-executive Directors will further review the draft individual agreements and take appropriate recommendations to ensure that such transactions are conducted within the terms of the Framework Agreements, on normal commercial terms, fair and reasonable, in accordance with the pricing policies of the relevant Framework Agreements and in the interests of the Company and its Shareholders as a whole. After an individual agreement is approved by the board of directors of Huafa Property Management taking into account the recommendations provided by the independent non-executive Directors (where necessary), the general manager or the deputy general manager of Huafa Property Management will be responsible for monitoring individual agreements and reviewing and approving any decision required by the operation of the transactions contemplating under the Framework Agreements; and

(e) the independent non-executive Directors and the auditors of the Company will conduct annual review on the transactions contemplated by the Framework Agreements and individual agreements and provide their view to the Board.

By implementing the above measures, the Directors (including the independent non-executive Directors) consider that the Company has sufficient internal control procedures to ensure that any service fees to be agreed pursuant to the Framework Agreements will be on normal commercial terms and the terms are fair and reasonable and no less favourable to Huafa Property Management than those available to independent third parties (in case of the Property Management Services Cooperation Framework Agreement), or no less favourable from independent third parties (in case of the Procurement Cooperation Framework Agreement).

IV. GENERAL INFORMATION ON THE PARTIES TO THE ACQUISITION AND THE FRAMEWORK AGREEMENTS

The Group

The Company is incorporated under the laws of Bermuda with limited liability and the issued Shares of which are listed and traded on the Main Board of the Stock Exchange (Stock code: 982). The Group is principally engaged in the provision of (i) financial services, including financial advisory, securities underwriting and consultancy, securities and futures brokerage, asset management, equity research and money lending services in Hong Kong; (ii) hotel management and advisory services, and consultancy services in relation to conventions, exhibitions, conferences and event planning and organisation in the PRC; and (iii) financial printing services in Hong Kong.

HK Huafa

HK Huafa is incorporated in Hong Kong with limited liability and is principally engaged in investment holding. It is a wholly-owned subsidiary of Zhuhai Huafa, a state-owned enterprise wholly-owned by the Zhuhai SASAC and is an indirect controlling shareholder of the Company interested in approximately 36.88% of the entire issued share capital of the Company as at the Latest Practicable Date.

The Target Group

The Target Company is incorporated in Hong Kong and is an investment holding company with no business operation. Huafa Property Management is an indirect wholly-owned subsidiary of the Target Company. For further details of the Target Group, please refer to Appendix I to this circular.

Zhuhai Huafa

Zhuhai Huafa is an investment holding company and an indirect controlling shareholder of the Company interested in approximately 36.88% of the total issued share capital of the Company and therefore a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules.

Zhuhai Huafa is wholly-owned by the Zhuhai SASAC, and, through its subsidiaries, is principally engaged in urban operations (being primary land development, construction and development of major infrastructure facilities), property development, financial services, industrial investment, sales and trading (trading of raw materials, construction materials and commodities) as well as modern services (being the development, construction and management of facilities for conferences, education, tourism, hotel and exhibitions, including the provision of property management services). Two subsidiaries of Zhuhai Huafa, Zhuhai Huafa Industrial Co., Ltd.* (珠海華發實業股份有限公司, "**Huafa Industrial**") and Zhuhai Huafa City Operation

Investment Holdings Co., Ltd* (珠海華發城市運營投資控股有限公司, "**Huafa City Operation**"), represent the main project sources in Zhuhai Huafa Group for Huafa Property Management.

Zhuhai Huafa Group is a state-owned conglomerate based in Zhuhai and is one of the Top 500 Chinese Enterprises, Top 500 Chinese Service Companies and Top 100 Chinese Multinational Corporations. Huafa Industrial (600325.SH), a subsidiary of Zhuhai Huafa, is one of China's Fortune's 500 companies and also China's top 50 companies in real estate development. For the six months ended 30 June 2019, Huafa Industrial recorded total contract sales of more than RMB43.6 billion and a net profit of approximately RMB16.6 billion, representing an increase of 72.2% and 24.9%, respectively, as compared to the same period of the previous year. As at 30 June 2019, aggregate GFA for new construction projects, GFA for completed projects and GFA for properties under development were approximately 3.4 million sq.m., 2.1 million sq.m. and 11.6 million sq.m., respectively. As at 31 December 2018, Huafa Industrial has a portfolio of property projects located in nearly 30 cities across the PRC and has also expanded to Hong Kong, Macau and the United States of America.

Huafa City Operation, a subsidiary of Zhuhai Huafa, mainly engages in city district and park district development, public infrastructure development, and urban renewal. Its net profit for the year ended 31 December 2018 was approximately RMB1.6 billion. As at end of November 2019, Huafa City Operation has developed and/or operated nearly 200 projects in Zhuhai, of which 26 projects are related to the development and operation of district parks covering nearly 200 square kilometres, and other public facilities and public infrastructure development, and city redevelopment projects covering over 2,000 million square kilometres.

V. LISTING RULES IMPLICATIONS AND THE LISTING COMMITTEE'S DECISION

The Acquisition

The highest applicable percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the Acquisition exceeds 100%. The Listing Committee resolved that the Acquisition is an extreme transaction and the reverse takeover rules do not apply. Further, as HK Huafa is the controlling shareholder of the Company and hence is a connected person of the Company, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As such, the Acquisition is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements as set out in Chapter 14 and Chapter 14A of the Listing Rules. The Company is required to prepare a transaction circular under an enhanced disclosure comparable to prospectus standard and Anglo Chinese Corporate Finance, Limited has been appointed as the financial adviser of the Company to conduct due diligence on the Acquisition.

The Framework Agreements, the Property Lease Agreement and the Trademark Licensing Agreement

As Zhuhai Huafa is an indirect controlling shareholder of the Company interested in approximately 36.88% of the total issued share capital of the Company, Zhuhai Huafa is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the entering into of each of (i) the Property Management Services Cooperation Framework Agreement, (ii) the Procurement Cooperation Framework Agreement and (iii) the Trademark Licensing Agreement constitutes a continuing connected transaction of the Company. As Huafa City is a subsidiary of Zhuhai Huafa and an associate of and is a connected person of the Company pursuant to Chapter 14A of the Listing Rules, the Property Lease Agreement constitutes a continuing connected transaction of the Company.

(i) The Property Management Services Cooperation Framework Agreement

Since one or more of the applicable percentage ratios (other than the profit ratio) in respect of the annual caps under the Property Management Services Cooperation Framework Agreement is more than 5% and the annual Service Fees to be received by Huafa Property Management is greater than HK$10,000,000, the entering into of the Property Management Services Cooperation Framework Agreement is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

(ii) The Procurement Cooperation Framework Agreement

Since all applicable percentage ratios (other than the profit ratio) in respect of the proposed annual caps under the Procurement Cooperation Framework Agreement are more than 0.1% but less than 5%, the transactions contemplated under the Procurement Cooperation Framework Agreement are exempt from the Independent Shareholders' approval requirements, and are subject to the reporting, annual review and announcement requirements.

(iii) The Property Lease Agreement

Since all the applicable percentage ratios (other than the profit ratio) in respect of the consideration under the Property Lease Agreement are less than 5% and the total consideration is less than HK$3,000,000, the transactions contemplated under the Property Lease Agreement will constitute a de minimis transaction for the Company under Chapter 14A of the Listing Rules upon Completion.

(iv) The Trademark Licensing Agreement

The Trademark Licensing Agreement constitutes a continuing connected transaction of the Company and since all the applicable percentage ratios (other than the profit ratio) in respect of the Trademark Licensing Agreement are less than 0.1%, the transactions contemplated under the Trademark Licensing Agreement will constitute a de minimis transaction for the Company under Chapter 14A of the Listing Rules upon Completion.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Procurement Cooperation Framework Agreement, the Property Lease Agreement and the Trademark Licensing Agreement (i) are fair and reasonable; and (ii) are on normal commercial terms or better; and the entering into of each of the Procurement Cooperation Framework Agreement, the Property Lease Agreement and the Trademark Licensing Agreement is in the interest of the Company and the Shareholders as a whole.

Since all executive Directors and Ms. Zhang Kuihong, a non-executive Director, are also directors or senior management members of Zhuhai Huafa and therefore are deemed to have material interests in the Acquisition and the Framework Agreements, each of them has abstained from voting on the board resolutions approving the Acquisition and the transactions contemplated under the Framework Agreements.

VI. SGM

The SGM will be convened and held at Unit 3605, 36/F, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong on Tuesday, 14 January 2020 at 11:00 a.m. for the purpose of considering and, if thought fit, approving the Acquisition and the Property Management Services Cooperation Framework Agreement.

The Independent Board Committee (comprising all the independent non-executive Directors) has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Acquisition and the Property Management Services Cooperation Framework Agreement. Somerley, the Independent Financial Adviser, has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the Acquisition and the Property Management Services Cooperation Framework Agreement.

The notice of SGM is set out on pages SGM-1 to SGM-4 of this circular. Whether or not you intend to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours (i.e. Sunday, 12 January 2020 at 11:00 a.m.) before the time appointed for holding the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be), if you so wish.

In order to be eligible to attend and vote at the SGM, unregistered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 13 January 2020.

Votes on the resolutions to be considered at the SGM shall be taken by poll. As at the Latest Practicable Date, Huajin Investment, an indirect wholly owned subsidiary of Zhuhai Huafa, held 3,710,750,000 Shares, representing approximately 36.88% of the entire issued share capital of the Company and is entitled to control voting rights of such shareholding. Hence, Huajin Investment will abstain from voting on the resolutions in relation to the Acquisition and the Property Management Services Cooperation Framework Agreement at the SGM. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, save as Huajin Investment and its associates, no Shareholder has a material interest in the resolutions in respect of the Acquisition and the Property Management Services Cooperation Framework Agreement or should be required to abstain from voting on the resolutions to be proposed at the SGM.

VII. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee on pages 40 to 41 of this circular which sets out the recommendation from the Independent Board Committee to the Independent Shareholders on the Acquisition and the Property Management Services Cooperation Framework Agreement; and (ii) the letter from the Independent Financial Adviser which contains its advice to the Independent Board Committee and the Independent Shareholders on pages 42 to 80 of this circular in respect of the Acquisition and the Property Management Services Cooperation Framework Agreement.

The Board (including the independent non-executive Directors whose recommendation is set out in the letter from the Independent Board Committee) consider that (i) the Asset Transfer Agreement and the Sale and Purchase Agreement have been negotiated on an arm's length basis and entered into on normal commercial terms; and are fair and reasonable and in the interest of the Company and the Shareholders as a whole; and (ii) the Property Management Services Cooperation Framework Agreement and the transactions contemplated thereunder have been negotiated on an arm's length basis; will be conducted on normal commercial terms, or on terms no less favourable than those available from independent third parties under prevailing local market conditions; are entered into in the ordinary and usual course of business of the Group; and are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Acquisition and the Property Management Services Cooperation Framework Agreements.

VIII. ADDITIONAL INFORMATION

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

Yours faithfully,
By order of the Board
HJ Capital (International) Holdings Company Limited
Mr. Li Guangning
Chairman

HJ Capital (International) Holdings Company Limited
華金國際資本控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 982)

Independent Board Committee:
Dr. Chen Jieping
Dr. Sun Mingchun
Mr. Tse Yung Hoi

27 December 2019

To the Independent Shareholders:

Dear Sir or Madam,

(1) EXTREME TRANSACTION AND CONNECTED TRANSACTION; AND (2) CONTINUING CONNECTED TRANSACTION

We refer to the circular of the Company dated 27 December 2019 (the "**Circular**"), of which this letter forms part. Capitalised terms used herein shall have the same meanings as those defined in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to give you recommendation in respect of the Acquisition and the Property Management Services Cooperation Framework Agreement. Somerley has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of the advice of the Independent Financial Adviser, together with the principal factors and reasons they have taken into account, are contained in their letter set out on pages 42 to 80 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendices to the Circular.

Having considered, among other matters, the factors and reasons considered by, and the opinion of Somerley as stated in its letter of advice, the terms and conditions of the Asset Transfer Agreement and the Sale and Purchase Agreement and the Property Management Services Cooperation Framework Agreement, the business and financial effects of the Acquisition on the Company, the quality and size of the business of the Target Group and the effect of the Acquisition on the Group, we consider that (i) though the entering into the Asset Transfer Agreement and the Sale and Purchase Agreement is not in the ordinary and usual course of business of the Group, the terms and conditions of the Asset Transfer Agreement and the Sale and Purchase Agreement are fair and reasonable and on normal commercial terms, and in the interests of the Company and the

Shareholders as a whole; and (ii) the entering into the Property Management Services Cooperation Framework Agreement and the transactions contemplated thereunder is in the ordinary and usual course of business of the Enlarged Group, the terms and conditions of the Property Management Services Cooperation Framework Agreement are fair and reasonable and on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the SGM in respect of the Acquisition and the Property Management Services Cooperation Framework Agreement.

Yours faithfully,
For and on behalf of
Independent Board Committee

Dr. Chen Jieping	**Dr. Sun Mingchun**	**Mr. Tse Yung Hoi**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the letter of advice from the Independent Financial Adviser, Somerley Capital Limited, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

SOMERLEY CAPITAL LIMITED
20th Floor, China Building
29 Queen's Road Central
Hong Kong

27 December 2019

To: the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

(1) EXTREME TRANSACTION AND CONNECTED TRANSACTION;
AND
(2) CONTINUING CONNECTED TRANSACTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and Independent Shareholders in connection with the Acquisition pursuant to the Asset Transfer Agreement and the Sale and Purchase Agreement, the continuing connected transactions (the "**Continuing Connected Transactions**") contemplated under the Property Management Services Cooperation Framework Agreement, and the proposed annual caps regarding the provision of property management services by the Target Group to Zhuhai Huafa and/or its associates (excluding the Group and the Target Group) for the three years ending 31 December 2020, 2021 and 2022 (the "**Proposed Annual Caps**"). Details of the Acquisition, the Property Management Services Cooperation Framework Agreement and the Proposed Annual Caps are set out in the "Letter from the Board" contained in the circular of the Company to the Shareholders dated 27 December 2019 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As HK Huafa is an indirect controlling Shareholder of the Company interested in approximately 36.88% of the entire issued share capital of the Company as at the Latest Practicable Date and hence is a connected person of the Company, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The highest applicable percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the Acquisition exceeds 100%. The Listing Committee resolved that the Acquisition is an extreme transaction and the reverse takeover rules do not apply. As such, the Acquisition is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under the Listing Rules.

As Zhuhai Huafa is an indirect controlling Shareholder of the Company interested in approximately 36.88% of the total issued share capital of the Company as at the Latest Practicable Date, Zhuhai Huafa is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, transactions contemplated under the Property Management Services Cooperation Framework Agreement constitute continuing connected transactions of the Company. Since one or more of the applicable percentage ratios in respect of the Property Management Services Cooperation Framework Agreement is over 5% and the annual Service Fees (as defined below) receivable by Huafa Property Management is over HKD10,000,000, the entering into of the Property Management Services Cooperation Framework Agreement is subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee comprising all three independent non-executive Directors, namely Dr. Chen Jieping, Dr. Sun Mingchun and Mr. Tse Yung Hoi, has been established to consider and advise the Independent Shareholders as to whether (1) the terms of the Asset Transfer Agreement, the Sale and Purchase Agreement and the Property Management Services Cooperation Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (2) the entering into of the Asset Transfer Agreement, the Sale and Purchase Agreement and the Property Management Services Cooperation Framework Agreement are in the interests of the Company and the Shareholders as a whole; (3) the Acquisition and the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group/Enlarged Group; and (4) the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, Somerley Capital Limited has acted as the independent financial adviser to the independent board committee and independent shareholders of the Company in relation to continuing connected transactions as detailed in the Company's circulars dated 13 June, 2 July and 27 August 2019. The past engagements were limited to providing independent advisory services to independent board committee and independent shareholders of the Company pursuant to the Listing Rules. Under the past engagements, Somerley Capital Limited received normal professional fees from the Company. Notwithstanding the past engagements, as at the Latest Practicable Date, there were no relationships or interests between (a) Somerley Capital Limited and (b) the Group, HK Huafa and Zhuhai Huafa Group that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of (1) the Acquisition; (2) the Continuing Connected Transactions; and (3) the Proposed Annual Caps as detailed in the Circular.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and up to the date of the SGM. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, HK Huafa and Zhuhai Huafa Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether (1) the terms of the Asset Transfer Agreement, the Sale and Purchase Agreement and the Property Management Services Cooperation Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (2) the entering into of the Asset Transfer Agreement, the Sale and Purchase Agreement and the Property Management Services Cooperation Framework Agreement are in the interests of the Company and the Shareholders as a whole; (3) the Acquisition and the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group/Enlarged Group; and (4) the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

I. THE ACQUISITION

1. Background to and reasons for the Acquisition

The Group is principally engaged in the provision of (a) financial services (including financial advisory, securities underwriting and consultancy, securities and futures brokerage, asset management, equity research and money lending services in Hong Kong); (b) hotel management and advisory services, and consultancy services in relation to conventions, exhibitions, conferences and event planning and organisation in the PRC; and (c) financial printing services in Hong Kong. The Group recorded revenue of approximately HK$247.3 million for the year ended 31 December 2018, representing an increase of approximately 29.3% compared with the previous financial year. The Group's total revenue for 2018 was contributed by (a) the financial printing services and investments holding segment of approximately HK$129.5 million; (b) the financial services segment of approximately HK$94.2 million; and (c) the hotel advisory, hotel management and exhibition services planning segment (the "**Hotel Segment**") of approximately HK$23.6 million. The Group's profit before income tax increased to approximately HK$4.0 million in 2018 from approximately HK$1.2 million in 2017 mainly due to increase in revenue from financial services segment and the Hotel Segment. For the six months ended 30 June 2019, the Group recorded revenue of approximately HK$116.5 million, representing an increase of approximately 43.7% as compared with the corresponding period in 2018. For the six months ended 30 June 2019, the financial printing services and investments holding segment, the financial services segment and the Hotel Segment contributed revenue of approximately HK$68.3 million, HK$36.4 million and HK$11.7 million respectively. The Group's loss before income tax amounted to approximately HK$3.3 million for the six months ended 30 June 2019, compared to approximately HK$29.7 million for the same period in 2018.

As advised by the executive Directors and as stated in the Company's 2018 annual report, the Group has been enhancing the competitiveness of its abovementioned core businesses (including financial printing services with tough market conditions) and has always been seeking to diversify its business and explore new business opportunities. In 2015 and 2017, the Company together with HK Huafa acquired a total of 59% interests in Johnson Cleaning Services Company Limited ("**Johnson Cleaning**"), which provides environmental hygiene services to a combined portfolio of government, commercial and institution sectors in Hong Kong. Subsequent to the listing of the holding company of Johnson Cleaning on the Main Board of the Stock Exchange on 16 October 2019, the aggregate indirect beneficial shareholding of the Company and Zhuhai Huafa in Johnson Cleaning was diluted to 44.25%. In 2016, the Group expanded into financial advisory services through the acquisition of WAG Worldsec Corporate Finance Limited (華高和昇財務顧問有限公司), a corporation licensed by the SFC to carry out Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. In 2017, the Company further expanded its financial advisory services through the acquisition of Huajin Financial (International) Holdings Limited (華金金融(國際)控股有限公司), a company together with its subsidiaries principally engaged in securities underwriting and consultancy, securities and futures brokerage and equity research businesses. In 2018, the Company has further developed a new business segment, i.e. the Hotel Segment, in order to share the benefits of the development potential of the Guangdong-Hong Kong-Macau Greater Bay Area. On 20 December 2019 (after trading hours), the Company entered into the Asset Transfer Agreement and the Sale and Purchase Agreement with HK Huafa pursuant to which the Company agreed to acquire and HK Huafa agreed to sell the Sale Shares. The Acquisition is considered as a part of the Group's further expansion plan of its business scope to encompass property management services into its high-end services platform.

As set out in Appendix I to the Circular, Huafa Property Management Group, which is wholly-owned by the Target Company, is a leading regional residential property management service provider in the PRC with a significant portion of its operations in Zhuhai, ranking twenty-eighth by China Index Academy (a property research organisation in the PRC which provides data research and analysis services with over 600 professional analysts and has extensive experience in researching and tracking the property management industry in the PRC) in 2019 among the Top 100 Property Management Companies in the PRC in terms of overall strength. The Target Group commanded strong brand recognition in securing property management service engagements, especially in relation to property development projects in Zhuhai. Further details with respect to the Target Group are set out in Appendix I to the Circular and the sub-section headed "Information on the Target Group" of this letter below.

As further set out in the section headed "Information about the Target Group — 2. Industry Overview" in Appendix I to the Circular, there are a series of favourable policy and economy factors which has jointly promoted the rapid development of the property management industry. On the policy front, further improvement in policy environment is expected to stimulate growth potential of the property management industry. For example, the Guidance on Accelerating the Development of the Resident Service Industry to Promote the Upgrading of Consumption Structure (《關於加快發展生活性服務業促進消費結構升級的指導意見》) published by the State Council of the PRC has proposed the regulated and standardised residential property management services. These policies and guidance are indicating the growing importance of the property management industry.

On the demand side, improvement in urbanisation and personal income is providing an immense room for industry development. As set out in the abovementioned section in Appendix I to the Circular, urbanisation rate in the PRC increased from 33.4% to 59.6% since 1998 to 2018, which translates into an average annual growth rate of approximately 1.3%, with 20.8 million new urban residents each year during that period. We have also performed a search on the official website of the PRC National Bureau of Statistics and note that the CAGR of the per capita disposable income of urban residents from 2009 to 2018 (being the latest available data as at the Latest Practicable Date) was approximately 10%. A continuous income growth is believed to have contributed to consumers' pursuit of higher quality property services. The growth in urbanisation and personal income, together with other factors, has contributed to the development of the property management industry.

On the supply side, increase in real estate investment and saleable area is providing a good opportunity for the development of the property management industry. As set out in the abovementioned section in Appendix I to the Circular, from 2000 to 2018, the accumulated saleable area of commercial housing in the PRC amounted to 16.988 billion sq.m., and the accumulated completion area reached 13.638 billion sq.m.. The saleable area of properties in the PRC reached 1.717 billion sq.m. in 2018, representing an increase of approximately 31.5% as compared to 1.306 billion sq.m. in 2013. Such growth of saleable area is beneficial to the development of the property management industry. It is believed that the combination of greater urbanisation, growing urban population and an expanding real estate market would generate huge demand for property services and contribute to the development of the property management industry. Further details on the industry growth drivers are set out in the section in Appendix I to the Circular as mentioned above. We understand from the management of the Company that, the Group is optimistic towards the development of the property management industry, and the Acquisition allows the Group to expand the Group's business into the property management industry and further enhance the Group's existing service platform. Further details regarding the reasons and benefits of the Acquisition are set out in the section headed "Reasons for and benefits of the Acquisition" in the "Letter from the Board" contained in the Circular.

As set out in the section headed "Financial and trading prospects of the Enlarged Group" in the "Letter from the Board" contained in the Circular, upon Completion, the Company intends to maintain the Target Group as a leading regional property management service provider with footprint all over the PRC by (i) retaining its current management team; (ii) enhancing its market position in the PRC; (iii) expanding its service offering in property management and value-added services; and (iv) improving operational efficiency of its front-line and administrative staff. Further, the Company has no plans to make significant changes to its current business operations immediately after Completion. Further details with respect to the financial and trading prospects of the Enlarged Group are set out in the abovementioned section in the "Letter from the Board" contained in the Circular.

The executive Directors are of the view that the Acquisition will enable the Group to diversify its business into areas with potential growth possibility. The Group targets to further broaden its income stream in order to improve the overall operational performance of the Group and ultimately maximising long-term returns for the Shareholders. This will also enable the Enlarged Group to obtain equity and debt financing more easily, and in turn attract further financing for its further business development. In view of the above, the executive Directors consider, and we concur, that the Acquisition is in line with the development strategy of the Group and will benefit the Group by diversifying its business and broaden its income base.

2. Principal terms of the Asset Transfer Agreement and the Sale and Purchase Agreement

As set out in the section headed "Principal Terms of the Asset Transfer Agreement and the Sale and Purchase Agreement" in the "Letter from the Board" contained in the Circular, the Asset Transfer Agreement is stipulated by the Equity Exchange for State-owned Property Transfer Operational Rules (《廣東聯合產權交易中心國有產權轉讓操作規則》) and the Equity Exchange for State-owned Assets Trading Business Management Measures (《廣東聯合產權交易中心國有資產交易業務管理辦法》) and is supplemented by the Sale and Purchase Agreement. The Asset Transfer Agreement encompasses generic terms determined by HK Huafa and the Equity Exchange during the tender bidding procedures for potential bidder, whereas the Sale and Purchase Agreement provides further terms and conditions of the Acquisition, determined after arm's length negotiations between HK Huafa and the Company. The Asset Transfer Agreement is required to be submitted for filing at the Equity Exchange any time after its execution. Set out below is a summary of the principal terms of the Asset Transfer Agreement and the Sale and Purchase Agreement. Further details of the principal terms of the Asset Transfer Agreement and the Sale and Purchase Agreement are set out in the abovementioned section in the "Letter from the Board" contained in the Circular.

(i) Subject matter

The Asset Transfer Agreement and the Sale and Purchase Agreement was entered into on 20 December 2019 (after trading hours) between the Company and HK Huafa. Pursuant to the Asset Transfer Agreement and the Sale and Purchase Agreement, the Company agreed to acquire and HK Huafa agreed to sell the Sale Shares, which represent the entire issued share capital of the Target Company. The Target Company is incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of HK Huafa as at the Latest Practicable Date. Further details of the Target Group are set out in the section headed "Information about the Target Group — 5. Business" in Appendix I to the Circular and the paragraph headed "Information on the Target Group" of this letter below.

(ii) Consideration and payment terms

The Consideration is RMB733,780,000 (equivalent to approximately HK$817,211,000). 30% of the Consideration, or RMB220,134,000 (equivalent to approximately HK$245,163,000) (the "**Initial Transaction Payment**"), will be settled by cash within 5 Business days after the Effective Date (the "**First Payment Date**"), and 70% of the Consideration, or RMB513,646,000 (equivalent to approximately HK$572,048,000) (the "**Remaining Transaction Payment**") will be settled by cash within one year from the First Payment Date (the "**Final Payment Date**").

As set out in the sub-section headed "Consideration" under the section headed "Principal Terms of the Asset Transfer Agreement and the Sale and Purchase Agreement" in the "Letter from the Board" contained in the Circular, under the Measures for the Administration of State-owned Assets Transaction of Enterprises (《企業國有資產交易監督管理辦法》) ([No.32] of the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)), (i) the Company is required to pay interest for the Remaining Transaction Payment in accordance with the interest rate of the People's Bank of China for the period until full payment of the Consideration; and (ii) a legal and effective guarantee which is accepted by HK Huafa shall be provided to HK Huafa for the Remaining Transaction Payment plus interest as aforementioned. The Target Company shall upon Completion provide a guarantee to HK Huafa for the Remaining Transaction Payment plus interest. As at the Latest Practicable Date, it is not expected the Company will pay the Remaining Transaction Payment and interest thereon prior to the Final Payment Date. Taking into account (i) stage payment is not an uncommon payment structure for transactions of similar nature; and (ii) the interest rate of People's Bank of China (which is published on People's Bank of China's official website) will be adopted in calculating interest charged on the Remaining Transaction Payment, we consider such arrangement to be reasonable.

As further set out in the sub-section headed "Consideration" under the section headed "Principal Terms of the Asset Transfer Agreement and the Sale and Purchase Agreement" in the "Letter from the Board" contained in the Circular, the Company intends to use its internal resources and bank borrowings to pay the Consideration. As at the Latest Practicable Date, the Company has secured sufficient financial resources to pay the Consideration. Pursuant to a first facility letter, an uncommitted revolving credit facility in the amount of up to US$30,000,000 (equivalent to approximately HK$234,000,000) ("**Bank Facility A**") has been granted to the Company. Pursuant to a second facility offer letter, a loan facility in the principal amount of up to RMB740,000,000 (equivalent to approximately HK$824,138,000) ("**Bank Facility B**") has been granted to the Company for the purpose of payment of the Consideration. As at the Latest Practicable Date, the Company has also obtained an undertaking from HK Huafa in relation to providing a shareholder's loan (the "**Shareholder's Loan**") to the Company in the amount of not more than RMB733,780,000 (equivalent to approximately HK$817,211,000) in two tranches for the purpose of payment of the Consideration. As at the Latest Practicable Date, the Company intends to satisfy the Initial Transaction Payment by drawdown part of Bank Facility A and Bank Facility B, and to satisfy the Remaining Transaction Payment by using the Group's internal resources available then and/or drawdown of Bank Facility B. Further details on the facility letters and the undertaking from HK Huafa are set out in the abovementioned sub-section in the "Letter from the Board" contained in the Circular.

As further set out in the same sub-section in the "Letter from the Board" contained in the Circular, the Consideration was determined between the Company and HK Huafa based on arm's length negotiations after taking into account, among other things, (i) the minimum tender price of RMB733,780,000; (ii) the recent financial position and performance of the Target Group; (iii) the valuation report prepared by an independent valuer; and (iv) the business prospects of the Target Group. Further discussions on the valuation of the Target Company are set out in the sub-section headed "Valuation of the Target Company" of this letter below.

(iii) Conditions precedent

Completion of the Sale and Purchase Agreement is conditional on the fulfilment or waiver of the conditions precedent in accordance with the terms of the Sale and Purchase Agreement, which include, among other things, (i) the Company having obtained approval from its Independent Shareholders at the SGM for the transactions contemplated under the Asset Transfer Agreement and the Sale and Purchase Agreement; (ii) the Asset Transfer Agreement having been executed by the Company and HK Huafa, and completed the relevant filing with the PRC authorities; and (iii) all required authorisation, registration, enrolment, filing, confirmation, licensing, consent, permission and approval, notification and filing procedures (including but not limited to as a result of changes in major shareholders) in connection with the transactions contemplated under the Asset Transfer Agreement and the Sale and Purchase Agreement having been obtained or completed with government agencies, regulatory authorities, the Stock Exchange, or any regulatory agencies in another jurisdiction. Further details of the conditions precedent are set out in the sub-section headed "Conditions precedent" under the section headed "Principal Terms of the Asset Transfer Agreement and the Sale and Purchase Agreement" in the "Letter from the Board" contained in the Circular. If the abovementioned conditions precedent are not satisfied (or waived, as the case may be) on or before 30 September 2020 (or such later date as the parties may agree), the Sale and Purchase Agreement shall terminate and no party shall have any obligations and liabilities under the Sale and Purchase Agreement save for any antecedent breaches of the terms thereof. As at the Latest Practicable Date, conditions (a), (b), (d) and (f) as set out in the abovementioned sub-section in the "Letter from the Board" contained in the Circular have been fulfilled.

(iv) Completion

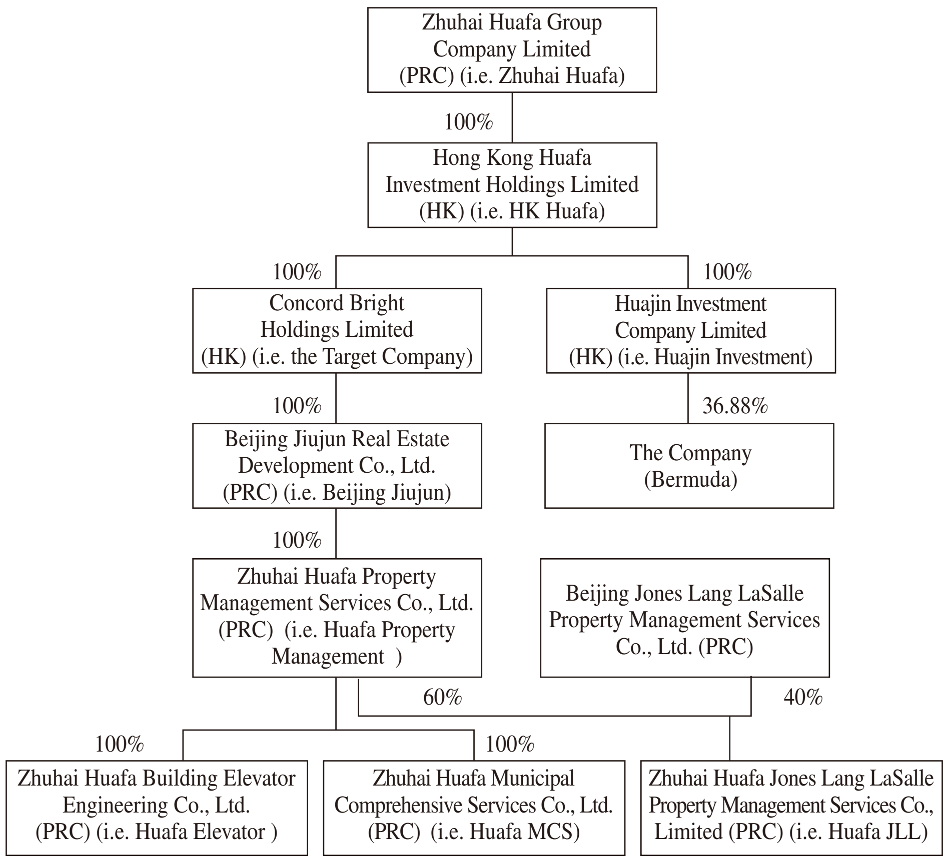
Completion shall take place on the Completion Date, which shall take place three Business days after the last of the conditions precedent under the Sale and Purchase Agreement has been fulfilled or waived in writing by the Company, or any other date as the Company and HK Huafa may agree in writing.

3. Information on the Target Group

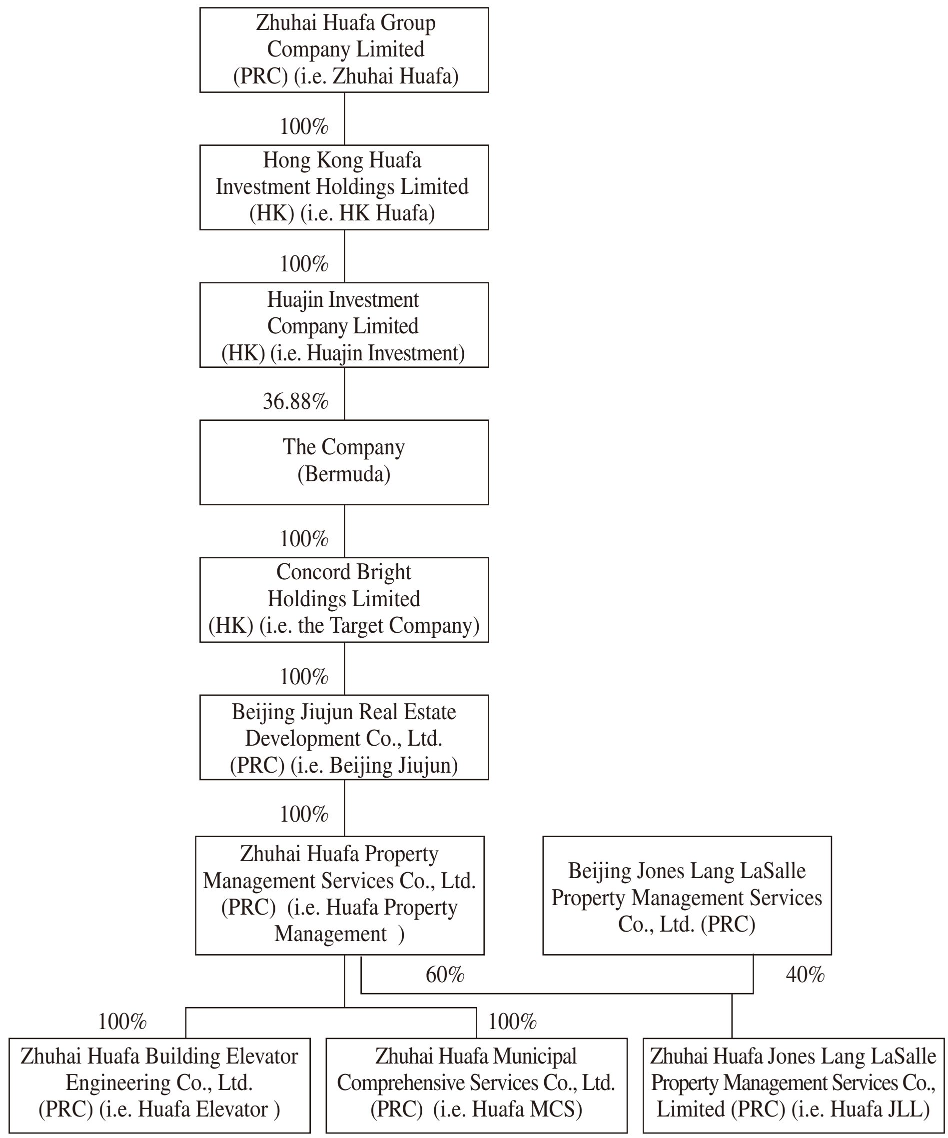
(i) Shareholding structure of the Target Group

The following charts set out the simplified organisation structure of the Target Group as at the Latest Practicable Date and upon Completion:

As at the Latest Practicable Date:



Upon Completion:



(ii) ***Principal activities of the Target Group***

After Completion, the Target Company, which is an investment holding company, will become a wholly-owned subsidiary of the Company. The statement of financial position of the Target Business as at 30 June 2019 is disclosed in Appendix III to the Circular. Since establishment, Beijing Jiujun has been a wholly-owned subsidiary of the Target Company. As at the Latest Practicable Date, Beijing Jiujun is a dormant company with no business operation. As set out in the section headed "Information about the Target Group — 5. Business" in Appendix I to the Circular, Huafa Property Management Group has been providing property management services in the PRC for more than 30 years and it managed 133 properties, including 85 residential properties and 48 non-residential properties as at 30 June 2019. Huafa Property Management Group manages a portfolio of properties covering 16 cities across 9 provinces, municipalities and autonomous regions in the PRC, with a total contracted gross floor area ("**GFA**") of approximately 21.4 million sq.m. as at 30 June 2019. As of 31 December 2016, 2017, 2018 and 30 June 2019, the total revenue-bearing GFA of the Target Group's managed properties located in Zhuhai represented approximately 74.5%, 71.9%, 72.7% and 71.5% of the total revenue-bearing GFA of all the Target Group's managed properties, respectively. The revenue-bearing GFA of the properties which the Target Group has been contracted to manage has increased from approximately 9.2 million sq.m. as of 31 December 2016 to approximately 12.1 million sq.m. as of 31 December 2018, and further increased to 12.7 million sq.m. as of 30 June 2019. The Target Group has been expanding its property management portfolio primarily through securing new property management engagements and seeks to continue to grow its property management portfolio in existing and new markets. The Target Business has a large, growing and loyal customer base primarily comprising of (i) property owners and residents for its property management services and value-added services; (ii) property developers for its property management services and other value-added services; and (iii) local governmental institutions for municipal support services. The five largest customers of the Target Business, which were mostly property developers (including Zhuhai Huafa Group as the single largest customer) and local governmental institutions, contributed to approximately 43.1%, 45.1%, 49.6% and 44.6% of the total revenue for the year of 2016, 2017 and 2018, and the first half of 2019, respectively.

The Target Group is principally engaged in three main business lines, namely, (i) property management services, which primarily consists of the provision of security, cleaning, greening, gardening and repair and maintenance services, (ii) value-added services to property owners, which mainly include home living services, office building customised services and common area value-added services; and (iii) other value-added services, which mainly involves support services for municipal projects, cleaning, greening, repair and maintenance services to property developers at the pre-delivery stage, and consultancy services to property developers for the management of their pre-sale activities. The Target Group plans to further increase the revenue-bearing GFA as well as the number of properties under its management by both actively participating in quality tenders, industry forums, commercial negotiations and arranging business visits to large scale third party developers and property owners' associations, who are target customers of the Target Group in addition to the Zhuhai Huafa Group. Further, the Target Group plans to (i) engage agents who specialise in locating quality property management projects; (ii) increase the headcount in the current business development team; and (iii) implement various incentive measures to encourage its employees to obtain property management contracts for properties developed by third-party developers. Further details on the business of the Target Group are set out in the section headed "Information about the Target Group — 5. Business" in Appendix I to the Circular. Risks relating to the Target Group's business and the industry where it operates are set out in the section headed "Information about the Target Group — 1. Risk Factors" in Appendix I to the Circular.

(iii) Management of the Target Group

Details of the Target Group's senior management are set out in the section headed "Information about the Target Group — 6. Core Management Team" in Appendix I to the Circular.

(iv) Financial information of the Target Group

Details of the historical financial information of the Target Business prepared 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 for the three years ended 31 December 2016, 2017, 2018 and the six months ended 30 June 2019 are set out in Appendix III to the Circular.

(a) Financial performance

The following is a summary of the financial results of the Target Business for (a) the three years ended 31 December 2016, 2017 and 2018; and (b) the six months ended 30 June 2018 and 2019 as extracted from the accountant's report of the Target Business set out in Appendix III to the Circular. Further details on the management discussion and analysis on the Target Business are set out in the section headed "Information about the Target Group — 7. Management Discussion and Analysis" in Appendix I to the Circular.

	For the year ended 31 December			**For the six months ended 30 June**	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Revenue	403,956	473,160	630,118	290,627	348,272
Profit attributable to owners of the Target Business	20,045	38,585	57,271	34,816	43,247

(i) Revenue

As mentioned in the paragraph headed "Principal activities of the Target Group" of this letter above, the Target Business's revenue was generated from three business segments, being (i) property management services; (ii) value-added services to property owners; and (iii) other value-added services. The following table sets out the breakdown of revenue of the Target Business by business segments for the three years ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2018 and 2019:

	For the year ended 31 December						**For the six months ended 30 June**			
	2016		**2017**		**2018**		**2018**		**2019**	
	RMB'000	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*
Property management services	314,713	78%	350,444	74%	452,685	72%	215,218	74%	243,640	70%
Value-added services to property owners	13,921	3%	14,655	3%	22,051	3%	9,956	3%	12,303	4%
Other value-added services	75,322	19%	108,061	23%	155,382	25%	65,453	23%	92,329	26%
Total revenue	**403,956**	**100%**	**473,160**	**100%**	**630,118**	**100%**	**290,627**	**100%**	**348,272**	**100%**

In 2017, the Target Business recorded total revenue of approximately RMB473.2 million, representing an increase of approximately 17.1% as compared to approximately RMB404.0 million in 2016. As set out in the section headed "Information about the Target Group — 7. Management Discussion and Analysis" in Appendix I to the Circular, the increase in revenue in 2017 was attributable to, among others, (i) increase in revenue-bearing GFA resulting from new projects and existing projects; (ii) expansion in types of services provided to existing projects; (iii) new municipal project and increase in types of support services to existing municipal projects; and (iv) increase from support services to property developers in new projects and existing projects. In 2018, the Target Business recorded total revenue of approximately RMB630.1 million, representing an increase of approximately 33.2% as compared to approximately RMB473.2 million in 2017. The increase in revenue in 2018 was attributable to, among others, (i) increase in revenue-bearing GFA resulting from new projects and existing projects with completion of development of new phases in existing projects; (ii) expansion in types of services provided to existing projects, from security and cleaning which are usually first provided in earlier stages to greening, gardening, repair and maintenance; (iii) increase in the provision of office building customised services in the value-added services to property owners segment; (iv) increase in types of support services to municipal projects; and (v) provision of support services to property developers to new projects and existing projects.

For the six months ended 30 June 2019, the Target Business recorded total revenue of approximately RMB348.3 million, representing an increase of approximately 19.8% as compared to approximately RMB290.6 million for the same period in 2018. Such increase in revenue was mainly driven by (i) increase in revenue-bearing GFA resulting from new projects and existing projects; (ii) increase in types of services provided to existing projects; (iii) increase in the provision of office building customised services in the value-added services to property owners segment; (iv) increase in contract price for support services to municipal projects; and (v) provision of support services to property developers to new projects and existing projects.

(ii) Profit attributable to owners of the Target Business

In 2017, the Target Business recorded profit attributable to owners of the Target Business of approximately RMB38.6 million, representing an increase of approximately 92.5% as compared to approximately RMB20.0 million in 2016. The increase was mainly due to the (i) improvement in gross profit and gross profit margin; (ii) improvement in operational efficiency of administrative staff; and (iii) one-off dividend received in other income. Excluding the one-off dividend received in other income of approximately RMB1.9 million and RMB9.7 million for the year ended 31 December 2016 and 2017 respectively, the year-on-year growth on profit attributable to owners of the Target Business was approximately 59.1% for the year ended 31 December 2017.

In 2018, the Target Business recorded profit attributable to owners of the Target Business of approximately RMB57.3 million, representing an increase of approximately 48.4% as compared to approximately RMB38.6 million in 2017. The increase was mainly due to (i) improvement in gross profit and gross profit margin; and (ii) improvement in operational efficiency of administrative staff. Excluding the one-off dividend received in 2017 as mentioned above, the year-on-year growth on profit attributable to owners of the Target Business was approximately 98.0% for the year ended 31 December 2018.

For the six months ended 30 June 2019, the Target Business recorded profit attributable to owners of the Target Business of approximately RMB43.2 million, representing an increase of approximately 24.2% as compared to approximately RMB34.8 million in the same period in 2018. The increase was mainly due to (i) improvement in gross profit and gross profit margin; and (ii) improvement in operational efficiency of administrative staff.

(b) Financial position

Set out below is a summary of the financial position of the Target Business (a) as at 31 December 2017 and 2018; and (b) as at 30 June 2019 as extracted from the accountant's report of the Target Business set out in Appendix III to the Circular.

	As at 31 December		As at 30 June
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Total assets	1,326,851	462,227	409,638
Total liabilities	1,116,798	322,433	246,084
Total equity	210,053	139,794	163,554

As at 30 June 2019, the Target Business recorded total assets of approximately RMB410 million. Assets of the Target Business mainly include (a) cash and cash equivalents of approximately RMB204 million; and (b) trade receivables of approximately RMB142 million. As at 30 June 2019, the Target Business recorded total liabilities of approximately RMB246 million, which mainly include (a) other payables of approximately RMB173 million; (b) contract liabilities of approximately RMB33 million; and (c) trade payables of approximately RMB31 million. As at 30 June 2019, total equity of the Target Business amounted to approximately RMB164 million. As at 30 June 2019, the Target Group had no outstanding borrowings and the Target Business's gearing ratio was nil. As set out in Appendix II to the Circular, as at 31 October 2019, the Enlarged Group had bank loans and lease liabilities of approximately HK$144 million and HK$30 million respectively.

4. Valuation of the Target Company

The Company engaged an independent valuer, AVISTA Valuation Advisory Limited (the "**Independent Valuer**") to prepare a valuation report (the "**Valuation Report**") in respect of the fair value of 100% equity interest of the Target Company. As set out in the Valuation Report contained in Appendix V to the Circular, the appraised value of 100% equity interest of the Target Company is approximately RMB806 million as of 30 June 2019. In reviewing the Valuation Report, we have complied with the requirements under Rule 13.80(2)(b) Note 1(d) of the Listing Rules. In particular, we have discussed with the Independent Valuer its expertise and noted that the person signing the Valuation Report, the managing director of the Independent Valuer, has advised clients in a range of industries and worked on many types of valuations and has more than 20 years of experience in financial valuation and business consulting in Hong Kong and the PRC. We also reviewed the Independent Valuer's terms of engagement and discussed with the Independent Valuer the work it has performed as regards the valuation.

As set out in the Valuation Report and also based on our discussions with the Independent Valuer, market approach is adopted in deriving the appraised value of 100% equity interest of the Target Company as of 30 June 2019. We have discussed with the Independent Valuer on their valuation methodologies and understand that there are three generally accepted approaches to appraise the fair value of the equity value of a company, namely income approach, cost approach and market approach. In this appraisal regarding the fair value of the equity value of the Target Company, the Independent Valuer applied the market approach as the Independent Valuer considers this approach reflects the market expectations as the transaction price multiples were arrived from market prices paid by market participants for similar assets.

There are two methods commonly used in performing market approach, that is, valuation with reference to comparable transactions or comparable companies. As advised by the Independent Valuer, the comparable transactions method is considered more appropriate to derive the appraised value of the Target Company and since there are sufficient transactions relating to companies in a similar nature and business to that of the Target Company, their transaction price multiples are good indicators of the industry. As set out in the Valuation Report, comparable transactions are selected with reference to various criteria, including, among other things, principal activities and principal place of operation of target companies in the comparable transactions. Since the Target Group is principally engaged in the provision of property management services and related value-added services in the PRC, we consider that valuation based on comparable transactions with target companies engaged in the provision of property management services principally in the PRC provides a reasonable basis to derive the appraised value of the Target Company.

Under the market approach, the Independent Valuer adopted price-to-earnings ("**P/E**") multiples for the valuation of the Target Company and we are advised by the Independent Valuer that such multiple is adopted because it is the most relevant and most commonly used valuation multiple for profit-making business, and earnings is one of the most direct drivers of equity value. The appraised value of the Target Company is derived from applying the median of the P/E multiples of the comparable transactions as set out in the Valuation Report, to the adjusted net profits of Huafa Property Management (which excluded non-recurring items) attributable to the owners of the Target Company for the year ended 31 December 2018, as the Target Company and Beijing Jiujun are investment holding companies with no operation. We reviewed the calculations of the abovementioned median of the P/E multiples of the comparable transactions and where feasible, searched public information to verify the figures adopted by the Independent Valuer in the calculation of the median of the P/E multiples of the comparable transactions and noted that the figures used are consistent with those disclosed publicly.

We have also reviewed and discussed with the Independent Valuer the methodology of, key basis and assumptions adopted for the valuation. General assumptions and considerations made by the Independent Valuer are set out in the Valuation Report contained in Appendix V to the Circular. Having taken into account the above, we concur with the Independent Valuer that the market approach is commonly used and is the appropriate method for deriving the appraised value of 100% equity interest of the Target Company.

5. Evaluation of the Consideration of the Acquisition

As discussed in the sub-section headed "Principal terms of the Asset Transfer Agreement and the Sale and Purchase Agreement" of this letter above, the Consideration was determined after arm's length negotiations after taking into account, among other things, (i) the minimum tender price of RMB733.78 million; (ii) the recent financial position and performance of the Target Group; (iii) the valuation report prepared by an independent valuer; and (iv) the business prospects of the Target Group. In assessing the fairness of the Consideration, we consider it is appropriate to refer to the independent valuation conducted by the Independent Valuer in respect of the market value of the 100% equity interest in the Target Company. We consider that the methodologies adopted by the Independent Valuer are appropriate. The valuation of 100% equity interest of the Target Company assessed by the Independent Valuer of approximately RMB806 million is higher than the Consideration of approximately RMB734 million for the Acquisition.

In addition, we have also performed a P/E analysis with respect to the Target Company. As mentioned in the sub-section headed "Information on the Target Group" of this letter, the Target Group is principally engaged in the provision of property management services and related value-added services in the PRC. The appraised value of 100% equity interest of the Target Company is approximately RMB806 million. Accordingly, we have conducted a search on Bloomberg for companies (the "**Comparable Companies**") listed on the Stock Exchange with closing market capitalisation as at the date immediately prior to the Latest Practicable Date between HK$400 million to HK$2 billion, which, based on their latest published annual reports or prospectus (where applicable) available as at the date immediately prior to the Latest Practicable Date, are principally engaged in the provision of property management services and related value-added services in the PRC. The Comparable Companies set out below represent an exhaustive list of companies comparable to the Company based on the above criteria.

Comparable Companies	Closing market capitalisation as at the date immediately prior to the Latest Practicable Date *(Approximate HK$ million)* *(Note 1)*	Historical P/E (based on annual results for the year ended 31 December 2018) *(Approximate times)* *(Note 2)*	Historical P/E (based on trailing twelve months earnings) *(Approximate times)* *(Note 3)*
Binjiang Service Group Co. Ltd. (stock code: 3316)	1,882	24.1	20.3
Riverine China Holdings Limited (stock code: 1417)	810	28.7	32.5
Xinyuan Property Management Service (Cayman) Ltd. (stock code: 1895) ("**Xinyuan**")	735	8.7	N/A *(Note 4)*
Hevol Services Group Co. Limited (stock code: 6093) ("**Hevol Services Group**")	556	29.6	19.9 *(Note 5)*
Zhong Ao Home Group Limited (stock code: 1538)	474	4.4	4.2
Yincheng Life Service CO., Ltd. (stock code: 1922) ("**Yincheng**")	427	14.1	N/A *(Note 4)*
Mean (simple average)		18.3	19.2
Median		19.1	20.1
Maximum		29.6	32.5
Minimum		4.4	4.2
The Target Company		10.8 *(Note 6)*	10.0 *(Note 7)*

Notes:

1. *Closing market capitalisation of the Comparable Companies are sourced from Bloomberg as at the date immediately prior to the Latest Practicable Date.*

2. *Historical P/E of the Comparable Companies (based on annual results for the year ended 31 December 2018) are calculated based on their respective closing market capitalisation as at the date immediately prior to the Latest Practicable Date and their respective profit attributable to shareholders of the company for the year ended 31 December 2018 as disclosed in their latest annual reports/prospectus (where applicable).*

3. *Historical P/E of the Comparable Companies (based on trailing twelve months earnings) are calculated based on their respective closing market capitalisation as at the date immediately prior to the Latest Practicable Date and their respective deduced profit attributable to shareholders of the company for the period from 1 July 2018 to 30 June 2019 by subtracting 2018 interim results from 2018 annual results and adding 2019 interim results.*

4. *Xinyuan and Yincheng were listed on the Main Board of the Stock Exchange on 11 October and 6 November 2019 respectively and their results for the six months ended 30 June 2019 were not disclosed in their prospectus dated 25 September and 25 October 2019 respectively. Accordingly, calculation of their historical P/Es based on trailing twelve months earnings is not applicable.*

5. *As disclosed in Hevol Services Group's 2019 interim report, it has recorded one-off listing-related expenses of approximately RMB15.4 million for the six months ended 30 June 2019. Such listing expenses are excluded in the calculation of its historical P/E (based on trailing twelve months earnings).*

6. *The implied P/E of the Target Company (based on annual results for the year ended 31 December 2018) is calculated based on the Consideration of RMB733,780,000 and the adjusted net profits attributable to owners of the Target Company for the year ended 31 December 2018 of approximately RMB67,710,000 (excluding items that are non-recurring in nature) as set out in the Valuation Report.*

7. *The implied P/E of the Target Company (based on trailing twelve months earnings) is calculated based on the Consideration of RMB733,780,000 and the adjusted net profits attributable to owners of the Target Company for the period from 1 July 2018 to 30 June 2019 by subtracting 2018 interim results from 2018 annual results and adding 2019 interim results (excluding items that are non-recurring in nature as advised by the management of the Company).*

8. *Calculations of the historical P/Es of the Comparable Companies and the implied P/Es of the Target Company are based on the exchange rate of HK$1 to RMB0.89914 (being the exchange rate as quoted by the People's Bank of China on the date immediately prior to the Latest Practicable Date).*

As set out above, the implied historical P/E of the Target Company at the Consideration (based on the Target Company's adjusted 2018 annual results) of approximately 10.8 times is below the mean and median of the historical P/Es of the Comparable Companies of approximately 18.3 times and 19.1 times respectively. The implied historical P/E of the Target Company at the Consideration (based on adjusted trailing twelve months earnings) of approximately 10.0 times is below the mean and median of the historical P/Es of the Comparable Companies of approximately 19.2 times and 20.1 times respectively. On this basis, and also taking into account that we consider the methodologies adopted by the Independent Valuer for the valuation of the 100% equity interest in the Target Company to be appropriate and the appraised value is higher than the Consideration, we consider that the Consideration for the Acquisition is fair and reasonable.

6. Financial effects on the Group

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company. Accordingly, the assets, liabilities and financial results of the Target Company will be consolidated into the financial statements of the Group. The unaudited pro forma financial information of the Enlarged Group taking into account the Acquisition is set out in Appendix IV to the Circular.

(i) Earnings

The Group recorded profit attributable to owners of the Company of approximately HK$36,000 for the year ended 31 December 2018. As set out in the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group in Appendix IV to the Circular, had the Acquisition been completed on 1 January 2018, the Enlarged Group's profit attributable to owners of the Company would have been approximately HK$13.5 million for the year ended 31 December 2018 after taking into account the profit of approximately HK$64.9 million contributed by the Target Business and pro-forma adjustments of approximately HK$51.4 million (which comprise of (a) the estimated interest expenses of approximately HK$12.5 million and HK$25.4 million relating to the external bank borrowings and the amount due to a related party arising from the deferred Consideration for the Acquisition; and (b) the estimated professional fees and transaction costs of approximately HK$13.5 million payable by the Company in connection with the Acquisition). Excluding the abovementioned estimated professional fees and expenses of approximately HK$13.5 million in relation to the Acquisition which is one-off in nature, the Enlarged Group's profit attributable to owners of the Company would have been approximately HK$27.0 million (compared to approximately HK$36,000 recorded by the Group) for the year ended 31 December 2018. Further details of the unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group are set out in Appendix IV to the Circular.

(ii) Assets and liabilities

The Group had unaudited total assets and net assets value of approximately HK$441.3 million and HK$204.0 million respectively as at 30 June 2019. As set out in the unaudited pro forma consolidated statement of financial position of the Enlarged Group set out in Appendix IV to the Circular, had the Acquisition been completed on 30 June 2019, the Enlarged Group would have total assets and net liability value of approximately HK$1,157.6 million and HK$458.0 million respectively as at 30 June 2019. As set out in the section headed "Financial impact on the Group" of the "Letter from the Board" contained in the Circular and Note 3 of the unaudited pro forma financial information of the Enlarged Group in Appendix IV to the Circular, the Acquisition is considered as a business combination under common control as the Group and the Target Business are under the common control of Zhuhai Huafa before and after the Acquisition. Accordingly, the Acquisition is accounted for using the principles of merger accounting in accordance with relevant accounting standard. The difference between the Consideration of approximately RMB733.8 million and the share capital of the Target Business of approximately RMB54.8 million as at 1 January 2019, being approximately RMB679.0 million (equivalent to approximately HK$772.3 million), would be deducted from the merger reserve of equity of the Group and the Target Business of approximately HK$313.4 million in aggregate for the purpose of determining the unaudited pro forma net liability of the Enlarged Group as at 30 June 2019 of approximately HK$458.0 million. As further set out in the same section of the "Letter from the Board", the net liability position of the Enlarged Group would result from accounting treatment mentioned above rather than the business operation and financial position of the Target Business. As the Company is not expected to have existing loan covenants on net asset position of the Enlarged Group upon Completion, such net liability position is not expected to have any material adverse impact on the Enlarged Group.

Further details of the unaudited pro forma consolidated statement of financial position of the Enlarged Group and associated notes are set out in Appendix IV to the Circular.

(iii) Working capital

As set out in the "Letter from the Board" contained in the Circular, the Company intends to use its internal resources and bank borrowings to pay the Consideration. As at the Latest Practicable Date, the Company has obtained an uncommitted revolving credit facility amounting up to US$30,000,000 (equivalent to approximately HK$234,000,000) and a loan facility amounting up to RMB740,000,000 (equivalent to approximately HK$824,138,000) with two banks, respectively. The uncommitted revolving credit facility amounting up to US$30,000,000 is subject to renewal on 20 June 2020 and the Directors are of the opinion that the aforesaid renewal will be available to the Company. The loan facility amounting up to RMB740,000,000 is subject to approval of the Board. The Directors are of the opinion that the aforesaid loan facility will be approved by the Board by January 2020. As set out in Appendix IV to the Circular, the unaudited pro forma cash and cash equivalents of the Enlarged Group as at 30 June 2019 would be approximately HK$635 million taking into account the Acquisition. The increase in unaudited pro forma cash and cash equivalents as compared to the Group's cash and cash equivalents of approximately HK$153 million as at 30 June 2019 is mainly due to the inclusion of cash and cash equivalents of the Target Business of approximately HK$232 million and proceeds from the abovementioned external bank borrowings of approximately HK$250 million. It is stated in the section headed "Working Capital" of Appendix II to the Circular that taking into account of the completion of the Acquisition and the financial resources available to the Enlarged Group, including the internally generated funds and banking facilities currently available, and based on the assumption regarding loan facility as set out above, in the absence of unforeseeable circumstances, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is, for at least the next twelve months from the date of the Circular.

As set out in the paragraph headed "Financial information of the Target Group" under the sub-section headed "Information on the Target Group" of this letter, the year-on-year growth on profit attributable to owners of the Target Business (excluding the one-off dividend received in 2016 and 2017) was approximately 59.1%, 98.0% and 24.2% for the years ended 31 December

2017 and 2018, and the six months ended 30 June 2019 respectively. Upon Completion, the Company intends to maintain the Target Group as a leading regional property management service provider with footprint all over the PRC. Recurring income is expected to be generated by the Target Group from expanding property projects, stable customer base, lower sensitivity to macro economy and the support from Zhuhai Huafa group as discussed in the section headed "Financial impact on the Group" of the "Letter from the Board" contained in the Circular. Taking into account the factors mentioned above, the Target Group is expected to generate long-term growth in terms of net profit and cash flows. On the other hand, the Directors are of the view that the interest expenses associated with the Acquisition will remain stable since (i) the interest rates of the bank facilities that the Company intends to use to satisfy the Consideration are HIBOR linked (three-month HIBOR) and the highest historical HIBOR + 2.8% is approximately 5.5% in the past 10 years; and (ii) the standby Shareholder's Loan has a fixed rate range between 5% and 7%. The cashflow from the Target Group's operation is sufficient to cover the interest expenses and is expected to increase continuously. As the aforesaid interest rates of the bank facilities is HIBOR linked (HIBOR plus a fixed rate), we have sourced from Bloomberg the historical HIBOR data and, as at the Latest Practicable Date, based on the data from Bloomberg, the year-on-year movement in the average daily three-month HIBOR was within 1% in the past 10 years which we regard as a stable trend.

We further understand from the executive Directors that the current bank borrowing for the Consideration of the Acquisition is expected to be a short-term arrangement. The Company may repay such principal upon accumulating sufficient capital from operation and arrange new loans, and depending on the financial and capital market conditions in the longer run, issue debt securities with lower interest rates and issue equity securities. As set out in the section headed "Financial impact on the Group" of the "Letter from the Board" contained in the Circular, in terms of the Enlarged Group's ability to obtain future financing, the Directors are of the view that the Enlarged Group could obtain borrowing by charging the shares and/or assets of the Target Group, or arrange borrowing through the Target Group as the HK$772.3 million debit to the merger reserve is at the Company's level. As the Company is not expected to have existing loan covenants on net asset position of the Enlarged Group upon Completion, we understand from the executive Directors that such net liability position is not expected to have any material adverse impact on the Enlarged Group's financial position and operations.

In view of the above and having considered, in particular, (a) the Consideration is fair and reasonable after taking into account that the valuation of the Target Company was performed with appropriate methodologies and the Consideration is lower than the appraised value of the Target Company, and the implied historical P/Es of the Target Company at the Consideration are below the mean and median of the historical P/Es of the Comparable Companies; (b) reasons and benefits of the Acquisition as discussed in the sub-section headed "Background to and reasons for the Acquisition" of this letter above; (c) historical financial performance and prospect of the Target Business; (d) the effect on the Group's earnings as discussed in the paragraph above, as well as the expected positive impact on the Enlarged Group's revenue base and profitability in the longer-run as a result of the Acquisition as set out in the "Letter from the Board" of the Circular; and (e) the Directors are of the opinion that the Enlarged Group will have sufficient working capital for its present requirements, that is, for at least the next twelve months from the date of the Circular as set out in the section headed "Working Capital" in Appendix II to the Circular, we consider that the Acquisition is, on balance, in the interests of the Company and the Shareholders as a whole.

II. THE PROPERTY MANAGEMENT SERVICES COOPERATION FRAMEWORK AGREEMENT

1. Background to and reasons for the Property Management Services Cooperation Framework Agreement

As mentioned in the sub-section headed "Background to and reasons for the Acquisition" under the section headed "The Acquisition" of this letter, the Group has been enhancing the competitiveness of its core businesses and has always been seeking to diversify its business and explore new business opportunities. As advised by the management of the Company, Huafa Property Management has been providing property management services to Zhuhai Huafa since 1985. In view of the sound relationship and ongoing cooperation between Huafa Property Management and Zhuhai Huafa Group, the Group would like to continue providing property management services through Huafa Property Management to Zhuhai Huafa Group after Completion of the Acquisition has taken place. As set out in the sub-section headed "Zhuhai Huafa" under the section headed "General Information on the Parties to the Acquisition and the Framework Agreements" in the "Letter from the Board" contained in the Circular, Zhuhai Huafa, an indirect controlling Shareholder of the Company, is a state-owned conglomerate based in Zhuhai, the PRC and is one of Top 500 Chinese Enterprises, Top 500 Chinese Service Companies and Top 100 Chinese Multinational Corporations. Zhuhai Huafa Group headquartered in Zhuhai and holds a leading position in the property development market in Zhuhai with footprint all over the PRC. Through its subsidiaries, Zhuhai Huafa is principally engaged in, among other things, urban operations (being primary land development, construction and development of major infrastructure facilities) and property development, and has a portfolio of property projects located in nearly 30 cities across the PRC as at 31 December 2018 and has also expanded to Hong Kong, Macau and the United States of America. The revenue generated from Zhuhai Huafa Group for the year ended 31 December 2016, 2017 and 2018 amounted to approximately RMB137.6 million, RMB162.0 million and RMB240.1 million, respectively, representing an approximately 18% and 48% year-on-year increase.

By continuing to provide property management services to Zhuhai Huafa, the Group is expected to broaden its income stream and improve its overall operational performance. As set out in the sub-section headed "Property Management Services Cooperation Framework Agreement" in the ''Letter from the Board'' contained in the Circular, the historical transaction amounts for the Property Management Services for the year ended 31 December 2018 and the six months ended 30 June 2019 was approximately RMB240.08 million and RMB119.33 million respectively. Huafa Property Management has therefore decided to enter into the Property Management Services Cooperation Framework Agreement. Further details of the Property

Management Services Cooperation Framework Agreement are set out in the sub-section headed "Property Management Services Cooperation Framework Agreement" in the "Letter from the Board" contained in the Circular.

In view of the above and given that the Continuing Connected Transactions will be conducted on normal commercial terms (as more particularly discussed in the sub-section headed "Principal terms of the Property Management Services Cooperation Framework Agreement" of this letter below), the executive Directors consider, and we concur, that the entering into of the Property Management Services Cooperation Framework Agreement to provide property management services to Zhuhai Huafa Group is in line with the Group's development strategy and will benefit the Group by continuing to broaden its source of income.

2. Principal terms of the Property Management Services Cooperation Framework Agreement

Set out below is a summary of the principal terms of the Property Management Services Cooperation Framework Agreement. Further details of the Property Management Services Cooperation Framework Agreement are set out in the sub-section headed "Property Management Services Cooperation Framework Agreement" in the ''Letter from the Board'' contained in the Circular.

(i) Subject matter

The Property Management Services Cooperation Framework Agreement was entered into on 20 December 2019 (after trading hours) between Huafa Property Management and Zhuhai Huafa (together, the "**Parties**"). Pursuant to the Property Management Services Cooperation Framework Agreement, subject to Completion taking place, Huafa Property Management will provide Zhuhai Huafa and/or its associates (excluding the Group and the Target Group) the Property Management Services (as defined below). The Property Management Services involve (i) providing property management services to property sales centres, sample flats, etc. held by Zhuhai Huafa and/or its associates (excluding the Group and the Target Group) including but not limited to customer reception services, on-site security, cleaning, greening and gardening, repair and maintenance services ("**Category I Property Management Services**"); and (ii) providing property management services including but not limited to reception services, security, cleaning, greening and gardening, repair and maintenance services as well as other value added services to the properties developed by Zhuhai Huafa and/or its associates (excluding the Group and the Target Group) from the commencement of construction up to the delivery of the properties; and unsold properties, investment properties, car parks and other related areas held by Zhuhai Huafa and/or its associates (excluding the Group and the Target Group) ("**Category II Property Management Services**", together with "**Category I Property Management Services**", the "**Property Management Services**").

In respect of the specific services to be provided by Huafa Property Management, Huafa Property Management Group shall enter into separate services agreements (the "**Individual Services Agreements**") with individual company of Zhuhai Huafa Group (excluding the Group and the Target Group). The Individual Services Agreements should set out the scope of services, service fee charging standard, timeline and payment methods, etc., in accordance with market practice. The service scope shall not exceed the Property Management Services. In the event of conflicts between the terms of the Individual Services Agreements and the Property Management Services Cooperation Framework Agreement, the terms of the Property Management Services Cooperation Framework Agreement shall prevail.

(ii) Duration

The Property Management Services Cooperation Framework Agreement is entered into for a term commencing from the day on which all the conditions precedent set out in the paragraph headed "Conditions precedent of the Property Management Services Cooperation Framework Agreement" in the "Letter from the Board" contained in the Circular are fulfilled (or waived under any circumstances, where applicable) to 31 December 2022 (the "**Term**").

(iii) Pricing basis

As set out in the sub-section headed "Property Management Services Cooperation Framework Agreement" in the "Letter from the Board" contained in the Circular, the pricing policy for the provision of Category I Property Management Services by the Group shall be determined as follows: (i) each Individual Services Agreement shall be negotiated on an arm's-length basis to ensure that the relevant pricing terms are fair and reasonable and in accordance with normal commercial terms; (ii) the Service Fees are determined after the Parties have negotiated the terms and conditions of the respective Individual Services Agreements, taking reference to the market price and the service fees of similar transactions with independent third parties to ensure that the Service Fees offered to Huafa Property Management is no less favourable than those available to independent third parties; and (iii) when determining the service fees (the "**Service Fees**"), Huafa Property Management also takes into account factors such as total labour allocation, estimated total expenses and the target net profit margin which can be represented by the formula: cost x (1 + target net profit margin). The target net profit margin ranging from 8% to 12% is determined with regard to factors including, among others, (i) net profit margin charged by Huafa Property Management in providing similar property management services to independent third parties; and (ii) the net profit margin charged by independent property management companies for providing similar property management services obtained through market research.

The Service Fees for the provision of Category II Property Management Services by the Group shall be determined as follows: (i) each Individual Services Agreement shall be negotiated on an arm's-length basis to ensure that the relevant pricing terms are fair and reasonable and in accordance with normal commercial terms; (ii) the Service Fees are determined after the Parties have negotiated the terms and conditions of the respective Individual Services Agreements, taking reference from the market price and the service fees of similar transactions with independent third parties to ensure that the Service Fees offered to Huafa Property Management is no less favourable than those available to independent third parties; and (iii) the Service Fees shall be determined with reference to the formula: floor area x service fee per sq.m. (unit price). For residential projects, the unit price shall be based on (i) the "pre-property management service agreement" (《前期物業管理服務合同》) signed between Huafa Property Management as the property management services provider and Zhuhai Huafa Group companies as the property developer, pursuant to which, the unit price shall not be higher than the relevant service price as set by the relevant PRC authorities (the "**Guided Price**"); (ii) in the absence of the Guided Price, the unit price shall be determined with reference to the "market reference price" which takes into account the comparable market price of similar property management services provided to residential projects in the vicinity area; for commercial projects, the unit price shall be determined based on the comparable market price of similar property management services provided to commercial projects in the vicinity area and the estimated total costs for provision of property management services to that commercial building. Market price of providing similar property management services to property projects in the vicinity areas is in general obtainable through public channels such as websites of and enquiry with third party property management companies and real estate agencies. Further details on the Guided Price are set out in the abovementioned sub-section in the "Letter from the Board" contained in the Circular.

We understand from the management of the Company that, in performing market research to obtain the market prices of Category I Property Management Services and Category II Property Management Services, the business development department of Huafa Property Management would collect information on service fees charged by independent property management companies for providing similar property management services in similar area. As further discussed in the sub-section headed "The Proposed Annual Caps" of this letter below, we have obtained and reviewed (i) one effective contract in 2019 entered into between Huafa Property Management and Zhuhai Huafa and/or its associates in respect of the largest project in terms of scale as advised by the Company involved in each of Category I Property Management Services, residential projects within Category II Property Management Services, and commercial projects within Category II Property Management Services involving comparable transactions with independent third parties (i.e. three contracts with Zhuhai Huafa and/or its associates in total); and (ii) one effective contract in 2019 entered into between Huafa Property Management and independent third parties in respect of provision of similar property management services by Huafa Property Management for each of Category I Property Management Services, residential projects within Category II Property Management Services, and commercial projects within Category II Property Management Services (i.e. three contracts with independent third parties in total) (collectively as the "**Reviewed Contracts**"). The Reviewed Contracts were obtained from the

Company which we consider representative in terms of project scale and size of revenue, and sufficient for the purpose of comparing service fees charged by Huafa Property Management to Zhuhai Huafa Group and that charged to independent third parties.

With respect to Category I Property Management Services, we understand from the management of the Company and noted from the relevant Reviewed Contracts that the Service Fees of the contract entered into between Huafa Property Management and Zhuhai Huafa and/or its associates are calculated based on a net profit margin with reference to market information which is no less favourable than that charged to independent third party for provision of similar property management services by Huafa Property Management and is consistent with the pricing policy mentioned above. With respect to Category II Property Management Services, we noted from the relevant Reviewed Contracts that, for similar property management services in similar area, the service fee per sq.m. charged by Huafa Property Management to Zhuhai Huafa Group is no less favourable to Huafa Property Management than that charged to independent third parties. Based on the documents reviewed and discussions with the management of the Company, we noted that Huafa Property Management has obtained market prices via market research and made comparison with service fees charged by Huafa Property Management to independent third parties, which is consistent with the abovementioned pricing policy as stipulated in the Property Management Services Cooperation Framework Agreement. As disclosed in the Company's 2018 annual report, the general credit terms for the Group's trade receivables (save for the Group's securities/futures trading and broking business) is 90 days. We noted from the three relevant Reviewed Contracts with Zhuhai Huafa and/or its associates mentioned above that their credit terms in relation to the service fees are within the range of the general credit terms of the Group's trade receivable of 90 days.

Taking into account the above and (i) each Individual Services Agreement shall be negotiated on an arm's-length basis to ensure that the relevant pricing terms are fair and reasonable and in accordance with normal commercial terms; (ii) the Service Fees will be determined with reference to the Guided Price (where applicable), and market price which is no less favourable to Huafa Property Management than those available to independent third parties; and (iii) the internal control measures as set out in the section headed "Internal control measures" in the "Letter from the Board" contained in the Circular, we concur with the executive Directors that the pricing basis (including the abovementioned target net profit margin in respect of Category I Property Management Services) of the Continuing Connected Transactions to be reasonable.

(iv) Payment terms

The payment arrangement of the Service Fees are made with reference to market practice and the payment arrangement of similar transactions between the Parties and independent third parties to ensure that the payment arrangement is no less favourable to Huafa Property Management than those available to independent third parties.

As set out in the section headed "Information about the Target Group — 5. Business" in Appendix I to the Circular, the Target Group generally does not have a specific credit term. We understand from the management of the Company that, in the event that a tender is required for the Individual Services Agreements, the payment terms for the Service Fees under the Individual Services Agreements will be determined in accordance with the relevant tender document. In the event that a tender is not required for the Individual Services Agreements, the Service Fees will generally be charged on a monthly basis. Pursuant to the Property Management Services Cooperation Framework Agreement, the payment terms for the Service Fees under the Individual Services Agreements should be no less favourable to Huafa Property Management than those available to independent third parties for comparable transactions.

(v) Conditions precedent

The Property Management Services Cooperation Framework Agreement is conditional upon fulfilment or waiver in writing (as the case may be) of, among others, (a) the Completion taking place; (b) the Company having obtained its Independent Shareholders' approval of the Property Management Services Cooperation Framework Agreement and the transactions contemplated thereunder; and (c) all necessary authorisations, registrations, filings, confirmations, permits, consents and approvals for the transactions contemplated under the Property Management Services Cooperation Framework Agreement having been obtained by Huafa Property Management and Zhuhai Huafa. As at the Latest Practicable Date, apart from the Completion of the Acquisition and the Independent Shareholders' approval as described in (a) and (b) above, all conditions precedent have been fulfilled. Further details of the conditions precedent are set out in the paragraph headed "Details of the Property Management Services Cooperation Framework Agreement" under the sub-section headed "Property Management Services Cooperation Framework Agreement" in the "Letter from the Board" contained in the Circular.

3. The Proposed Annual Caps

The Continuing Connected Transactions are subject to the Proposed Annual Caps for each of the year ending 31 December 2020, 2021 and 2022. The value of the Continuing Connected Transactions, representing the Service Fees receivable by Huafa Property Management, will not exceed the applicable annual amounts for both Category I Property Management Services and Category II Property Management Services respectively as stated in the 'Letter from the Board" contained in the Circular.

In estimating the Proposed Annual Caps for the service fees receivable by Huafa Property Management for both Category I Property Management Services and Category II Property Management Services under the Property Management Services Cooperation Framework Agreement for the year ending 31 December 2020, the executive Directors have taken into account, among others, (i) the number of existing property management projects which involves provision of property management services by Huafa Property Management to Zhuhai Huafa Group which is expected to continue in 2020 and the service fees involved; (ii) the estimated number of new property management projects in 2020; (iii) the estimated number of property management projects which is expected to cease in 2020; (iv) the indicative time schedule and Property Management Services required in respect of each property management project; and (v) the estimated service fees receivable by Huafa Property Management in respect of each property management project in 2020.

As advised by the executive Directors, discussions have been held with Zhuhai Huafa in connection with the details of property management projects currently undertaken or proposed to be undertaken by Huafa Property Management. It is expected that Zhuhai Huafa Group will continue to procure property management services from Huafa Property Management, while Huafa Property Management is capable to provide such services. As set out in the paragraph headed "Annual caps and basis of determination" under the sub-section headed "Property Management Services Cooperation Framework Agreement" in the "Letter from the Board" contained in the Circular, for the number of new property management projects, the Directors considered the number of property projects held by Zhuhai Huafa Group under development and property projects held by Zhuhai Huafa Group for future development and property projects which will commence construction within the Term. After considering the property projects development plan provided by Zhuhai Huafa Group, including the relevant land transfer agreements, expected time for commencement of construction, pre-sale, completion and delivery of the relevant projects, the Directors estimate the number of property management projects will increase. Through its discussion with Zhuhai Huafa, management of Huafa Property Management has obtained an understanding of the numbers and details of the property management projects, such as property development schedules, floor area, and scope of Property Management Services required for the property management projects.

As set out in the paragraph headed "Annual caps and basis of determination" under the sub-section headed "Property Management Services Cooperation Framework Agreement" in the "Letter from the Board" contained in the Circular, the estimated Service Fees for Category I Property Management Services shall be determined with reference to the formula: cost x (1+ target net profit margin) while the estimated Service Fees for Category II Property Management Services shall be determined with reference to the formula: floor area x service fee per sq.m. (unit price). We understand from the Company that costs involved in estimating Service Fees for Category I Property Management Services mainly consist of labour costs for personnel such as customer service officers, security guards, cleaners, and gardeners. When estimating the service fees receivable by Huafa Property Management in respect of existing property management projects which is expected to continue in 2020, the management of the Company made reference to, among others, (i) prices stipulated in the respective contracts of the existing property management projects; and (ii) the indicative time schedule of the existing property management projects. When estimating the service fees receivable by Huafa Property Management in respect of new property management projects in 2020, the management of the Company made reference to, among others, (i) historical service fees (which in turn include historical costs and net profit margin for Category I Property Management Services, and floor area and historical service fee per sq.m. for Category II Property Management Services) charged by Huafa Property Management for projects similar to the new property management projects; (ii) the Guided Price (for residential projects within Category II Property Management Services, where applicable); (iii) market research with respect to the service fees (in particular, net profit margin for services similar to Category I Property Management Services and service fee per sq.m. for services similar to Category II Property Management Services) charged by independent property management companies for providing similar property management services; and (iv) the indicative time schedule of the new property management projects in 2020 through the Company's discussions with Zhuhai Huafa. The executive Directors have also considered the uncertainties in factors such as property development and selling schedule, inflation and the necessity to allow flexibility for the Group to capture more business opportunities when determining the Proposed Annual Caps. Taking into account the above factors, the Proposed Annual Caps for the Continuing Connected Transactions for the year ending 31 December 2020 in respect of Category I Property Management Services and Category II Property Management Services is RMB297.06 million and RMB77.42 million respectively.

We have obtained and reviewed (i) a schedule provided by the Company which sets out all property management projects involving Category I Property Management Services and Category II Property Management Services during the Term and contains, among others, the name and location of these property management projects, indicative time schedule of these property management projects, and estimated service fees receivable in respect of each property management project in 2020; and (ii) the Reviewed Contracts. We understand from the executive Directors that they have estimated the service fees receivable by Huafa Property Management after considering the factors as mentioned above. Further, we understand from the management of the Company and noted in the abovementioned schedule that, the estimated service fees receivable for new property management projects involving Category I Property Management Services are determined based on the estimated average fees of property management project, which in turn is estimated with reference to historical costs and net profit margin of existing property management projects, and the latest market research carried out by the business development department of Huafa Property Management. The estimated service fees receivable for new property management projects involving Category II Property Management Services are determined based on estimated floor area based on information provided by Zhuhai Huafa Group, and estimated service fee per sq.m. which in turn is estimated with reference to the Guided Price (where applicable), historical service fee per sq.m. of existing property management projects and the latest market research carried out by the business development department of Huafa Property Management. The basis adopted in estimating service fees receivable by Huafa Property Management for the year ending 31 December 2020 is in line with the information contained in the abovementioned schedule and documents we reviewed. In view of the above, we concur with the executive Directors that the basis adopted for estimating the Proposed Annual Caps for the Continuing Connected Transactions in respect of Category I Property Management Services and Category II Property Management Services for the year ending 31 December 2020 to be reasonable.

In estimating the Proposed Annual Caps for the service fees receivable by Huafa Property Management for both Category I Property Management Services and Category II Property Management Services under the Property Management Services Cooperation Framework Agreement for the years ending 31 December 2021 and 2022, the executive Directors have taken into account, among others, (i) the number of existing property management projects which involves provision of property management services by Huafa Property Management to Zhuhai Huafa Group which is expected to continue in 2021 and 2022; (ii) the service fees receivable by Huafa Property Management from Zhuhai Huafa Group in respect of existing property management projects which is expected to continue in 2021 and 2022; (iii) the estimated number of new property management projects in 2021 and 2022; (iv) the estimated number of property management projects which is expected to cease in 2021 and 2022; (v) the indicative time schedule and Property Management Services required in respect of each property management project; and (vi) the estimated service fees receivable by Huafa Property Management in respect of each property management project in 2021 and 2022. Further, we understand from the management of the Company that the number of property management projects which involves provision of the Property Management Services and Service Fees receivable by Huafa Property Management in 2021 and 2022 are estimated with reference to similar factors as mentioned above in setting the Proposed Annual Caps for the year ending 31 December 2020. In addition, the executive Directors have also considered the uncertainties in factors such as property development and selling schedule, inflation and the necessity to allow flexibility for the Group to capture more business opportunities when determining the Proposed Annual Caps. Taking into account the above factors, the Proposed Annual Caps for the Continuing Connected Transactions in respect of Category I Property Management Services for the years ending 31 December 2021 and 2022 are RMB363.64 million and RMB381.24 million respectively, and the Proposed Annual Caps for the Continuing Connected Transactions in respect of Category II Property Management Services for the years ending 31 December 2021 and 2022 are RMB118.62 million and RMB238.66 million respectively.

We have obtained and reviewed a schedule provided by the Company which sets out all property management projects involving Category I Property Management Services and Category II Property Management Services during the Term and contains, among others, the name and location of these property management projects, indicative time schedule of these property management projects, and estimated service fees receivable in respect of each property management project in 2021 and 2022. We noted that the basis for estimating the service fees receivable by Huafa Property Management adopted in setting the Proposed Annual Caps for the years ending 31 December 2021 and 2022 are in line with the information contained in the abovementioned schedule we reviewed. We further noted from the management of the Company that the increase in estimated service fees receivable by Huafa Property Management in 2021 and 2022 is mainly attributable to the estimated increase in number of property management projects based on the Company's discussions with Zhuhai Huafa. In view of the above, we concur with the executive Directors that the basis adopted for estimating the Proposed Annual Caps for the Continuing Connected Transactions in respect of Category I Property Management Services and Category II Property Management Services for the years ending 31 December 2021 and 2022 to be reasonable.

Taking into account the aforesaid factors, the Proposed Annual Caps for the Continuing Connected Transactions are set as follows:

	Year ending 31 December		
	2020	**2021**	**2022**
	(RMB millions)	*(RMB millions)*	*(RMB millions)*
Category I Property Management Services	297.06	363.64	381.24
Category II Property Management Services	77.42	118.62	238.66
Total Service Fees for the Property Management Services	374.48	482.26	619.90

4. Internal control measures

The Group has adopted internal control procedures and corporate governance measures in relation to the Continuing Connected Transactions. As set out in the section headed "Internal control measures" in the "Letter from the Board" contained in the Circular,

(a) prior to entering into any Individual Services Agreement, the business development department of Huafa Property Management shall be responsible for collecting information from independent third parties, including (i) market price (and with respect to Category I Property Management Services, net profit margin) of providing similar property management services; (ii) with respect to residential projects of Category II Property Management Services, the Guided Price set by the relevant PRC authorities (if any) and the comparable market price of similar property management services provided to residential projects after considering the Guided Price; and (iii) with respect to commercial projects of Category II Property Management Services, two to three quotations of comparable market price of similar property management services provided to commercial projects in the vicinity area obtainable through public channels such as websites of and enquiry with third party property management companies and real estate agencies to ensure that the terms of the Individual Services Agreements are fair and reasonable and no less favourable to Huafa Property Management than those available to independent third parties;

(b) after entering into any Individual Services Agreement, the senior management of Huafa Property Management shall be responsible for monitoring the Individual Services Agreements. The general manager or the deputy general manager of Huafa Property Management will review the Individual Services Agreement every three months to ensure the transactions have been carried out in compliance with the terms of such agreement and if there is any non-compliance or potential non-compliance, the responsible personnel will report the matter to the senior management of the Company for its consideration in order to find ways to resolve the matter. Further, the general manager or the deputy general manager of Huafa Property Management will report to the senior management of the Company every six months on the financial performance of Individual Services Agreements after the auditors have reviewed the same;

(c) the finance department of the Group is responsible for monitoring the service fees for the respective transactions contemplated under each of the Individual Services Agreements to ensure that they are in accordance with the Property Management Services Cooperation Framework Agreement and the annual caps are not exceeded. In addition, the finance department will also conduct overall review on a monthly basis. Where the finance department is aware of any potential non-compliance with the pricing policies or that the annual caps will be exceeded, the finance department will escalate the matter to the senior management of the Company who will co-ordinate at the Group level to take remedial action and ensure the basis of annual caps are followed and are not exceeded;

(d) the senior management of the Company will review the draft Individual Services Agreements and will escalate the matter to the independent non-executive Directors if the senior management is of the opinion that there are any non-compliance issues. The independent non-executive Directors will further review the draft Individual Services Agreements and take appropriate recommendations to ensure that such transactions are conducted within the terms of the Property Management Services Cooperation Framework Agreement, on normal commercial terms, fair and reasonable, in accordance with the pricing policies of the Property Management Services Cooperation Framework Agreement and in the interests of the Company and its Shareholders as a whole. After an Individual Services Agreement is approved by the board of directors of Huafa Property Management taking into account the recommendations provided by the independent non-executive Directors (where necessary), the general manager or the deputy general manager of Huafa Property Management will be responsible for monitoring Individual Services Agreements and reviewing and approving any decision required by the operation of the transactions contemplating under the Property Management Services Cooperation Framework Agreement; and

(e) the independent non-executive Directors and the auditors of the Company will conduct annual review on the transactions contemplated under the Property Management Services Cooperation Framework Agreement and Individual Services Agreements and provide their view to the Board.

As set out in the sub-section headed "Principal terms of the Property Management Services Cooperation Framework Agreement" of this letter, we have obtained and reviewed documents provided by the Company including, among others, the Reviewed Contracts. Based on the documents reviewed and our discussions with the management of the Company, we noted that the obtaining of market prices via market research and comparison with service fees charged by Huafa Property Management to independent third parties is consistent with the internal control measures mentioned in (a) above.

We consider that the abovementioned measures are in the interests of the Independent Shareholders as their interests are safeguarded by (a) performing market research and comparing service fees charged to independent third parties; and (b) the monitoring and reviewing processes to be carried out (including those to be carried out by the senior management (including independent non-executive Directors)) to ensure the terms of the Continuing Connected Transactions are in accordance with the Property Management Services Cooperation Framework Agreement and no less favourable to the Enlarged Group than those available to the Enlarged Group from independent third parties.

5. Conditions of the Continuing Connected Transactions

In compliance with the Listing Rules, the Continuing Connected Transactions are subject to a number of conditions which include, among other things:

(i) the Proposed Annual Caps for the Continuing Connected Transactions for each of the years under the Term will not be exceeded;

(ii) the independent non-executive Directors must, in accordance with the Listing Rules, review annually the Continuing Connected Transactions and confirm in the Company's annual report whether the Continuing Connected Transactions have been entered into (a) in the ordinary and usual course of business of the Enlarged Group; (b) on normal commercial terms or better; and (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

(iii) the auditors of the Company must, in accordance with the Listing Rules, review annually the Continuing Connected Transactions and they must confirm in a letter to the Board (a copy of which letter will be provided to the Stock Exchange at least ten business days prior to the bulk printing of the annual report of the Company) whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions:

    (a) have not been approved by the Board;

    (b) were not, in all material respects, in accordance with the pricing policies of the Enlarged Group if the Continuing Connected Transactions involve the provision of goods or services by the Enlarged Group;

    (c) were not entered into, in all material respects, in accordance with the relevant agreement(s) governing the Continuing Connected Transactions; and

    (d) have exceeded the Proposed Annual Caps for the Continuing Connected Transactions in respect of Category I Property Management Services and Category II Property Management Services;

(iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditors cannot confirm the matters as required;

(v) the Company must allow, and ensure that Zhuhai Huafa allows, the auditors of the Company sufficient access to their records of the Continuing Connected Transactions for the purpose of the auditors' reporting on the Continuing Connected Transactions. The Board must state in the annual report whether the auditors of the Company have confirmed the matters set out in Rule 14A.56 of the Listing Rules; and

(vi) the Company must comply with the applicable provisions of the Listing Rules governing continuing connected transactions in the event that the total amount of the Continuing Connected Transactions exceeds the relevant Proposed Annual Caps, or that there is any material amendment to the terms of the Property Management Services Cooperation Framework Agreement.

In light of the conditions imposed on the Continuing Connected Transactions, in particular, (1) the limit of the value of the Continuing Connected Transactions by way of the relevant Proposed Annual Caps; (2) the on-going review by the independent non-executive Directors and auditors of the Company regarding the terms of the Continuing Connected Transactions; and (3) the on-going review by the auditors of the Company confirming the relevant Proposed Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions and safeguard the interests of the Independent Shareholders.

DISCUSSION

The Group is proposing to acquire the entire issued share capital of the Target Company. Huafa Property Management Group is a leading regional residential property management service provider in the PRC with a significant portion of its operations in Zhuhai. As at 30 June 2019, Huafa Property Management Group manages a portfolio of properties covering 16 cities across 9 provinces, municipalities and autonomous regions in the PRC, with a total contracted GFA of approximately 21.4 million sq.m.. The Target Group has been expanding its property management portfolio primarily through securing new property management engagements and seeks to continue to grow its property management portfolio in existing and new markets. Total revenue of the Target Business increased by approximately 17.1% and 33.2% in 2017 and 2018 respectively as compared to the previous year. The year-on-year growth on profit attributable to owners of the Target Business (excluding the one-off dividend received in 2016 and 2017) was approximately 59.1% and 98.0% for the year ended 31 December 2017 and 2018 respectively. As discussed in the sub-section headed "Background to and reasons for the Acquisition" above, the Group is optimistic towards the development of the property management industry and the Acquisition allows the Group to expand the its business into the property management industry, further enhance the Group's existing service platform and broaden its income base.

The Consideration for the Acquisition was determined with reference to various factors, including the fair value of 100% equity interest of the Target Company as appraised by the Independent Valuer. We have discussed with the Independent Valuer its work and are satisfied that its valuation could provide a reasonable basis for the valuation of 100% equity interest of the Target Company and the methodologies adopted by the Independent Valuer are appropriate. The Consideration of approximately RMB734 million is lower than the appraised value of 100% equity interest of the Target Company of approximately RMB806 million. Also, the implied historical P/Es of the Target Company at the Consideration as set out in the sub-section headed "Evaluation of the Consideration of the Acquisition" of this letter above, are below the mean and median of the historical P/Es of the Comparable Companies. On this basis, we consider that the Consideration for the Acquisition is fair and reasonable.

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company. Accordingly, the assets, liabilities and financial results of the Target Company will be consolidated into the financial statements of the Group. The Acquisition is expected to enhance the Group's revenue base and contribute to its financial results. As set out in the sub-section headed "Financial effects on the Group" of this letter above, the net liability position of the Enlarged Group would result from accounting treatment and is not expected by the executive Directors to have any material adverse impact on the Enlarged Group's financial position and operations. Further details of the financial effects of the Acquisition on the Group are set out in the section headed "Financial impact on the Group" in the "Letter from the Board" contained in the Circular and the unaudited pro forma financial information of the Enlarged Group contained in Appendix IV to the Circular.

The Property Management Services Cooperation Framework Agreement was entered into between Huafa Property Management and Zhuhai Huafa for the provision of the Property Management Services to Zhuhai Huafa and/or its associates for a term commencing from the fulfilment or waiver in writing (as the case may be) of all the conditions precedent set out therein to 31 December 2022. Given that the Continuing Connected Transactions will be conducted on normal commercial terms, we concur with the executive Directors that the entering into of the Property Management Services Cooperation Framework Agreement is in line with the Group's development strategy and will benefit the Group by continuing to broaden its source of income. The Proposed Annual Caps have been established for the Continuing Connected Transactions which allow the Group a degree of flexibility in managing its businesses. We consider the interests of the Independent Shareholders are safeguarded by the internal control measures as discussed in this letter above.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors, we consider that (1) the terms of the Asset Transfer Agreement, the Sale and Purchase Agreement and the Property Management Services Cooperation Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (2) the entering into of the Asset Transfer Agreement, the Sale and Purchase Agreement and the Property Management Services Cooperation Framework Agreement are in the interests of the Company and the Shareholders as a whole; (3) the Acquisition, though not conducted in the ordinary and usual course of business of the Group, is in line with the Group's development strategies, whereas the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Enlarged Group; and (4) the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Acquisition and the Property Management Services Cooperation Framework Agreement (including the Proposed Annual Caps).

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Stephanie Chow
Director

Ms. Stephanie Chow is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. She has over ten years' experience in the corporate finance industry.

For illustration purposes only, unless the context otherwise requires, conversion of RMB to HK$ is based on the exchange rate of HK$1.1137 to RMB1, conversion of US$ to HK$ is based on the exchange rate of HK$7.8 to US$1 and conversion of US$ to RMB is based on the exchange rate of RMB7.002 to US$1. Such translation should not be construed as a representation that the amounts in question have been, could have been or could be, converted at any particular rate at all.

Certain amounts and percentage figures in this letter have been subject to rounding adjustments.

RISKS RELATING TO THE ACQUISITION

Completion is subject to the fulfilment of conditions precedent as set out in the Sale and Purchase Agreement, and may not take place as contemplated, or at all.

Completion is subject to the fulfilment of conditions precedent to completion as set out in the Sale and Purchase Agreement. Certain of these conditions precedent involve the actions and decisions of third parties, including relevant regulatory authorities, which are not within the control of the contracting parties to the Sale and Purchase Agreement. The Company cannot assure its Shareholders that all or any of the conditions precedent as set out in the Sale and Purchase Agreement will be fulfilled or the Completion of the Acquisition will take place as contemplated, or at all.

RISKS RELATING TO THE BUSINESS AND INDUSTRY OF THE TARGET GROUP

The Target Group may not be able to grow its property management portfolio as planned, which may have a material adverse effect on its business, financial condition and results of operations.

The revenue-bearing GFA of the properties which the Target Group has been contracted to manage has increased from approximately 9.2 million sq.m. as of 31 December 2016 to approximately 12.1 million sq.m. as of 31 December 2018, and further increased to 12.7 million sq.m. as of 30 June 2019. The Target Group has been expanding its property management portfolio primarily through securing new property management engagements. The Target Group seeks to continue to grow its property management portfolio in existing and new markets. However, there is no assurance that it can grow its property management portfolio as planned. The Target Group's growth may be affected by a number of factors beyond its control, such as changes in the general economic condition of the PRC; developments in the real estate market; changes in government regulations; transformation of the supply and demand dynamics of the property management industry; and its ability to generate sufficient liquidity internally and to obtain sufficient external financing for its growth. In addition, the Target Group's future growth depends on its management's ability to improve its operational performance, which includes: its ability to successfully hire, train, and manage employees; its ability to understand the needs of residents in the properties where the Target Group provides property management services; and its ability to manage and cultivate its relationships with a growing number of customers, subcontractors, suppliers and other business partners. In circumstances where it expands into a new market, it may have limited knowledge of the local property management service market, which could be substantially different from those in its established markets. The Target Group may not have established relationships with local subcontractors, suppliers and other business partners as it has in its established markets. The Target Group may not be able to leverage its brand advantage in a new market, particularly against incumbent players in such markets who might have more resources and experience than the Target Group. Any of the foregoing will inhibit the Target Group from growing its property management portfolio as planned, which may have a material adverse effect on its business, financial condition and results of operations.

The Target Group's future growth may not materialise as planned, and failure to manage any future growth effectively may have a material adverse effect on its business, financial condition and results of operations.

The Target Business has experienced rapid growth and significantly expanded its business in recent years. Its total revenue grew from approximately RMB404.0 million in FY2016 to approximately RMB473.2 million in FY2017 and further to approximately RMB630.1 million in 2018, representing a CAGR of 24.9% from 2016 to 2018. The Target Business's total revenue increased by 19.8% from approximately RMB290.6 million for 1H2018 to approximately RMB348.3 million for 1H2019. The Target Business's rapid growth has placed and will continue to place significant demands on its managerial, administrative, operational and financial resources. To accomplish its growth strategies and to manage the future growth of its operations, the Target Group will enhance its service quality, improve its operational and financial systems, and expand, train and manage its growing employee base. The Target Group will also need to maintain and expand its relationships with its customers, subcontractors, suppliers and other third parties. However, its expansion is based upon its forward-looking assessment of market prospects. There is no assurance that the Target Group's assessment will always turn out to be correct or it can grow its business as planned. The Target Group's expansion plans may be affected by a number of factors beyond its control and its current operations, personnel, systems, internal procedures and controls may not be adequate to support its future growth and expansion. If the Target Group is unable to execute its growth strategies or manage its growth effectively, it may not be able to take advantage of market opportunities or respond to competitive pressures, which may materially and adversely affect its business prospects and results of operations.

The Target Group may not procure new property management service contracts as planned.

During the Track Record Period, the Target Business generally procured new property management service contracts through a tender process (for more information, please see the section titled "3. Regulatory Overview" in this appendix). The selection of a property management company depends on a number of factors, including but not limited to the quality of services provided, the level of pricing and the operating history of the property management company. There is no assurance that the Target Group will be able to procure new property management service contracts in the future.

Furthermore, a substantial portion of the Target Business's property management service contracts during the Track Record Period were related to properties developed by Zhuhai Huafa Group. In FY2016, FY2017, FY2018 and for 1H2019, the revenue from management services provided to the properties developed by Zhuhai Huafa Group accounted for approximately 88%, 86%, 84% and 85%, respectively, of the Target Business' revenue from property management services. Any adverse development in the operations of the Zhuhai Huafa Group or its ability to develop new properties may affect the Target Group's ability to procure new property management service contracts. There is no assurance that the Zhuhai Huafa Group will engage the Target Group as their property management service provider or give priority to the Target Group when selecting their future property management service provider for any property they develop, as the appointment of property management companies is generally subject to a tender process under PRC laws. If the Target Group is not able to supplement any shortfall in managing properties developed by Zhuhai Huafa Group with managing properties developed by independent third-party property developers, the Target Group's growth prospects may be materially and adversely affected.

Termination or non-renewal of the Target Group's preliminary property management service contracts or property management service contracts could have a material adverse effect on its business, financial condition and results of operations.

Revenue from the Target Business's property management services amounted to approximately RMB314.7 million, RMB350.4 million, RMB452.7 million and RMB243.6 million, representing approximately 78%, 74%, 72% and 70% of its total revenue in FY2016, FY2017 and FY2018 and for 1H2019, respectively. The Target Group's property management services are provided in accordance with (i) the preliminary property management service contracts it enters into with property developers; or (ii) the property management service contracts it enters into with the property owners' associations. The Target Group's preliminary property management service contracts entered into with Zhuhai Huafa Group in relation to residential properties generally do not have any fixed term or have a fixed term but are renewed automatically upon expiration unless terminated. When a new property management agreement is entered into by the relevant property owners' association with a property management service provider, and property management service contracts in relation to non-residential properties generally have a term of one to three years and will be renewed upon expiration. During the Track Record Period, no preliminary property management service contracts or existing property management agreements entered into by the Target Group with Zhuhai Huafa Group in relation to residential and non-residential properties were terminated and replaced by new property management agreements entered into with another property management service provider. In relation to the Target Group's preliminary property management service contracts, there is no assurance that the relevant property owners' associations will continue to engage into property management services with the Target Group. Once the property owners' associations enter into property management service contracts with another company, the Target Group's preliminary property management service contracts will be terminated automatically. Furthermore, in relation to the Target Group's property management service contracts, there is no assurance that such contracts will not be terminated prior to expiration for cause or will be renewed upon expiration. In the event of such terminations or non-renewals, the Target Group's business, results of operations and financial condition could be materially and adversely affected. Moreover, the growth of the Target Group's value-added services depend in part on the number of residential properties the Target Group manages under its property management services. As a result, terminations or non-renewals of the Target Group's preliminary property management service contracts or property management service contracts could also adversely affect the performance of its value-added services.

Increase in labour costs and subcontracting costs could slow the Target Group's growth, harm its business and reduce its profitability.

Labour costs included in cost of sales amounted to approximately RMB273.4 million, RMB315.6 million, RMB378.8 million and RMB204.5 million, representing the single largest component of the Target Business's cost of services and accounted for approximately 80%, 80%, 76% and 77% of the Target Group's total cost of services in FY2016, FY2017, FY2018 and 1H2019, respectively. Labour costs included in administrative expenses amounted to approximately RMB17.8 million, RMB22.7 million, RMB24.1 million and RMB14.9 million, representing the single largest component of the Target Business's administrative expenses and accounted for approximately 61%, 66%, 56% and 65%, respectively, of the Target Business's total administrative expenses in FY2016, FY2017, FY2018 and for 1H2019. In addition, the Target Business has outsourced certain functions, such as cleaning, gardening, greening and repair and maintenance services, to sub-contractors. In FY2016, FY2017, FY2018 and 1H2019, subcontracting costs amounted to approximately RMB22.5 million, RMB23.6 million, RMB50.3 million and RMB29.5 million, representing approximately 7%, 6%, 10% and 11% of the Target Business's total cost of services, respectively. To maintain and improve the Target Business's profitability, it is important for the Target Group to control and manage its labour and subcontracting costs. However, the Target Group faces rising pressures in relation to labour and subcontracting costs for various reasons. The minimum wage in the regions where the Target Group operate has been increasing in recent years, resulting in upward pressure on its labour costs and the fees it pays to its subcontractors. If the Target Group is unable to increase its property management fees or to compensate for high wage costs or to improve its operational efficiency, the Target Group's business, financial condition and results of operations may be materially and adversely affected.

As the Target Group continues to expand its operations, it also expects to increase its total headcount by retaining and recruiting qualified employees. The Target Group may be required to pay higher wages in its recruitment and employee retention efforts, resulting in an increase in the Target Group's labour and subcontracting costs. Moreover, the growth of headcount will also increase the associated costs of the Target Group, such as those related to training, social insurance fund payments and housing provident fund contributions. Any failure to recruit and retain qualified employees and subcontractors in the future may delay the growth in the Target Group's property management portfolio, and could materially and adversely impact the Target Group's property management operations of its existing property management portfolio.

The Target Group may not be able successfully to collect property management fees from property developers and property owners, which may lead to impairment losses on its receivables.

The Target Group may encounter difficulties in collecting property management fees from property owners in markets where the vacancy rate is relatively high. Even though the Target Group seeks to collect overdue property management fees through various collection measures, the Target Group cannot be assured that such measures will be effective.

The Target Business's allowance for impairment of trade receivables amounted to RMB19.1 million, RMB20.5 million, RMB19.0 million and RMB22.5 million as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Although the Target Group's management's estimation and the related assumptions have been made in accordance with the information currently available, such estimation or assumptions may need to be adjusted if new information becomes available. In the event that the actual recoverability is lower than expected, or that the Target Group's past allowance for impairment in relation to trade receivables becomes insufficient in light of the new information, the Target Group may need to provide for an additional allowance for impairment of trade receivables, which may in turn materially and adversely affect the Target Group business, financial condition and results of operations.

The Target Group relies on subcontractors to perform some of its services to customers, and it may be exposed to liabilities arising from, or relating to, disputes and claims in relation to products and services provided by its subcontractors.

The Target Group delegates certain property management services, including cleaning, gardening, greening and repair and maintenance services, to third-party sub-contractors. The Target Group may not be able to monitor the services of its sub-contractors as directly and effectively as with of its own employees. The sub-contractors may take actions contrary to the Target Group's instructions or requests, or be unable or unwilling to fulfill their obligations. As a result, the Target Group may have disputes with its sub-contractors, or may be held responsible for their actions, either of which could lead to damage to the Target Group's reputation, additional expenses and business disruptions, and potentially expose it to litigation and damage claims. The Target Group may be able to recover from a sub-contractor the amounts it is required to pay to customers due to the sub-contractor's failure to perform pursuant to the agreements that the Target Group enters into with the sub-contractor, but there is no guarantee that it will be able to do so. Upon the expiration of the Target Group's agreements with its current sub-contractors, there is no assurance that the Target Group will be able to renew such agreements or find suitable replacements in a timely manner, on terms acceptable to the Target Group, or at all. In addition, if the Target Group's third-party sub-contractors fail to maintain a stable team of qualified labour or fail to perform their obligations properly or in a timely manner, the work process may be interrupted. Any interruption to the sub-contractors' work process may potentially result in a breach of the contract that the Target Group entered into with its customers. Any of such events could materially and adversely affect the Target Group's service quality, its reputation, as well as its business, financial position and results of operations.

The Target Group may be subject to losses or profit margins may decrease if the Target Group fails to increase the revenue or control the operating costs in connection with the performance of property management services on a lump sum basis.

During the Track Record Period, the Target Group charged almost all of the property management fees at a pre-determined fixed lump sum price per sq.m. per month, representing "all-inclusive" fees for the property management services regardless of the actual amount of property management expenses that the Target Group has incurred. For more information, please see the sections titled "3. Regulatory Overview — Fees Charged by Property Management Enterprises" and "5. Business — Pricing and revenue model" in this appendix.

In the event that the amount of property management fees that Target Group charges are insufficient to cover the property management expenses incurred, the Target Group is not entitled to collect the shortfall from property owners or property developers. Moreover, the Target Group's ability to mitigate against such losses through cost-saving initiatives such as reducing labour costs may not be successful. Also, the Target Group's cost-saving efforts may affect negatively the quality of its property management services, which in turn would further reduce the property owners' willingness to pay the property management fees. Accordingly, the Target Group may suffer losses which could result in a material adverse effect on its profitability, financial position and results of operations.

The Target Group may fail to recover all payments on behalf of property owners, which may have a material adverse effect on its business, financial condition and results of operations.

During the Track Record Period, the Target Group has made payments on behalf of property owners for properties it manages in specific circumstances such as utility expenses. Management judgment is required to determine whether the management offices (物業管理處) have the ability to settle such payments on behalf of the property owners. The Target Group takes into consideration a number of factors to determine whether there is any objective evidence of impairment loss on payments on behalf of property owners, including, among other things, (i) subsequent settlement status, (ii) historical write-off experience, and (iii) the property management fee collection rate of properties in estimating future cash flows from such properties.

For the balances that the Target Group believes may not be recoverable within a reasonable time frame, the Target Group shall make allowance for impairment on receivables. However, there is no guarantee that the Target Group will maintain or improve the recoverability of its payments on behalf of property owners through its collection policy. Further, there is no assurance that payments on behalf of property owners will not increase in the future, especially in light of the Target Group's business growth and geographic expansion. A substantial increase in the payments on behalf of property owners and the consequent impairment losses may result could materially and adversely affect the Target Group business, financial condition and results of operations.

Damage to the common areas of the Target Group's managed properties could adversely affect its reputation, business, financial condition and results of operations.

The common areas of the properties managed by the Target Group, such as the lobby, hallway, outdoor open space, stairway, car park, elevator shaft and equipment room, may be damaged or impacted in a variety of ways that are beyond the Target Group's control, including but not limited to natural disasters and intentional or unintentional actions from residents. Under the PRC laws and regulations, each residential community is required to establish a special fund to pay for the costs for the repair and maintenance of the common areas that are jointly-owned by all property owners. However, there is no assurance that such special fund will be sufficient to cover all of the repair and maintenance costs. The Target Group may need to pay for the shortfall on behalf of the property owners in case the special fund is not sufficient to cover all of the repair and maintenance costs and to recollect the shortfall from the property owners' associations. If the Target Group faces any difficulties in the collection process, its business, financial condition and results of operations could be materially and adversely affected. Furthermore, as the Target Group intends to continue to grow its property management portfolio, there is no assurance that the likelihood of such risk occurring will not increase along with the increased Target Group business scale.

The Target Group's pricing of property management fees under preliminary property management service contracts and for affordable housing is subject to PRC laws and regulations.

During the Track Record Period, some of the Target Group's managed properties were subject to price control. For more details, please refer to the section headed "3. Regulatory Overview — Fees Charged by Property Management Enterprises" in this appendix. In December 2014, the NDRC issued the Circular of NDRC on the Opinions on Relaxing Price Controls in Certain Services (《國家發展改革委關於放開部分服務價格意見的通知》) (發改價格[2014]2755號) (the "**Reform Circular**"), under which the provincial-level price administration authorities shall abolish all price control or guidance policies on residential properties other than affordable housing, housing-reform properties, properties in old residential areas and for housing subject to preliminary property management agreements. Property management fees for affordable housing, housing-reform properties, properties in old residential areas and management fees under preliminary property management agreements, however, shall remain subject to price guidance imposed by provincial level price administration departments and the administrative departments of housing and urban-rural development. Although the Target Group expects the price controls on residential properties to be relaxed in the future pursuant to the Reform Circular, the Target Group's property management fees will continue to be subject to price controls until local regulations are reformed by the implementation of the Reform Circular. The government price control policies may have a negative impact on the Target Group's earnings and profitability. On the other hand, it is possible that the abolition of the guidance price may lower the prices the Target Group is able to charge for its property management services.

The Target Group operates in a highly competitive industry with numerous competitors and it may not be able to compete successfully against its competitors.

The property management industry is highly competitive and fragmented, with approximately 118,000 property management companies operating in the industry as at 31 December 2017 according to CIA. The Target Group competes against other property management companies in the PRC, especially the Top 100 Property Management Companies, with respect to a wide range of factors including, among others, service quality, brand recognition, innovation, cost efficiency and financial resources. Moreover, the Target Group value-added services face competition from other companies providing similar services to consumers. Competition in the Target Group's industry may intensify as the Target Group's competitors expand their product or service offerings, or as new competitors enter the Target Group's existing or new markets. The Target Group's competitors may have better track records, longer operating histories, greater financial, marketing, technical and other resources. They may also have greater brand recognition and larger customer bases. As a result, these competitors may be able to devote more resources to the development, promotion, sale and support of their services. There can be no assurance that the Target Group will be able to continue to compete effectively or maintain or improve its market position, and such failure could have a material adverse effect on its business, financial condition and results of operations.

A significant portion of the Target Group's operations is concentrated in Zhuhai, Guangdong area, and is susceptible to trends and developments in the region.

A significant portion of the Target Group's operations are concentrated in Zhuhai, Guangdong. As of 31 December 2016, 2017, 2018 and 30 June 2019, the total revenue-bearing GFA of the Target Group's managed properties located in Zhuhai represented approximately 74.5%, 71.9%, 72.7% and 71.5% of the total revenue-bearing GFA of all the Target Group's managed properties, respectively.

The Target Group expects that Zhuhai will continue to account for a significant portion of the Target Group operations in the near future. If Zhuhai experiences any adverse economic conditions, such as an economic downturn, natural disaster, contagious disease outbreak or terrorist attack, or if the local governmental authorities adopt regulations that place additional restrictions or burdens on the property management industry in general, the Target Group's business, financial position and results of operations could be materially and adversely affected.

The Target Group is exposed to risks in relation to work safety and occurrence of accidents, which could materially and adversely affect its reputation, business, financial condition and results of operations.

Work injuries and accidents may occur when the Target Group provides its property management services. For example, when the Target Group's employees or employees of the Target Group's subcontractors provide repair and maintenance services to the elevators of the residential communities managed by the Target Group, there are inherent risks of work injuries or accidents occurring due to the nature of the services being performed. In addition, the Target Group is exposed to claims that may arise due to employees' or sub-contractors' negligence or recklessness when performing repair and maintenance services. The Target Group may be held liable for the injuries or deaths of employees, subcontractors, residents or others. During the Track Record Period and up to the Latest Practicable Date, the Target Group did not experience any work injury incident or accident in the course of its operations that resulted in a material and adverse effect on the Target Group's business, financial condition and results of operations.

Nevertheless, there can be no assurance that any such incident or accident, which could result in property damage, personal injury or even death to the residents, property owners, the Target Group's employees, will not occur in the future. In such event, the Target Group may be held liable for the losses. As the Target Group typically suggests its subcontractors to maintain accident personal injury insurance policies, there is no assurance that there will be available or adequate insurance coverage available to cover the damages, liabilities or losses the Target Group may be exposed to as a result of such incidents or accidents. The Target Group may also experience interruptions to its business operations and may be required by government authorities to change the manner in which the Target Group operates following any incidents or accidents. Any of the foregoing could materially and adversely affect the Target Group's reputation, business, financial condition and results of operations.

The Target Group may fail to provide its value-added services satisfactorily, which may impact its ability to attract and retain sufficient interest from property owners and residents

To provide the Target Group's value-added services, the Target Group plans to attract more property owners and residents in the Target Group's managed properties and local merchants around such properties through broadening the range of services provided. As the Target Group may have limited experience with such tailored services, the Target Group cannot assure that the property owners and residents will respond favorably to them. If the Target Group fails to provide satisfactory value-added services to attract or retain property owners and residents as planned, the property owners and residents may not choose the Target Group's value-added services or turn to its competing service providers. In such event, the Target Group will not be able to successfully develop its value-added services or introduce more revenue-generating value-added services to property owners and residents, and the Target Group's business, financial condition and results of operations could be materially and adversely affected.

The Target Group is regulated by PRC's policies, laws and regulations on the property management industry, which may limit its growth potential.

The Target Group derived a significant portion of its revenue from the property management services segment during the Track Record Period and up to the Latest Practicable Date. The performance of the Target Group's property management services is primarily dependent on the amount of its revenue-bearing GFA under management and the number of its managed properties. Therefore, the growth potential of the Target Group's property management services is, and will likely continue to be, affected by

PRC's policies, laws and regulations on the property management industry. For more details, please refer to the section headed "3. Regulatory Overview" in this appendix. The PRC government has implemented a series of measures to control the economic growth in recent years. In particular, the PRC government has continued to introduce various restrictive measures to discourage speculative investments in the real estate market, such as imposing controls over the land supply for property development, foreign exchange controls, restrictions against property development financing, additional taxes and levies on property sales and foreign investments in PRC's real estate market. Such governmental regulations and measures may negatively affect the property management industry, thus limiting the Target Group's growth potential and resulting in a material adverse effect on its business, financial condition and results of operations.

The Target Group's business may be adversely affected if it fails to obtain, or experience material delays in obtaining, requisite government approvals or licenses in carrying out its operations.

The Target Group is required to obtain and maintain certain licenses, permits, certificates and approvals in order to provide property management and certain other services that it currently offers. The Target Group must meet various specific conditions in order for the government authorities to issue or renew any certificate, licenses or permit. The Target Group cannot guarantee that it will be able to adapt to new rules and regulations that may come into effect from time to time with respect to its services or that it will not encounter material delays or difficulties in fulfilling the necessary conditions to obtain or renew all necessary certificates, licenses or permits for its operations in a timely manner, or at all, in the future. Therefore, in the event that the Target Group fails to obtain or renew, or encounters significant delays in obtaining or renewing, the necessary certificates, licenses or permits for any of its operations, the Target Group will not be able to continue with its development plans, and its business, financial condition and results of operations may be adversely affected.

The Target Group's success depends on its ability to retain its key management team and to recruit, train and retain qualified personnel.

The Target Group's continued success is highly dependent upon the efforts of its senior management and key employees. If any of the Target Group's key employees leaves and the Target Group is unable to promptly hire and integrate a qualified replacement, its business, financial position and results of operations may be materially and adversely affected. For further information on the Target Group's senior management, please refer to the section headed "6. Core Management Team" in this appendix. In addition, the future growth of the Target Group's business will depend in part on its ability to attract and retain qualified personnel in all aspects of its business, including but not limited to corporate management and property management personnel. If the Target Group is unable to attract and retain these qualified personnel, its growth may be limited and its business, financial position and operating results could be materially and adversely affected.

Expansion of the Target Group's business may expose it to increased risks of non-compliance with the laws and regulations in new geographic markets.

As the Target Group expands its business operations into new geographic regions and broadens the range of services it performs, the Target Group is subject to an increasing number of provincial and local rules and regulations. In addition, because the size and scope of the Target Group's operations had increased during the Track Record Period, the difficulty of ensuring compliance with the various local property management regulations and the potential for loss resulting from non-compliance have increased. If the Target Group fails to comply with the related local regulations, it may be subject to penalties by the competent PRC authorities. The laws and regulations applicable to the Target Group's business, whether national, provincial or local, may also change in ways that materially increase its costs of compliance, and any failure to comply could result in significant financial penalties which could have a material adverse effect on its reputation, business, financial position and results of operations.

If the Target Group fails to protect its intellectual property rights, its business, financial conditions and results of operations would be severely harmed.

The Target Group considers its intellectual property rights are crucial business assets, key to customer loyalty and essential to its future growth. The success of the Target Group's business depends substantially upon the Target Group's continued ability to use its brand, trade names and trademarks to increase its brand recognition and to further develop its brand. The unauthorised reproduction of the Target Group's trade names or trademarks could diminish the value of its brand and its market reputation and competitive advantages. The Target Group relies on a combination of trademarks, trade secrets, confidentiality procedures and contractual provisions to protect its intellectual property rights. Nevertheless, these afford limited protection and prevention of unauthorised use of the Target Group's intellectual property rights can be difficult and expensive. In addition, the enforceability, scope and validity of laws governing intellectual property rights in the PRC are uncertain and still evolving, and could involve substantial risks to the Target Group. If the Target Group cannot detect unauthorised use of, or take appropriate steps to enforce, the Target Group's intellectual property rights, it could have a material adverse effect on its business, financial condition and results of operations.

Brand image is a key factor in the client's purchase decisions and any failure to renew the Trademark Licensing Agreement with Zhuhai Huafa or failure for Zhuhai Huafa to renew the Trademarks, the business operations and financial condition of Target Group might be affected.

Huafa Property Management does not own the trademarks "華發" and "" (the "**Trademarks**"). Pursuant to a trademark licensing agreement ("**Trademark Licensing Agreement**") on 31 August 2018 and a confirmation letter dated 25 September 2019 entered into between Zhuhai Huafa and Huafa Property Management, Zhuhai Huafa agreed irrevocably and unconditionally to grant Huafa Property Management a non-transferrable license to use the Trademarks registered in the PRC commencing from the date of the Trademark Licensing Agreement to the expiry date of the Trademarks validity period on a royalty-free basis. Please refer to the paragraph headed "2. Trademark Licensing Agreement" in the Letter from the Board of this circular for details.

Brand image is a key factor in the client's purchase decisions. Huafa Property Management relies to a certain extent on the Trademarks in marketing their property management services. Brand value is based largely on subjective consumer perception and can be damaged by isolated incidents that diminish consumer trust. The expiry date of the Trademarks validity period is dependent upon the expiry date of the individual Trademark subject to the Trademark Licensing Agreement, ranging from 13 October 2027 to 6 April 2029. There is no assurance that Zhuhai Huafa will automatically renew the Trademarks under the relevant PRC laws and regulations. If Zhuhai Huafa fails to renew the relevant Trademarks and/or thus the Trademark Licensing Agreement becomes invalid, it may adversely affect the Target Group's reputation and business and results of operation.

The Target Group's business relies on the proper operation of its information technology systems, any malfunction of which for extended periods could materially and adversely affect its business.

The Target Group's business relies on the proper functioning of its information technology systems. The Target Group employs various automation devices for its management operation, such as remote video surveillance cameras, building access systems and carpark security systems. Many factors such as power outages and damage to the Target Group's equipment may cause interruptions to the Target Group's centralised remote system and other automation devices. For example, if the Target Group experiences any power outage system error, its information technology system, which is a key component of its remote video surveillance system, may not function properly. The Target Group's equipment may also be subject to damages caused by unforeseeable events and unexpected natural disasters, such as earthquake, fire, or flood. In addition, the Target Group needs to constantly upgrade and improve its information technology systems to keep up with the continuous growth of its operations and business. Although the Target Group did not experience any information technology system breakdown during the Track Record Period, there is no assurance that its information technology system will always operate without interruption. Moreover, the Target Group cannot guarantee that the information security measures it currently maintains are adequate or that its information technology system can withstand intrusions from or prevent improper usage by third parties. Any malfunction to a particular part of the Target Group's information technology system may result in a breakdown throughout its network, which in turn could adversely affect the Target Group's results of operations. Furthermore, the Target Group may not always be successful in developing, installing, running or implementing new software or advanced information technology systems as required by its business development. Even if the Target Group is successful in this regard, significant capital expenditure may be required, and the Target Group may not be able to benefit from the investment immediately. All of these may have a material adverse impact on the Target Group's profitability.

The Target Group may be required to make additional contributions of social security fund and/or housing provident fund under PRC laws and regulations.

Under relevant PRC laws and regulations, the Target Group is required to make social security fund and housing provident fund contributions for its employees. During the Track Record Period, the Target Group did not make full contribution to the social security fund and housing provident fund for its employees. As advised by the Company's PRC legal adviser, in respect of outstanding social security fund contributions, the relevant PRC authorities may demand the Target Group to pay the outstanding social security funds within a stipulated deadline and the Target Group may be liable to a late payment fee equal to 0.05% of the outstanding amount for each day of delay; if the Target Group fails to make such payments, it may be liable to a fine of one to three times the amount of the outstanding contributions. In respect of the outstanding housing provident fund contributions, the Target Group may be demanded by the relevant authorities to pay the outstanding housing provident funds within a prescribed time limit. If the Target Group fails to do so upon the expiration of the above-mentioned time limit, further application will be made to the People's Court for compulsory enforcement. As of the Latest Practicable Date, the Target Group had not received any notification from the relevant authorities demanding payment of the housing provident funds.

The Target Group's rights to use its leased properties could be challenged by third parties, or it may be forced to relocate, which may result in a disruption of its operations and subject it to penalties.

As of the Latest Practicable Date, the Target Group rented its office at property constructed on allocated land, which prohibits leasing by the property owner according to applicable PRC laws and regulations. Any dispute or claim relating to the title of the property occupied by the Target Group (including any litigation involving alleged illegal or unauthorised use of such property) may require the Target Group to relocate its office. If any of the Target Group's leases are terminated or voided as a result of challenges from third parties or the government, the Target Group would need to seek alternative premises and incur relocation costs. Any relocation could disrupt the Target Group's operations and adversely affect its business, financial condition, results of operations and growth prospects. Based on the information currently available to the Target Group, it believes that there are alternative properties at comparable rental rates readily available on the market and the estimated relocation cost will not be material. In addition, there can be no assurance that the PRC government will not amend or revise the existing property laws, rules or regulations to require additional approvals, licenses or permits, or impose stricter requirements on the Target Group to obtain or maintain relevant certificates of ownership for the properties that the Target Group uses.

As at the Latest Practicable Date, some of the lease agreements regarding staff quarters leased by the Target Group were not registered with the relevant government authorities. The Target Group may be subject to fines for the failure to register the lease agreements, which could disrupt its financial conditions and results of operations.

The Target Group's insurance policies may not provide adequate coverage for all claims associated with its business operations.

The Target Group believes its insurance coverage is in line with the industry practice in the PRC and the Target Group did not experience any material insurance claims in relation to its business during the Track Record Period and up to the Latest Practicable Date. For more details regarding the Target Group insurance policies, please refer to the section headed "5. Business — Insurance" in this appendix. In addition, the Target Group typically suggests its subcontractors to purchase accident insurance policies for their employees or otherwise be responsible for all injuries suffered by their employees when they work at the Target Group's sites. Therefore, the Target Group's insurance coverage may not be available or adequate against all potential losses and liabilities that it may incur in the course of its business operations, which may result in adverse effects on the Target Group's business. Moreover, there are certain types of losses or liabilities for which there are no insurance policies in the PRC available at commercially practicable terms, such as losses suffered due to business interruptions, earthquakes, typhoons, flooding, war or civil disorder. If the Target Group is held responsible for any such damages, liabilities or losses due to insufficiency or unavailability of insurance, there could be a material adverse effect on the Target Group business, financial condition and results of operations.

The Target Group is required to adhere to national health and safety standards, and in the event that it is unsuccessful at meeting these standards, its business, financial condition, results of operations and brand image would be negatively affected.

The Target Group cannot guarantee that its procedures, safeguards and training will be completely effective in meeting all relevant health and safety requirements. Failure to meet relevant government requirements could occur in the Target Group's operations or those of the Target Group's sub-contractors or suppliers, which could result in fines, suspension of operations, loss of permits, and in more extreme cases, criminal proceedings against the Target Group and/or its management. Moreover, negative publicity could be generated from false, unfounded or nominal liability claims. Please refer to the section headed "5. Business — Social Health, Safety and Environmental Matters" in this appendix for further details. During the Track Record Period, the Target Group has not been fined due to the violation of relevant national health and safety regulations. Any failures or occurrences of such could negatively affect the Target Group's business, financial condition, results of operations and brand image.

The Target Group may be involved in legal or other proceedings arising out of its operations from time to time and may face significant liabilities as a result.

The Target Group may, from time to time, be involved in disputes with and subject to claims from, among others, the residents, guests and property owners of the Target Group's managed properties. For example, property owners may take legal action against the Target Group if they believe that its services are below the standards set forth in the relevant preliminary property management service contracts or property management service contracts. Furthermore, the Target Group may from time to time be involved in disputes with and subject to claims by other parties associated with the Target Group's business operations, such as its sub-contractors, suppliers, employees, or other third parties who has sustained injuries or damages at the premises of the Target Group's managed properties. Such disputes and claims may lead to legal or other proceedings or result in negative publicity against the Target Group and damage its reputation. The Target Group may also incur substantial costs and have to divert management attention and other resources from its business operations to defend itself in such proceedings. Any such dispute, claim or proceeding may have a material adverse effect on the Target Group's business, financial condition and results of operations.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in the economic, political, social conditions and government policies in the PRC may have an adverse effect on the Target Group's business.

During the Track Record Period, the Target Group's business operations were conducted in the PRC and all of its revenue was derived from the PRC market. As a result, the Target Group is susceptible to changes in the economic, political and social conditions in the PRC. The economy of PRC differs from the economies of most developed countries in many respects, including the degree of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. In the past, the PRC government has implemented measures emphasising the utilisation of market forces for economic reform. However, the PRC government continues to play a significant role in regulating industrial development and the allocation, production, pricing and management of resources. The Target Group may not be able to capitalise on the economic reform measures adopted by the PRC government. In addition, the implementation of the laws in PRC and regulations involves a degree of uncertainty. The Target Group cannot predict the future development of the PRC's legal system, including any promulgation of new laws, change to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws, and the effect it may have on the Target Group. Changes in the economic, political and social conditions or the relevant policies of the PRC government, such as changes in laws and regulations (or the interpretation thereof) and fiscal or financial measures, could have an adverse effect on the overall economic growth of the PRC, which could subsequently hinder the Target Group's business, growth strategies, financial condition and results of operations.

Governmental control of currency conversion may limit the Target Group's ability to use capital effectively.

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. Please refer to the section headed "3. Regulatory Overview — Laws and Regulations relating to Foreign Exchange Control in the PRC" in this appendix. The Target Group receives substantially all its revenue in Renminbi. Shortages in the availability of foreign currency may restrict the Target Group's ability to remit sufficient its foreign currency to pay dividends or other payments to the Target Company, or otherwise satisfy their foreign currency denominated obligations, if any. If the foreign exchange control system prevents the Target Company from obtaining sufficient foreign currency to satisfy its demands, the Target Group may not be able to pay dividends in foreign currencies to the Target Company.

The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. Under existing PRC foreign exchange regulations, payments of certain current account items can be made in foreign currencies without prior approval from the local branch of the SAFE by complying with certain procedural requirements. However, approval from appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of indebtedness denominated in foreign currencies. The restrictions on foreign exchange transactions under capital accounts could also affect the Target Company's ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contribution from the Target Group.

The Target Group's ability to access credit and capital markets may be adversely affected by factors beyond its control.

Interest rate increases by the People's Bank of China, or market disruptions such as those experienced in the United States, European Union and other countries or regions, may increase the Target Group's cost of borrowing or adversely affect its ability to access sources of liquidity upon which the Target Group has relied to finance its operations and satisfy its obligations as they become due. There can be no assurance that the anticipated cash flow from the Target Group's operations will be sufficient to meet all of its cash requirements, or that it will be able to secure external financing at competitive rates, or at all. Any such failure may adversely affect the Target Group's ability to finance its operations, meet its obligations or implement its growth strategy.

The Target Group may be considered a "resident enterprise" under the PRC Enterprise Income Tax Law and income tax on the dividends that it receives from its PRC operating subsidiaries may increase.

Under the PRC Enterprise Income Tax Law (the "**EIT Law**"), enterprises established under the laws of foreign countries or regions and whose "de facto management bodies" are located within the PRC are considered "resident enterprises" and thus will generally be subject to enterprise income tax at the rate of 25% on their global income. On 6 December 2007, the State Council adopted the Regulation on the Implementation of EIT Law, effective as at 1 January 2008, which defines the term "de facto management bodies" as "bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises". In April 2009, the PRC State Administration of Taxation promulgated a circular to clarify the definition of "de facto management bodies" for enterprises incorporated overseas with controlling shareholders being onshore enterprises or enterprise groups in the PRC. Currently, the Target Group's management is primarily based in the PRC with the Target Company incorporated in Hong Kong, and the Target Group may continue to be based in the PRC in the future.

If the Target Group was considered a PRC resident enterprise, the Target Group would be subject to enterprise income tax at the rate of 25% on the Target Group global income, and any dividend or gain on the sale of the Target Group Shares received by the Target Company may be subject to a withholding tax at a rate of up to 10%. In addition, although the EIT Law provides that dividend payments between qualified PRC resident enterprises are exempted from enterprise income tax, it remains unclear as to the detailed qualification requirements for this exemption and whether dividend payments by the Target Group's PRC operating subsidiaries to the Target Company would meet such qualification requirements. If the Target Group's global income were to be taxed under the EIT Law, the Target Group's financial position and results of operations would be materially and adversely affected.

Under the EIT Law and its implementing rules, if the foreign shareholder is not deemed as a PRC tax resident enterprise under the EIT Law, dividend payments from PRC subsidiaries to their foreign shareholders subject to a withholding tax at the rate of 10%, unless the jurisdiction of such foreign shareholders has a tax treaty or similar arrangement with the PRC and the foreign shareholder has obtained approval from competent local tax authorities for application of such tax treaty or similar arrangement. The Target Company is incorporated in Hong Kong. Pursuant to the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (the "**Hong Kong Tax Treaty**"), the Target Company will be subject to a withholding tax at a rate of 5% on dividends received from the Target Group's PRC operating subsidiaries. Pursuant to Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) (Guo Shui Han [2009] No.81) which was promulgated and became effective on 20 February 2009, to enjoy the treatment under the tax agreement, the fiscal resident of the other contracting party shall meet all of the following requirements (i) the fiscal resident of the other contracting party shall be limited to a company; (ii) Both the proportion of all ownership interest and the proportion of all voting shares in the Chinese resident company of the fiscal resident of the other contracting party shall meet the prescribed proportions; and (iii) The proportion of capital of the Chinese resident company directly owned by the fiscal resident of the other contracting party shall meet the proportion prescribed in the tax agreement at any time during 12 consecutive months before dividends are obtained. According to the Notice of SAT on the Issues Relating to the Beneficial Owners in the Tax Treaty (《國家稅務總局關於稅收協定中「受益所有人」有關問題的公告》) (Notice of SAT [2018] No. 9), which was promulgated by SAT on 3 February 2018 and became effective on 1 April 2018, a comprehensive analysis will be used to determine beneficial ownership based on the actual situation of a specific case combined with certain principles, the following circumstances shall adversely affect the applicant to be recognized as an beneficial owner to enjoy tax treaty benefits: (i) if an applicant was obliged to pay more than 50% of its income to a third country (region) resident within 12 months of the receipt of the income, or (ii) the business activities undertaken by an applicant did not constitute substantive business activities including substantive manufacturing, distribution, management and other activities.

Fluctuation in the value of the Renminbi may have a material adverse effect on the Target Group's business.

The income and expenses of the Target Group's PRC subsidiaries have been and are expected to continue to be primarily denominated in Renminbi and are exposed to the risks associated with the fluctuation in the currency exchange rate of Renminbi. The value of the Renminbi against the US dollar, Hong Kong dollar and other currencies may be affected by changes in the PRC's policies and international economic and political developments. Under the current policy, the RMB is pegged against a basket of currencies, as determined by the People's Bank of China, against which it can rise or fall within stipulated ranges each day. As a result of the historical and any future changes in currency policy, the exchange rate may become volatile, the Renminbi may be revalued further against the US dollar or other currencies or the Renminbi may be permitted to enter into a full or limited free float, which may result in an appreciation or depreciation in the value of the Renminbi against the US dollar or other currencies. Fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars (which are pegged to the US dollar), of the Target Group's cash flows, revenues, earnings and financial position, and the value of, and any dividends payable to the Target Group by its PRC subsidiaries. For example, an appreciation of the Renminbi against the US dollar or the Hong Kong dollar would make any new Renminbi-denominated investments or expenditures more costly to the Target Group, to the extent that the Target Group need to convert US dollars or Hong Kong dollars into Renminbi for such purposes.

Uncertainty with respect to the PRC legal system could adversely affect the Target Group and may limit the legal protection available to shareholders and investors of the company.

The Target Group's operating subsidiaries are incorporated under the laws of the PRC. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters such as foreign investment, corporate organization and governance, commerce, taxation, foreign exchange and trade. As substantially all of the Target Group's businesses are conducted in China, its operations are principally governed by PRC laws and regulations. However, since the PRC legal system continues to rapidly evolve, the interpretations of laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to the Target Group. Furthermore, the Target Group cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. In particular, since the property management industry is in its early development stage in the PRC, the laws and regulations relating to this industry are unspecific and may not be comprehensive. These uncertainties could limit the legal protections available to the Target Group and investors of the Company. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, the Target Group may not be aware of its violation of these policies and rules until notified. Any litigation in the PRC may be protracted and result in substantial costs and diversion of the Target Group resources and management attention. The materialization of all or any of these uncertainties could have a material adverse effect on the Target Group's financial position and results of operations.

It may be difficult to effect service of process on the Target Group's Directors or executive officers who reside in the PRC or to enforce against it or them in the PRC any judgements obtained from non-PRC courts.

A majority of the Target Group's Directors and senior management members reside in the PRC, and substantially all of the assets of those people and of the Target Group are located in the PRC. Therefore, it may be difficult for investors to effect service of process upon those persons inside the PRC or to enforce against the Target Group or them in the PRC any judgements obtained from non-PRC courts. PRC does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts with the Cayman Islands, the United States, the United Kingdom, Japan and many other developed countries. Therefore, recognition and enforcement in the PRC of judgements of a court in any of these jurisdictions may be difficult or even impossible.

Inflation in the PRC could negatively affect the Target Group's profitability and growth.

Economic growth in the PRC has, during certain periods, been accompanied by periods of high inflation, and the PRC government has implemented various policies from time to time to control inflation. For example, the PRC government introduced measures in certain sectors to avoid overheating of the PRC economy, including increasing interest rates and capital reserve thresholds at PRC commercial banks. The effects of the stimulus measures implemented by the PRC government since the global economic crisis that commenced in 2008 and the continued growth in the overall economy since then have resulted in sustained inflationary pressures. If these inflationary pressure continues and is not mitigated by PRC government measures, the Target Group's cost of services will likely increase, and its profitability could be materially reduced, as there is no assurance that the Target Group would be able to pass any cost increases onto its customers. Measures adopted by the PRC government to control inflation may also slow economic activity in the PRC, leading to reduction of the Target Group's services and its revenue growth and adversely affect its results of operations.

Natural disasters, public health and public security hazards in the PRC may severely disrupt the Target Group's business and operations.

The Target Group's business is subject to general economic and social conditions in the PRC. The outbreak of any severe diseases in the PRC such as the human swine flu, also known as Influenza A (H1N1), H5N1 avian flu or severe acute respiratory syndrome ("SARS"), if uncontrolled, could have an adverse effect on the overall business sentiment, environment and domestic consumption in the PRC, which in turn may have an adverse impact on the business, financial position and results of operations of the Target Group. In addition, if employees are affected by a severe communicable disease, the Target Group may be required to institute measures to prevent the spread of the disease. The spread of any severe communicable disease in China may also affect the economy, infrastructure and livelihood of the people of the PRC.

Moreover, the PRC has experienced natural disasters, including earthquakes, floods, landslides and droughts in the past, resulting in deaths of people, significant economic losses due to extensive damage to infrastructure, power lines, properties, transportation and communications disruptions. Any future natural disasters, public health and public security hazards may, among other things, severely restrict the level of economic activity in affected areas, which may in turn materially and adversely affect the Target Group's business, operations and prospects.

*The information that appears in this Industry Overview has been prepared by China Index Academy ("**CIA**") and reflects estimates of market conditions based on publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. References to CIA should not be considered as the opinion of CIA as to the value of any security or the advisability of investing in the Company. The Directors believe that the sources of information contained in this Industry Overview are appropriate sources for such information and have taken reasonable care in reproducing such information. The Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by CIA and set out in this Industry Overview has not been independently verified by the Group, the Financial Adviser or any other party involved in the acquisition and neither they nor CIA give any representations as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decision.*

COMMISSIONED REPORT FROM CHINA INDEX ACADEMY

This "Industry Overview" section contains information extracted from a commissioned research report prepared by CIA for the purposes of this circular. Established in Hong Kong on 26 October 2007, CIA provides data research and analysis services with over 600 professional analysts and its branch offices cover all major cities in the PRC. CIA has extensive experience in researching and tracking the property management industry in the PRC, and has conducted research on the Top 100 Property Management Companies in the PRC since 2008. We agreed to pay a fee of approximately RMB800,000 for the report.

In its research, CIA considers primarily property management companies that have managed at least 10 properties or with aggregate GFA of 500,000 sq.m. or above per annum for the previous three years. CIA uses research parameters and assumptions and gathers data from a multitude of primary and secondary sources, including data from property management companies (including data from reported statistics, websites and marketing materials), surveys it has conducted, data gathered from the China Real Estate Index System, the China Real Estate Statistics Yearbooks, public data from governmental authorities and data gathered for prior reports it has published. CIA derives its rankings of overall strength of property management companies primarily by evaluating each property management company's management scale, operational performance, service quality, growth potential and social responsibility. CIA assesses the growth potential of a property management company primarily in terms of its revenue growth rate, growth rate of total revenue-bearing GFA, growth rate of total contracted GFA, total number of employees and composition of employees. In this section, the data analysis is primarily based on the Top 100 Property Management Companies in PRC and the Top 100 Property Management Companies in Greater Bay Area.

THE PROPERTY MANAGEMENT INDUSTRY IN THE PRC

Overview

Started from Shenzhen in 1981, PRC has recorded a 38-year development history for its property management industry. In 2003, the Property Management Regulations (《物業管理條例》) and the Administrative Measures on Property Service Charge (《物業服務收費管理辦法》) were promulgated by the State Council, the NDRC and the Ministry of Housing and Urban-Rural Development ("**MOHURD**"), providing a legal framework for the property management industry.

A series of auxiliary factors, such as policy, economy and technological advancement, has jointly promoted the rapid development of the property management industry. With continuous expansion, the property management industry has become an important sector that drives the economy and people's livelihood, maintains social harmony and stability, and promotes sustainable urban development.

Forms of property management services fee income: lump sum basis and commission basis

For property management services, the Target Group charges property management fees either on a lump sum basis or commission basis. Currently, the mainstream charging method for property services in the PRC market is by lump sum basis. The lump sum basis model refers to a fixed property service fee paid by property owners to property management service providers who shall enjoy all the profits and assume all the losses. In contrast, the commission basis model refers to service fees paid to property management service providers based on a pre-determined proportion or percentage of the property management fees or cost of services as set out in the property management service contracts, the rest of such shall be used for the expenses stipulated in the property management contract, and property owners shall enjoy the surplus or make up for any shortage.

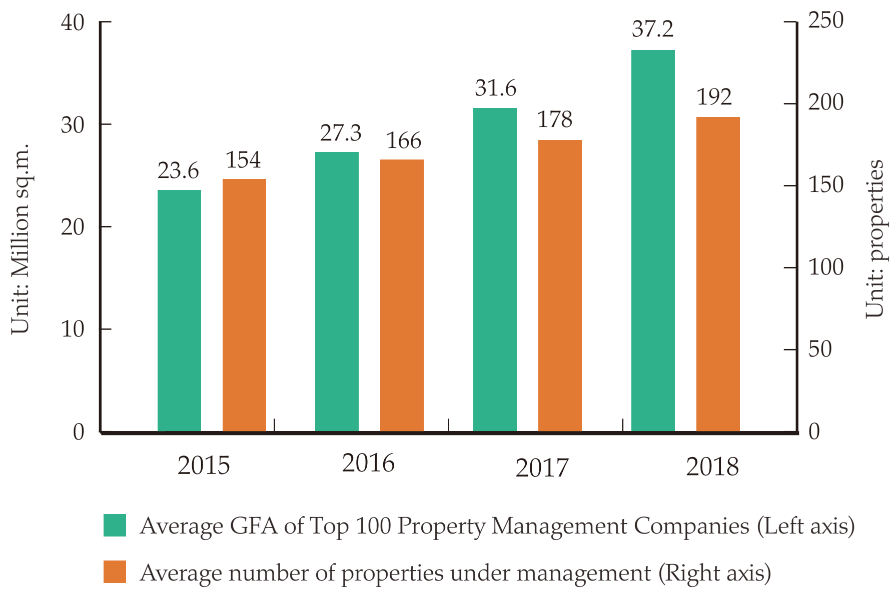
In general, lump sum basis model is preferred by property management service companies with prominent brand advantages and for market-oriented property projects, whereas commission basis model is suitable for property management service companies that are in the early stage of development or projects with a reasonable owner structure (especially for non-residential projects).

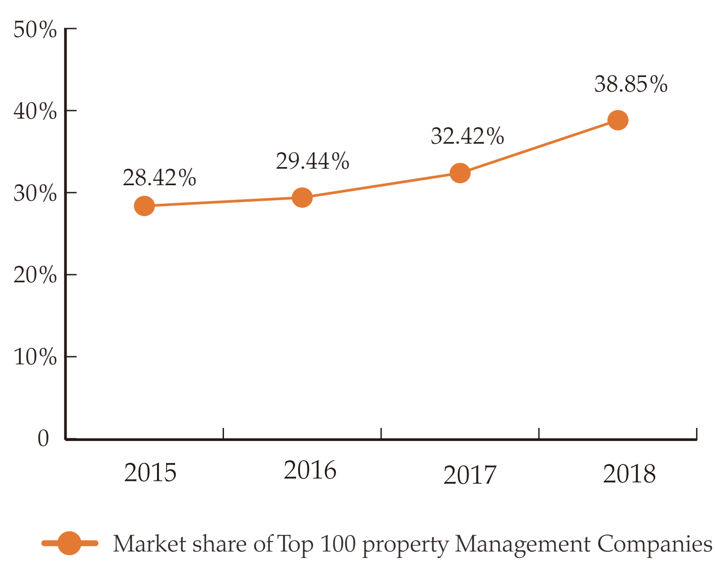
Development status of the property management industry

In recent years, the revenue-bearing GFA and number of properties managed by the Top 100 Property Management Companies have increased rapidly as a result of swift urbanisation and continual growth in per capita disposable income in China.

Projects under management and area under management

Changes in Service Scale and Market Share of Top 100 Property Management Companies from 2015 to 2018





Source: CIA

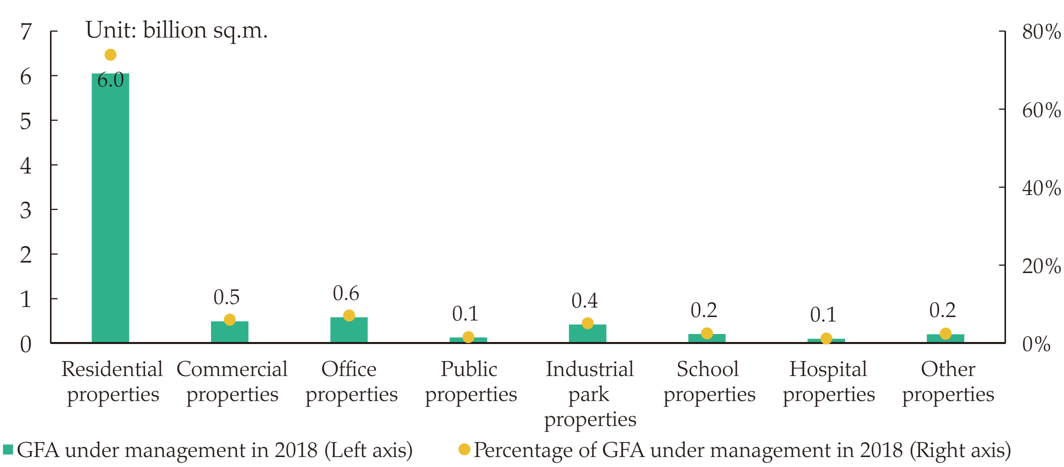
According to the report prepared by the CIA, the average total GFA of properties managed by the Top 100 Property Management Companies increased to approximately 37.2 million sq.m. as of December 31, 2018 from 23.6 million sq.m. as of December 31, 2015, which represented a CAGR of 16.34%. The average number of properties managed by the Top 100 Property Management Companies increased to 192 as of December 31, 2018 from 154 as of December 31, 2015, representing a CAGR of 7.63%. The market share of the Top 100 Property Management Companies in 2018 reached 38.85%, representing an increase of 6.43 percentage points as compared with 2017 (32.42%). The market share of the Top 100 Property Service Enterprises continued to increase.

According to CIA, projects developed by a sister company remain a key source of projects for Top 100 Properties Management Companies to expand their business scales and secure their project pipelines. A majority of the Top 100 Property Management Companies in the PRC have their parent companies or controlling shareholders engaging in property development business. Out of the 220 companies comprising the Top 100 Property Management Companies for 2018, 167, or approximately 76%, of them manage properties developed by property developers which were their related parties ("**Selected Top 100 Property Management Companies**"). In 2018, all 167 of the Selected Top 100 Property Management Services Companies have approximately 50% of their revenue-bearing GFA from properties developed by their respective related parties. Furthermore, 80 of the Selected Top 100 Property Management Services Companies have more than 80% of their revenue-bearing GFA from properties developed by their respective related parties, while 60 of the Selected Top 100 Property Management Services Companies have more than 90% of their revenue-bearing GFA from properties developed by their respective related parties.

Management of various types of properties

Residential properties remain the predominant service operations of the Top 100 Properties Management Companies. By type of operations, the total area of residential property managed by the Top 100 Properties Management Companies in 2018 reached 6.048 billion sq. m. and accounted for 73.94% of the total area of properties under management, representing an increase of 36.83% as compared with 2017 (4.420 billion sq. m.), making it the largest service type of all operations. In 2018, the total area of non-residential properties under management of the Top 100 Properties Management Companies was 2.132 billion sq. m. and accounted for 26.06% of the total area of properties under management, representing an increase of 11.74% as compared with 2017 (1.908 billion sq. m.).

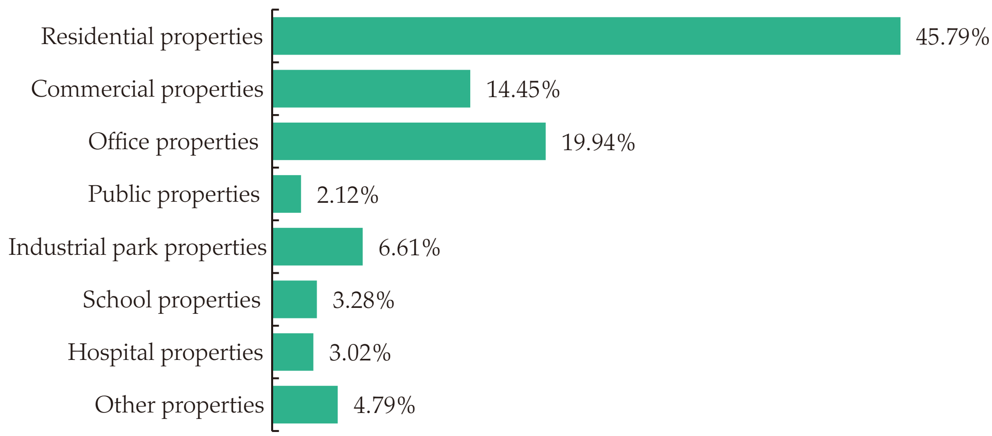
Area under Management and Proportion of the Top 100 Properties Management Companies by Type of Operations in 2018



Source: CIA

In 2018, the proportion of income in basic property service fees of the Top 100 Properties Management Companies generated from residential properties amounted to 45.79%, constituting the largest share of the total income of basic properties management services; the proportion of service fees income from office properties and commercial properties accounted for 19.94% and 14.45% respectively; and the service fees income of industrial parks, public properties, schools, hospitals and other properties accounted for 6.61%, 2.12%, 3.28%, 3.02% and 4.79%, respectively.

Proportion of Income in Basic Property Service Fees from Each Type of Operations of the Top 100 Properties Management Companies in 2018



Source: CIA

Industry Growth Drivers

According to CIA, growth of the property management industry in the PRC depends on the following key drivers:

Policy factor – further improvement in policy environment to stimulate growth potential of the industry

The laws and regulations on property management are the pillar for the property management industry, and favourable policy environment creates an important foundation for the sound development of the industry. Increasing laws, rules and regulatory guidance of the property management industry were promulgated, such as (i) the Property Management Regulations; (ii) the 12th Five-Year Plan for the Development of Service Industry (《服務業發展「十二五」規劃》) emphasising on improving the price mechanism in line with market rules and standardising market order of the property management industry; and (iii) the Guidance on Accelerating the Development of the Resident Service Industry to Promote the Upgrading of Consumption Structure (《關於加快發展生活性服務業促進消費結構升級的指導意見》) proposing the regulated and standardised residential property management services, indicating the growing importance of the property management industry. These laws and policies jointly create a supportive and orderly environment for the development of the property management industry and the property management companies. On the one hand, work has been done to promote the integration of property service into smart cities, the Internet, community elderly care and other related fields, to extend the spectrum of property services from the traditional business model and philosophy to improve people's livelihood.

Demand factor – Improvement in urbanization and personal income, providing immense room for industry development

PRC 's significant growth in urbanization and per capita disposable income has been the principal drive for the growth of the property management industry. The urbanization rate (being the projected average rate of change of the size of the urban population over the given period of time) in PRC increased from 33.4% to 59.6% from 1998 to 2018. The PRC property management industry is expected to continue to grow in tandem with rising level of urbanization of the country. Moreover, PRC's rapid economic growth has spurred continuous growth in the per capita disposable income for urban population. In 2018, PRC recorded a GDP of RMB90.03 trillion, representing a year-on-year increase of 6.6% as compared with 2017. GDP per capita increased from RMB43,852 in 2013 to RMB64,644 in 2018, with the five-year CAGR of 8.07%. The economic growth in the PRC has also led to the formation of a middle- to high-income class, increasingly seek better living conditions and high-quality property management services, which is another underlying reason for the growth of the PRC property management industry. As a result, according to CIA, it is expected that consumers will become increasingly willing to pay a premium for quality and the emerging middle- to high-income class in the PRC with their growing spending power will have a large influence for the sound development of the property management industry in the PRC.

The Chinese population has experienced three peaks since 1949, with higher demands for quality improvement and innovation of property services along with the changing demographic structure and consumer groups.

From 1998 to 2018, the PRC saw its urbanization rate rise from 33.4% to 59.6%, which translates into an average annual increase of 1.3 percentage points, with 20.8 million new urban residents each year during the twenty years period. In 2018, the saleable area of properties in the PRC reached 1.717 billion sq. m., representing an increase of 31.5% as compared to 1.306 billion sq. m. in 2013. The combination of greater urbanization, growing urban population and an expanding real estate market generates huge demand for property services, directly pushing forward the rapid development of the property management industry.

According to the National Bureau of Statistics, the average per capita disposable income of urban cities in the PRC has increased year by year since 2009 and reached RMB39,251 in 2018, with a CAGR of approximately 9.62%. Continuous income growth has greatly bolstered consumers' pursuit of higher quality property services, which provided a good opportunity for the rapid development of the property management industry.

According to the National Bureau of Statistics, the consumer price index from 2013 to 2018 maintained steady growth, with a year-on-year growth rate of 2.1% in 2018. It can be seen that residents still have strong demand and consumption power for high-quality property services, effectively driving the sustainable development of the property management industry.

Supply factor – Increase in real estate investment and saleable area, providing full support for market demand

After more than 20 years of development, the PRC real estate market has gradually shifted from incremental housing market to inventory housing market, signaling the advent of the "inventory housing" era. In the past two decades, the real estate market has grown rapidly under rapid economic development, accommodative monetary environment and thriving demand. The saleable area of commercial housing has increased by 9 times to 1.717 billion sq. m., with the development investment increased to RMB12.03 trillion for the year 2018. From 2000 to 2018, the accumulated saleable area of commercial housing in the PRC amounted to 16.988 billion sq. m., and the accumulated completion area reached 13.638 billion sq. m. The real estate market has been developing rapidly, and the inventory housing market is expanding continuously, providing a good development opportunity for the property management industry.

Market Trends

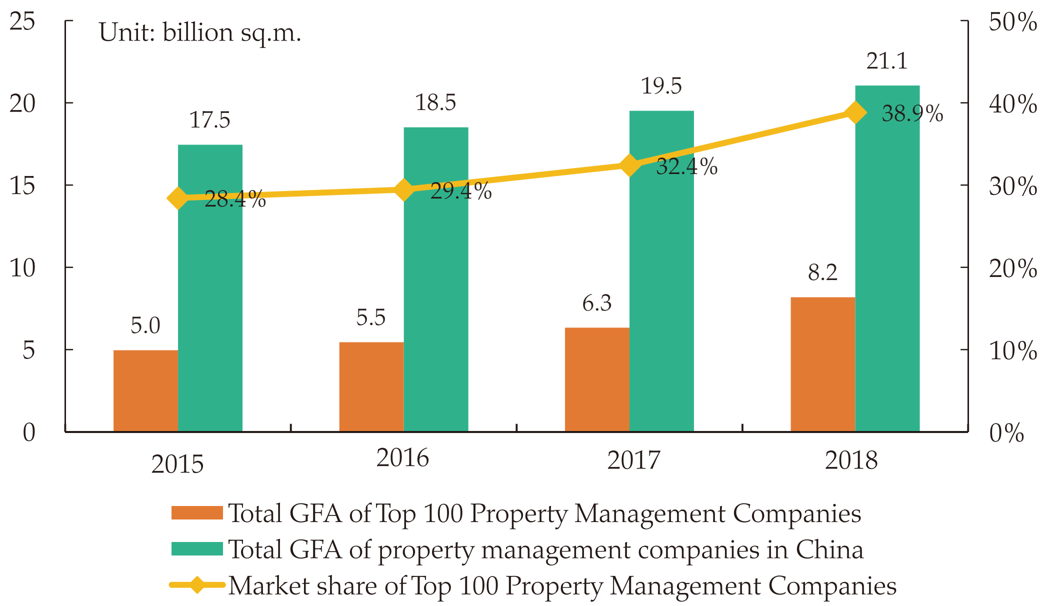
According to CIA, key market trends of the property management industry in the PRC include:

– ***Constantly enhanced industrial concentration and intensified polarisation of corporate scale***

As the report of CIA indicated, the total GFA of properties managed by the Top 100 Property Management Companies continued to increase from 2015 to 2018 with the Top 100 Property Management Companies accounted for 28.42% managed properties nationwide during 2015 to 38.85% in 2018, demonstrating the continuous increase in industry concentration.

The following chart sets out the total revenue-bearing GFA of property management companies in China and the aggregate market share of the Top 100 Property Management Companies in terms of the total revenue-bearing GFA for the years indicated:

Total Area Managed by Top 100 Property Management Companies, Property Management Area Nationwide and Market Share of Top 100 Enterprises from 2015 to 2018



In the scattered and competitive property management industry, large-scale property management companies actively improve their strategic layout and accelerate their expansion in order to increase their market share and achieve better results of operations. The top 100 enterprises listed in the Top 100 Property Management Companies, display an evident disparity in the aggregate market share in terms of the total GFA managed. Large enterprises easily outperformed the market while medium and small enterprises enjoyed stable development. In 2018, the total management area of Top 100 Properties Management Companies amounted to 38.9% of property management area in the PRC, of which the top 10 enterprises (10 companies in aggregate) accounted for 11.4% market share and the top 30 enterprises accounted for 27.4%. The top 10 enterprises outperformed with a prominent edge, as their average management area amounted to approximately 239 million sq.m., being 6.43 times that of the average of top 100 enterprises. The average management area of the top 11 to 30 enterprises amounted to approximately 63.6 million sq.m., being 1.71 times that of the average of top 100 enterprises. The average management area of the top 31 to 50 enterprises and the top 51 to 100 enterprises were approximately 23.2 million sq.m. and 12.6 million sq.m. respectively.

– ***Standardised services lay the foundation for expansion, with accelerated development of efficient operation***

Service standardisation is an important foundation for the orderly expansion of property service companies and one of the future trends of the property management industry. With the development of information technologies such as mobile internet and big data, property service companies have increased investment in information technology for continuous innovated service models, improved service quality, established standardised property service processes, adopted intensive management, improved service standards and reduced operating costs for promoting the standardised operation of property management.

The introduction of PRC policies have brought new development opportunities for property management standardisation, such as (i) the Reform Plan for Deepening Standardisation Work (《深化標準化工作改革方案》) aiming to encourage social organisations and industrial technology alliances with corresponding capabilities to coordinate relevant market entities to jointly develop standards to meet market and innovation needs; (ii) the Guiding Opinions on Accelerating Development of Personal Service Industry and Promoting Upgrading of Consumption Structure (《關於加快發展生活性服務業促進消費結構升級的指導意見》) providing for the promotion of the standardisation and regularisation of personal life services such as property management and house leasing operations; and (iii) the Development Plan of National Standardisation System Construction (2016-2020) (《國家標準化體系建設發展規劃(2016-2020年)》) for preparing a new generation of information technology standard system plan to support the innovation and development of the information industry, and to promote the comprehensive improvement of the informatisation level of various industries. These national policies not only encourage property service companies to utilise mobile internet technology to diversified businesses and achieve better integration and distribution of resources, but also promote the property management industry for quality standardisation of property management and the diversification of services.

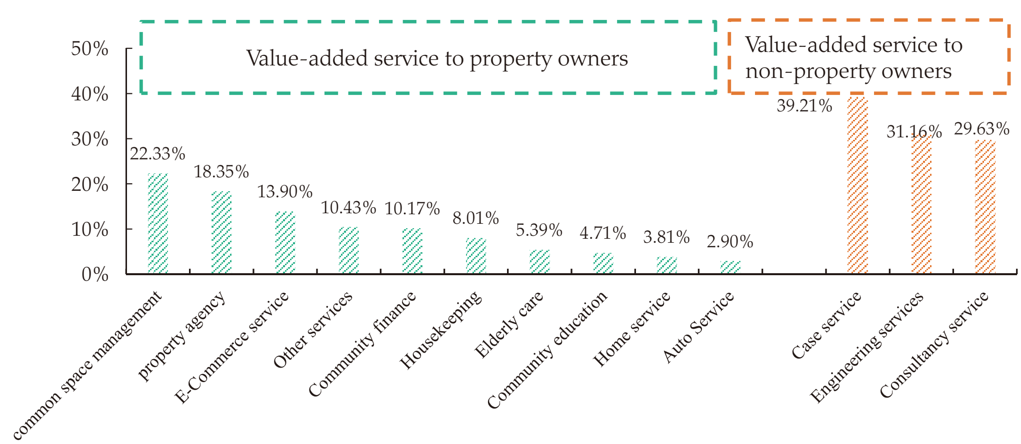
At present, the property management industry is in a critical period of transformation to modern service industry. Standardisation, as a central tool for the industry to regulate its development and achieve efficient operation of companies, is a benchmark for measuring service quality, which play a strategic, leading and supportive role in promoting the transformation and sustainable development of the industry. The standardised operation of property services not only improve resident satisfaction regarding the property management service provided, but also serves as an important indication for the future development of the industry.

– *Intelligent application facilitates the technological and profitability of companies*

In response to the application of smart technology and property, more property service companies have utilized mobile interconnection, informatisation, data and intelligence to deepen the integration of business and develop diversified value-added services to further enhance their profit.

By using the technological methods to develop innovative models not only improves the efficiency of management services, but also improves the quality of basic property services to property owners and developers. Meanwhile, it has further classified value-added services into property owner value-added services and non-property owner value-added services. Property owner value-added services mainly include common space operations, community finance, housing brokerage, e-commerce services, housekeeping services and elderly care services. Non-property owner value-added services mainly include case services, engineering services, consultation and etc. Both value-added services for property owner and non-property owner are committed to create a one-stop integrated service platform to provide differentiated and personalised services for property owners and developers.

Revenue Composition of Various Operating Services of Top 100 Companies in 2018



Source: *CIA*

In 2018, revenue from property owner value-added services accounted for 54.40% of the various operating income. Meanwhile, the non-property owner value-added services accounts for 45.60% of the various operating income.

– *The professionalisation of talents improving of service quality.*

Guided by the continuous improvement of the technological content of the industry and the diversified development of the business, property service companies will further accelerate the construction of the talent team, reserve and accumulate more high-caliber talents with informatisation and intelligent management capabilities, and enhance the quality of property services. Given the rapid development of PRC's property management industry and the application of new technologies such as artificial intelligence becoming mature, property service companies require more talents especially with composite professional management, innovation and technical skills so as to meet the development needs of modernized property management. In the foreseeable future, property service companies will pay more attention to the cultivation and introduction of professional high-caliber talents to improve property service and satisfaction of property owners, thus enhance the development of the property management industry.

– *Breaking through the traditional business sector leads to more development potential of the non-residential market*

As the State's regulation and policies have deepened, the non-residential property service sector for commercial, office, industrial parks, schools, hospitals, etc. will have a broader market with new opportunities and development paths.

Supported by the development of PRC regulation and policies and the accelerated transformation and upgrading of the property service industry, the future property service sector will present a refined and specialised division, coupled with the growing material and cultural demands of the people, the non-residential property market segment will encounter a favourable situation and the development prospects are very positive.

COMPETITION

Competitive Landscape and Advantages

The property management industry in the PRC is fragmented as a whole and featured by increasing centralisation. In recent years, the trend of centralisation in the property management industry is more obvious with intensifying differentiation of companies at different levels with higher growth of large corporation.

As a company striving for professionalisation, standardisation and first-class modern property management services, the property management services of the Target Group is mainly competing with that of large state-owned and regional property management companies in the PRC. The valued-added services of the Target Group are competing with similar services of other property management companies and relevant industrial players.

The Target Group is one of the leading property management service providers in the PRC. According to CIA report, the overall strength of the Target Group is ranked 28th among the Top 100 Property Companies in the PRC in 2019. Since the Target Group is rooted in Zhuhai with its foothold covering the Pearl River Delta region, it ranked 21st among the Top 100 Companies in the Guangdong-Hong Kong-Macao Greater Bay Area in terms of overall strength in 2018, according to CIA.

The Target Group is committed to introducing the idea and techniques of modern management services so as to enhance its quality of services. According to CIA, the Target Group's satisfaction of property owner is in the leading position in the industry, which leads to the title of "2019 China Property Service Top 100 Leading Companies in Customer Satisfaction" (2019中國物業服務百強滿意度領先企業).

The comparison between Huafa Property and Top 100 Companies in terms of management scale in Zhuhai

During 2018, according to CIA, the growth rate of the reserve area of the Target Group was 45.01%, which was higher than the average growth rate of the Top 100 Companies of 11.2%, indicating noticeable growth potential.

In addition, according to CIA, the property management services of the Target Group maintained comparatively high profitability and has obvious regional competitive advantage as its revenue per sq.m. and net profit per sq. m. of revenue-bearing management area in 2018 ranked 4th and 5th respectively in the Top 100 Property Management Property Companies in the Guangdong-Hong Kong-Macao Greater Bay Area.

Entry Barrier

According to CIA, entry barriers for the property management industry in the PRC mainly include:

– **Brand Barrier**: Brand is essential for property management services companies' development and serves as an essential instrument for external expansion. In response to the escalation of overall demand of property management industry and intensification of industry competition, higher standard is required for the quality of property services, and brand is becoming the entry barrier of property management industry. New companies, without an established brand, face increasing difficulty in penetrating into the market. Longer operation, good market reputation, brand image and better service quality are the prerequisite of a property management company to obtain business. Therefore, brand is a significant barrier for the property management industry.

– **Capital Barrier**: Owing to the expansion of scale, property management services companies lay more emphasis on technological revolution characterized by automation and intelligence. Through new technologies emerge promoting artificial intelligence, property management services companies improve management efficiency by technology advancement.

– **Management Barrier**: Attributing to the continuous strengthening of the competitiveness of the property management industry, qualified management team and its management expertise are increasingly demanded. Property management services companies need to standardize and centralize their operations. Large-scale property management companies have more resources to invest in standardization and centralization of their operations than new entrants, forming certain management barriers.

– **Professionals and Technological Barrier**: As new technologies emerge, qualified employees in the property management industry are increasingly demanded. The supportive role of professional staff is highlighted by the application of big data and internet techniques, and new property management companies face the difficulty in recruiting and retaining high-quality employees.

DIRECTORS' CONFIRMATION

The Directors confirm that, after due enquiry, there is no material adverse change in the market information since the issue date of the abovementioned sources which may qualify, contradict or have an adversely impact on the information contained in this section.

COMPANY LAW AND LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law of the PRC (《中華人民共和國公司法》) (the "Company Law"), which was promulgated by the Standing Committee of the National People's Congress (the "SCNPC") on 29 December 1993, became effective on 1 July 1994, and was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018. The Company Law applies to both PRC domestic companies and foreign-invested companies.

The foreign exchange matters, accounting practices, taxation, labour and other relevant matters of a wholly foreign-owned enterprise ("WFOE") are regulated by (i) the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》) (the "WFOE Law") which was promulgated by the SCNPC and came into effect on 12 April 1986, and was subsequently amended on 31 October 2000 and 3 September 2016; and (ii) the Implementation Rules of the WFOE law of the PRC (《中華人民共和國外資企業法實施細則》) which was promulgated and came into effect on 12 December 1990, and was subsequently amended on 12 April 2001 and 19 February 2014. Pursuant to the latest amendment of the WFOE Law, the establishment and change of a WFOE which does not involve the implementation of special administrative measures for the access of foreign investment prescribed by the PRC government shall be subject to record-filing management. On 15 March 2019, the National People's Congress passed the Foreign Investment Law of the People's Republic of China (the "Foreign Investment Law"), which will come into effect on 1 January 2020 and replace the WFOE Law after its implementation. The Foreign Investment Law implements a negative list access system, and foreign investment being made in the areas not within the negative list shall be implemented in accordance with the principle of equality between domestic and foreign investment.

The Provisional Measures on Record-filing Administration over the Establishment and Change of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) (the "Measures") was promulgated by the Ministry of Commerce of the People's Republic of China ("MOFCOM") and came into effect on 8 October 2016, and was subsequently amended on 30 July 2017 and 30 June 2018. Pursuant to the Measures, a WFOE not subject to special market entry administrative measures shall file with the MOFCOM for its establishment or any change by submitting application documents online via the Foreign Investment Comprehensive Management System within thirty days after the occurrence of any change to the WFOE.

Investment in the PRC conducted by foreign investors and foreign-invested enterprises is subject to regulations regarding the industry. On 30 June 2019, the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2019 Version) (《外商投資准入特別管理措施(負面清單)(2019年版)》) (the "Negative List") and the Catalogue of Industries for Encouraging Foreign Investment (2019 Version) (《鼓勵外商投資產業目錄(2019年版)》) were jointly promulgated by the NDRC and the MOFCOM and became effective on 30 July 2019. Property management services are a permitted foreign investment industry.

LAWS AND REGULATIONS RELATING TO PROPERTY MANAGEMENT SERVICE AND OTHER RELATED SERVICES

Qualification of Property Management Enterprises

According to the Regulation on Property Management (《物業管理條例》) (Order No. 379 of the State Council), which was promulgated on 8 June 2003, came into effect on 1 September 2003, and was amended on 26 August 2007, 6 February 2016, 4 April 2018, a qualification system for the supervision of property management enterprises by the State Council's construction administration department together with other relevant departments has been adopted to strengthen the management of the industry.

According to Measures for the Administration on Qualifications of Property Management Enterprises (《物業管理服務企業資質管理辦法》) (Order No.125 of Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部), the "MOHURD"), which was promulgated by the MOHURD on 17 March 2004, came into effect on 1 May 2004, amended on 26 November 2007 and 4 May 2015, and was abolished on 8 March 2018, was a system of administration once adopted for the qualifications of a property management enterprise to be classified into first, second and third grades.

According to Decision of the State Council on Cancelling the Third Batch of Administrative Licensing Items Designated by the Central Government for Implementation by Local Governments (《國務院關於第三批取消中央指定地方實施行政許可事項的決定》) (Guo Fa [2017] No.7), which was promulgated by the State Council on 12 January 2017 and came into effect on the same day, the qualification accreditation for property management enterprises of second grade and third grade were cancelled.

According to the Decision of the State Council on Canceling a Group of Administrative Licensing Items (國務院關於取消一批行政許可事項的決定) (Guo Fa [2017] No.46), which was promulgated by the State Council on 22 September 2017 and came into effect on the same day, the qualification accreditation of first grade qualification of property management enterprises was cancelled.

According to the Notice of the General Office of Ministry of Housing and Urban-Rural Development on Effectively Implementing the Work of Canceling the Qualification Accreditation for Property Management Enterprises (住房城鄉建設部辦公廳關於做好取消物業服務企業資質核定相關工作的通知) (Jian ban fang [2017] No.75), which was promulgated by the General Office of MOHURD on 15 December 2017 and came into effect on the same day, application, change, renewal or re-application of the qualifications of property management enterprises shall not be accepted, and the qualifications obtained already shall not be a requirement for property management enterprises to undertake new property management projects. The real estate administration department at and above the county level shall instruct and supervise the property management industry, and the supervision of property management enterprises will be based on credit appraisal.

The Decision of Ministry of Housing and Urban-Rural Development on Abolishing Measures for the Administration on Qualification of Property Management Enterprises (《住房城鄉建設部關於廢止〈物業服務企業資質管理辦法〉的決定)》) (Order No. 39 of the Ministry of Housing and Urban-Rural Development), which was promulgated and came into effect on 8 March 2018, abolished the Measures for the Administration on Qualification of Property Management Enterprises and cancelled the qualifications accreditation of property management enterprises.

The Decision of the State Council on Revising and Repealing Certain Administrative Regulations, which was promulgated and came into effect on 19 March 2018, repealed the requirements on qualifications of property management enterprises in Regulations on Property Management. According to the Regulations on Property Management (2018 Revision), which was promulgated and implemented on 19 March 2018, the requirements on qualifications of property management enterprises has been cancelled.

Appointment of the Property Management Enterprise

The applicable laws and regulations governing the selection of property management service providers are: (i) the Regulations on Property Management and the Interim Measures for Tender and Bidding Management of Preliminary Property Management (《前期物業管理招標投標管理暫行辦法》) (Jian Zhu Fang [2003] No.13) (issued by the Ministry of Housing and Urban-Rural Development on 26 June 2003 and came into effect on 1 September 2003); (ii) the Property Law of the PRC (《中華人民共和國物權法》) (No.62 Order of the President of the PRC) (issued by the National People's Congress on 16 March 2007 and came into effect on 1 October 2007); and (iii) the Regulation on Property Management (《物業管理條例》) (issued by the State Council on 1 September 2003 and came into effect on 1 September 2003, and amended on 26 August 2007, 6 February 2016 and 19 March 2018) of the PRC as illustrated below:

Tender Process utilised by the Property Developer

According to the Regulations on Property Management and the Interim Measures for Tender and Bidding Management of Preliminary Property Management (《前期物業管理招標投標管理暫行辦法》), the developer of residential buildings and non-residential buildings in the same property management area shall engage qualified property management service provider through the process of tendering and bidding.

Under the tender and bidding process as stipulated in the Regulations on Property Management and the Interim Measures for Tender and Bidding Management of Preliminary Property Management (《前期物業管理招標投標管理暫行辦法》), the developer of the property shall establish a bid assessment committee which composes of the representative of the developer and experts in the related property management field, and the number of members shall be an odd number at or above five. The expert members shall represent at least two-thirds of the total members in the bid assessment committee and shall be determined by random selection from the roster of expert panel established by the competent real estate administrative department of the local government of the place where the property is located. Nonetheless, a person having an interest with the bidder shall not join the bid assessment committee of the related project.

However, in situation where there are less than three bidders or for small-scale properties, the developer can engage a qualified property management service provider under the approval of the real estate administrative department of the local government of the place where the property is located.

Where the developer fails to engage the property management service provider through a tender and bidding process or seeking to engage the property management service provider without the approval of the relevant government authority, the competent real estate administrative department of the local government at the county level or above would order the developer to make correction within a prescribed time limit, issue a warning, and/or impose with the penalty of no more than RMB100,000.

Selection of Property Management Service Provider by Property Owners

According to the Property Law of the PRC (《中華人民共和國物權法》), property owners can either manage the buildings and ancillary facilities by themselves, or sub-contract the matter to a property management service provider or other custodian. In accordance with the law, property owners are entitled to change and/or to dismiss the property management service provider or any custodian hired by the property developer. Property management service provider or other custodian, in short, shall manage the buildings and ancillary facilities within the property as agreed with the property owners, and shall be subject to the supervision by them.

As stipulated in the Regulation on Property Management (《物業管理條例》), a general meeting of the property owners of the property can engage or dismiss the property management enterprise with affirmative votes of owners who possess exclusive parts accounting for more than half of the total area of buildings and who account for more than half of the total number of the property owners. The property owners' association, on behalf of the general meeting, can sign property management contract with property management service provider approved at the general meeting of the property owners. In short, the mechanism of selection of property management service provider shall be determined by the general meeting of the property owners, and may involve consideration of a number of factors, including but not limited to the quality of services, the level of pricing, standards and requirement, service quality and the operating history of the property management enterprise.

In situation where the developer of the property has engaged a property management service provider under a written preliminary property management contract by either a tender and bidding process or approval by the real estate administrative department as aforementioned, the said preliminary property management contract shall immediately be terminated once the property owner's association, on behalf of the general meeting of the property owners, executed a property management contract with another property management enterprise.

In addition, according to the Interpretation of the Supreme People's Court on Several Issues the Specific Application of Law in the Trial of Cases of Disputes over Property Management Service (《最高人民法院關於審理物業服務糾紛案件具體應用法律若干問題的解釋》) (Fa Shi [2009] No.8) (issued by the Supreme People's Court on 15 May 2009 and came into effect on 1 October 2009) stipulates the interpretation principles by the court when hearing the dispute between property owners and property management service provider. As the preliminary property management contract and the property management contract are legally binding on property owners, the People's Court of the PRC shall not support a claim if property owners plead for the cause of not being the contract party. The court shall support a claim if the property owners' association or property owners appears to the court for the interpretation of clauses of the property management service contracts.

Fees Charged by Property Management Enterprises

According to the Administrative Measures for Property Service Charges (《物業服務收費管理辦法》) (Fa Gai Jia Ge [2003] No. 1864), which was jointly promulgated by the NDRC and the MOHURD on 13 November 2003 and came into effect on 1 January 2004, property management service providers are permitted to charge property service fees for repairing, maintaining and managing properties and supporting facilities, equipment and relevant sites, and maintaining the sanitation and order of relevant areas according to relevant property management contracts.

The competent pricing department and construction administrative department of the State Council shall jointly take charge of supervising and administering the fees charged by property management enterprises in the PRC. The competent pricing department of the local people's governments at or above the county level shall be in charge of supervision and control over fee charged by property management service providers within their administrative regions jointly with the competent real estate administrative department at the same level.

The fees charged by the property management service providers shall be based on both the government guidance price and market-regulated price on the basis of the nature and features of relevant properties. Specific forms of pricing shall be determined by the competent pricing department of the people's governments in the provinces, autonomous regions and municipalities directly under the Central Government jointly with competent administrative departments at the same level.

As agreed between the property owners and property management service providers, the fees for the property management services can be charged either as a lump sum basis or a commission basis. The lump sum basis refers to the charging mode requiring property owners to undertake the fixed property management expenses and property management service providers to enjoy or assume the surplus or deficit. The commission basis refers that the property management service providers may collect its service fee in the proportion or amount as agreed from the property management income in advance, the rest of which shall be exclusively used on the items as stipulated in the property management contract, and property owners shall enjoy or assume the surplus or deficit.

Property management service providers shall expressly mark prices according to the regulations of competent pricing department of the people's government, revealing the service information, standards, charging items and standards to the public at prominent positions within the property management region.

According to the Provisions on Clearly Marking the Prices of Property Services (《物業服務收費明碼標價規定》) (Fa Gai Jia Jian [2004] No. 1428) (jointly issued by the National Development and Reform Commission and the Ministry of Construction on 19 July 2004 and came into effect on 1 October 2004), property management service providers shall clearly mark the price and state service items, charging standards and relevant information on services (including property management services under the property management contract and services entrusted by property owners) provided to the owners. If the charging standard changes, property management service providers shall adjust all relevant information one month before implementing the new standard and indicate the date of implementing the new standard. If property management service providers fail to charge according to the marked price or mark false price, they may be ordered to surrender all illegal incomes obtained therefrom, pay the penalty, and in severe cases be imposed to cease business operation for rectification or revoke business license until irregularities are corrected.

According to the Measures for Property Management Pricing Costs Supervision and Examination (Trial) (《物業服務定價成本監審辦法(試行)》) (Fa Gai Jia Ge [2007] No. 2285) (jointly issued by the National Development and Reform Commission and the Ministry of Construction on 10 September 2007 and came into effect on 1 October 2007), competent pricing department of people's government formulates and regulates property management charging standards and implement pricing cost supervision and examination on relevant property management service providers. Property management pricing cost is determined according to the social average cost of property management services verified by the competent pricing department of the people's government. With the assistance of competent real estate administrative department, competent pricing department is responsible to organise the supervision and examination of the property management pricing cost supervision and examination work. Property management service pricing cost shall include staff costs, expenses for daily operation and maintenance on public facilities and equipment, green conservation costs, sanitation fee, order maintenance cost, public facilities and equipment as well as public liability insurance costs, office expenses, shared administration fee, fixed assets depreciation and other fees approved by property owners.

Regulations on the Advertising Business

According to the Advertising Law of the PRC (《中華人民共和國廣告法》) (No. 34 order of the President of the PRC) which was issued by the SCNPC on 27 October 1994, came into effect on 1 February 1995 and amended on 24 April 2015 and 26 October 2018, advertisement shall be expressed in a true, legal, healthy manners, in line with requirements of construction of socialist spiritual civilisation and development of Chinese national fine cultural tradition, and shall not contain false or misleading content and defraud or mislead consumers. Advertisers, advertising agents and advertisement publishers shall abide by the laws, regulations and the principles of justice, honesty and fair competition in carrying out advertising activities. Local administrative departments for industry and commerce at and above the county level shall take charge of the supervision and administration on advertising within their respective administrative jurisdictions. Other relevant departments of the local people's governments at and above the county level shall take charge of the advertising management related work within their respective scope of duties.

LAWS AND REGULATIONS RELATING TO TAXES

Income tax

Under the PRC Enterprise Income Tax Law (《中國人民共和國企業所得稅法》) (Order No. 63 [2007] of the President of the PRC) (promulgated on 16 March 2007, came into effect on 1 January 2008 and was amended on 24 February 2017, 29 December 2018) and the Regulation on the Implementation of the Enterprise Income Tax Law of the PRC (《中國人民共和國企業所得稅法實施條例》) (Order No. 512 [2007] of the State Council) (promulgated on 6 December 2007 and came into effect on 1 January, 2008), enterprises are classified into resident enterprise and non-resident enterprise. A resident enterprise refers to an enterprise that is legally established inside the PRC, or which is established under the law of a foreign country (region) but whose actual management body is inside the PRC. Non-resident enterprises refer to the enterprises established under the laws of a foreign country (region) and the actual management body outside the PRC, but with establishments or offices in the PRC or income originating from the PRC if without establishments or offices in the PRC. A resident enterprise shall pay the Enterprise Income Tax ("**EIT**") on its incomes arising from both the PRC and overseas at the tax rate of 25%. A non-resident enterprise having offices or establishments inside the PRC shall pay EIT on its incomes earned by such offices or establishments from inside the PRC as well as its incomes which is earned outside the PRC but is actually associated with such PRC offices or establishments at the tax rate of 25%. For non-resident enterprise having no office or establishment inside the PRC, or whose incomes have no actual connection to its office or establishment inside the PRC, shall pay EIT on its incomes derived from inside the PRC, at the reduced rate of 10%.

According to the Arrangements between the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於所得避免雙重徵稅和防止偷漏稅的安排》), which was promulgated and came into effect on 21 August 2006 issued by the State Administration of Taxation and came into effect on 8 December 2006), if a company incorporated in Hong Kong holds 25% equity interests or more of a PRC company, its dividend obtained from the company incorporated in the PRC shall be taxed with a lower tax rate of 5% as the withholding tax. According to the Public Notice of the State Administration of Taxation on Issues Relating to Beneficial Owner in the Tax Treaty (《國家稅務總局關於稅收協定中「受益所有人」有關問題的公告》) (SAT Public Notice [2018] No. 9), which was promulgated on 3 February 2018 and came into effect on 1 April 2018, if the company's activities do not constitute substantive business activities analysed according to the actual situation of the specific case, which may not be conducive to the determination of its "beneficiary owner", and thus may not enjoy the concessions under the tax treaty.

According to the Public Notice on Several Issues concerning the Enterprise Income Tax on Income from the Indirect Transfer of Assets by Non-Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (SAT Public Notice [2015] No. 7), which was promulgated by the State Administration of Taxation on 3 February 2015 and came into effect on the same day, where a non-resident enterprise indirectly transfers equities and other assets of a PRC resident enterprise to avoid the EIT obligation by making an arrangement with no reasonable business purpose, such indirect transfer shall be redefined and recognised as a direct transfer in accordance with the provisions of the EIT Law. Where the EIT on the income from the indirect transfer of real estate or equities shall be paid in accordance with the provisions of this Public Notice, the entity or individual that directly assumes the obligation to make relevant payments to the transferor according to the provisions of the relevant laws or as agreed upon in the contract shall be the withholding agent. If the equity transferor fails to declare and pay tax payable of indirectly transferred taxable property income in the PRC on time or in full amount, and the withholding agent fails to withhold the tax, in addition to recovering the tax payable, the equity transferor should be charged with interest on a daily basis according to the provisions of the EIT Implementation Rules.

Income Tax Relating To Dividend Distribution

According to the Arrangement between the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, the 5% withholding tax rate shall apply to dividends paid by a PRC company to a Hong Kong tax resident, provided that such Hong Kong tax resident directly holds at least 25% of the equity interests in the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong tax resident if such Hong Kong tax resident directly holds less than 25% of the equity interests in the PRC company. According to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) (Guo Shui Han [2009] No.81), which was promulgated and came into effect on 20 February 2009, the following requirements shall be satisfied before a fiscal resident of the other party to a tax agreement can be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a Chinese resident company: (i) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (ii) the entire equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the twelve consecutive months prior to receipt of the dividends, reach a percentage specified in the tax agreement.

Value-added Tax

According to the Temporary Regulations on Value-Added Tax of the PRC (《中華人民共和國增值稅暫行條例》) (Order No. 134 of the State Council), which was promulgated on 13 December 1993, came into effect on 1 January 1994 and was amended on 5 November 2008, 6 February, 2016 and 19 November 2017), entities and individuals engaging in sale of goods, provision of processing, repair and replacement services, sale of services and intangible assets, or goods in the PRC shall pay value-added tax ("VAT"). The tax rate for taxpayers engaging in sale of services and intangible assets shall be 6%, unless otherwise stipulated.

According to the Circular on Trial Scheme for the Conversion of Business Tax to Value-added Tax (《關於印發〈營業稅改徵增值稅試點方案〉的通知》) (Cai Shui [2011] No. 110), which was promulgated and came into effect on 16 November 2011, the State began to launch taxation reforms in a gradual manner commencing on 1 January 2012, whereby the collection of VAT in lieu of business tax items was implemented on a trial basis in regions showing significant radiating effects in economic development, beginning with production service industries such as transportation and certain modem service industries.

In addition, in accordance with the Notice on Full Launch of the Pilot Program for the Collection of Value-added Tax in Lieu of Business Tax (《關於全面推開營業稅改徵增值稅試點的通知》) (Cai Shui [2016] No.36), which was promulgated by the MOF and the State Administration of Taxation on 23 March 2016 and came into effect on 1 May 2016, upon approval of the State Council, the pilot program for the collection of VAT in lieu of business tax shall be implemented nationwide in a comprehensive manner starting from 1 May 2016, and all business tax payers engaged in the construction industry, the real estate industry, the financial industry and the living service industry have been included in the scope of the pilot program with regard to payment of value-added tax instead of business tax. For general service income, the applicable VAT rate is 6%.

LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE CONTROL IN THE PRC

According to Regulations on Foreign Exchange Administration of the PRC (《中華人民共和國外匯管理條例》) (Order No.193 of the State Council) (the "Foreign Exchange Administration Regulations") (promulgated by the State Council of on 29 January 1996, came into effect on 1 April 1996 and was amended on 14 January 1997 and 1 August 2008), PRC imposes no restrictions on regular international payments and transfers for trade and service-related foreign exchange transactions and dividend payments that are based on true and legitimate transactions. The financial institutions engaging in conversion and sale of foreign currencies shall carry out reasonable examination, and the foreign exchange control authorities shall have the right to carry out supervision and inspection.

For capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loans, shall be conducted upon the prior approval by the competent authorities for the administration of foreign exchange.

According to Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (Hui Fa [2015] No.13), the administrative approval for foreign exchange registration under domestic direct investment and overseas direct investment have been cancelled. Banks will review and carry out foreign exchange registration under domestic direct investment and overseas direct investment (collectively known as direct investment foreign exchange registration) directly, while the SAFE and its branches shall implement indirect supervision over foreign exchange registration via the banks.

LAWS AND REGULATIONS RELATING TO LABOUR PROTECTION IN THE PRC

According to Labour Law of the PRC (《中華人民共和國勞動法》) (Order No. 28 of the President of the PRC), which was promulgated by the SCNPC on 5 July 1994, came into effect on 1 January 1995 and was amended on 27 August 2009, employers shall establish and improve their rules and regulations in accordance with the law so as to safeguard the rights of its workers.

According to Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) (Order No. 65 of the President of the PRC) (promulgated by the SCNPC on 29 June 2007, came into effect on 1 January 2008, and was amended on 28 December 2012) and the Implementation Regulations on Labour Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》) (Order No.535 of the State Council) (promulgated and became effective on 18 September 2008), employers and employees shall enter into written labour contracts to establish their employment relationship. The labour contracts shall set forth the terms, duties, remunerations, disciplinary rules of the employment and conditions to terminate the labour contracts. With respect to circumstance where a labour relationship has already been established without a formal contract, a written labour contracts shall be entered into within one month from the date when the employee begins to commence work.

According to Interim Provisions on Labour Dispatch (《勞務派遣暫行規定》), which was promulgated on 24 January 2014 and came into effect since 1 March 2014, employers may employ dispatched workers in temporary, auxiliary or substitutable positions only, and shall strictly control the number of dispatched workers which shall not exceed 10% of the total number of its workers.

According to Social Security Law of the PRC (《中華人民共和國社會保險法》) (Order No. 35 of the President of the PRC) (promulgated on 28 October 2010 and was effective on 1 July 2011) and other relevant PRC laws and regulations such as the Interim Regulations on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), Regulations on Work Injury Insurance (《工傷保險條例》), Regulations on Unemployment Insurance (《失業保險條例》) and Trial Measures on Employee Maternity Insurance of Enterprises (《企業職工生育保險試行辦法》), employer shall register with the social insurance authorities and contribute to social insurance plans covering basic pensions insurance, basic medical insurance, maternity insurance, work injury insurance and unemployment insurance for the employees. Basic pension, medical and unemployment insurance contributions shall be paid by both employers and employees, while work injury insurance and maternity insurance contributions shall be paid by the employers only. Employers who failed to contribute to social security premiums in full amount shall be ordered by the social security premium collection agency to make or supplement contributions within a stipulated period, and shall be subject to a late payment fine computed from the due date at the rate of 0.05% per day; and where payment is not made within the stipulated period, the relevant administrative authorities shall impose a penalty ranging from one to three times the amount of the amount in arrears.

According to Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》) (Order No. 262 of the State Council), which was promulgated and became effective on 3 April 1999, and was amended on 24 March 2002, employers shall undertake registration at the competent administrative centre of housing fund and to a commissioned bank to open housing provident fund accounts on behalf of its employees.

Employers shall timely pay up the housing provident fund in full and deposit housing and overdue or insufficient payments shall be prohibited. With respect to companies who violate the above regulations by failing to process housing provident fund payment or open housing provident fund accounts for their employees, such companies shall be ordered by the housing provident fund administration centre to complete the relevant procedures within a prescribed time limit; where failing to do so at the expiration of the time limit, a fine of not less than RMB10,000 nor more than RMB50,000 shall be imposed. In the event that a company violates these regulations and fails to pay up housing provident fund contributions in full amount as due, the housing provident fund administration centre shall order such company to pay up within a prescribed time limit; where the payment and deposit has not been made after the expiration of the time limit, an application may be made to the People's Court for compulsory enforcement.

LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY

PRC has adopted legislations related to intellectual property rights, including application, obtaining or licencing of rights on trademarks, patents, copyrights and domain names.

According to Trademark Law of the PRC (《中華人民共和國商標法》) (Order No.10 of SCNPC) (promulgated on 23 August 1982, came into effect on 1 March 1983, and amended on 22 February 1993, 27 October 2001, 30 August 2013), and the Implementation Regulations on the Trademark Law of the PRC (《中華人民共和國商標法實施條例》) (Order No.358 of the State Council) (promulgated by the State Council on 3 August 2002 and amended on 29 April 2014), the trademark registrant may, by signing a trademark licencing contract, authorise others to use its registered trademark. For licenced use of a registered trademark, the trademark licencing contract shall be submitted to the trademark office for filing. Trademark law adopts the principle of "prior application" while handling trademark registration. Where a trademark under registration application is identical with or similar to the trademark of another party that has in respect of the same or similar goods or services, been registered or, after examination, preliminarily approved, the application for trademark registration will be rejected. Anyone who applies for trademark registration shall not impair any existing prior right of anyone else, or forestall others in registering a trademark which others have already begun to use, while non-filing of the licencing of a trademark shall not be contested against a good faith third-party.

According to the Patent Law of the PRC (中華人民共和國專利法) (No.11 Order of the President of the PRC) (issued by the SCNPC on 12 March 1984, came into effect on 1 April 1985, and amended on 4 September 1992, 25 August 2000 and 27 December 2008) and Rules for the Implementation of the Patent Law of the PRC (《中華人民共和國專利法實施細則》) (Order No. 569 of the State Council) which was promulgated by the State Council on 15 June 2001 and amended on 28 December 2002 and 9 January 2010, the State Intellectual Property Office is responsible for managing patent work of the whole nation. The patent management departments of the people's governments of each province, autonomous region and municipality directly under the central government are responsible for the patent management in their respective administrative regions. Chinese patent system adopts the principle of "prior application", i.e. where two or more applicants file applications for patent for the identical invention or creation respectively, the patent right shall be granted to the applicant whose application was filed first. If one wishes to file application for patent for invention or utility models, the following three standards must be met: novelty, creativity and practicability. The validity period of a patent for invention is 20 years, while the validity period of utility models and design is 10 years. Others may use the patent after obtaining the permit or proper authorisation of the patent holder, otherwise such behaviour will constitute an infringing act of the patent right.

The Copyright Law of the PRC (中華人民共和國著作權法) (No.31 Order of the President) (issued by the SCNPC on 7 September 1990, came into effect on 1 June 1991 and amended on 27 October 2001 and 26 February 2010) and Rules for the Implementation of the Copyright Law of the PRC (《中華人民共和國著作權法實施細則》) (Order No. 633 of the State Council) which was promulgated by the State Council on 2 August 2002 and amended on 30 January 2013, specifies that works of Chinese citizens, legal persons or other organisations, including literature, art, natural sciences, social sciences, engineering technologies and computer software created in writing or oral or other forms, whether published or not, all enjoy the copyright. Copyright holder can enjoy multiple rights, including the right of publication, the right of authorship and the right of reproduction.

The Measures for the Registration of Computer Software Copyright (《計算機軟件著作權登記辦法》) (No.1 Order of the National Copyright Administration), which was issued by the National Copyright Administration on 20 February 2002 and came into effect on the same day, regulates the registration of software copyright, the exclusive licencing contract and transfer contracts of software copyright. The National Copyright Administration is mainly responsible for the registration and management of national software copyright and recognises the PRC Copyright Protection Centre as the software registration organisation. The PRC Copyright Protection Centre will grant certificates of registration to computer software copyright applicants in compliance with the regulations of the Measures for the Registration of Computer Software Copyright and the Regulations on Protection of Computers Software (計算機軟件保護條例) (No.339 Order of the State Council) (issued by the State Council on 20 December 2001, came into effect on 1 January 2002 and revised on 8 January 2011 and 30 January 2013).

According to the Administrative Measures for Internet Domain Names (互聯網域名管理辦法) (No.43 Order of the Ministry of Industry and Information Technology), which was issued by the Ministry of Industry and Information Technology on 24 August 2017 and came into effect on 1 November 2017, the Ministry of Industry and Information Technology is responsible for managing Internet network domain names of PRC. The ". CN" and the ".zhongguo (in Chinese character)" shall be China's national top level domains. The principle of "first-to-file" is adopted for domain name services. The applicant of domain name registration shall provide the agency of domain name registration with the true, accurate and complete information about the domain name holder's identity for the registration purpose, and sign the registration agreements. Upon the completion of the registration process, the applicant will become the holder of the relevant domain name.

HISTORY

The Target Group's history can be traced back to 1985, initially to provide complementary property management support to Zhuhai Huafa Group, which has a leading position in the property development market in Zhuhai and with footprint all over the PRC. Benefiting from Zhuhai Huafa Group's industry experience and rapid business growth, the Target Group has expanded its geographic coverage from its initial footprint in Zhuhai to other regions across the PRC. As of 31 December 2018, the Target Group manages a portfolio of properties covering 16 cities across 9 provinces, municipalities and autonomous regions in the PRC, with a total contracted GFA of approximately 21.3 million sq.m.

The Target Group's property management services business for residential communities, which include the provision of security, cleaning, greening, gardening and repair and maintenance services primarily, is its main business segment. To complement its property management services, the Target Group also provides support services for municipal projects property developers and value-added services to property owners.

BUSINESS DEVELOPMENT MILESTONES

The Target Group has achieved the following key milestones:

Year	**Event**
1985	Huafa Property Management was established in the PRC as the first property management services company in Zhuhai and started providing property management services for Zhuhai Huafa Group.
2001	Huafa Elevator was established in the PRC and started providing elevator engineering services in Zhuhai.
2002	Huafa Property Management was accredited with ISO9001:2000 quality management system certification.
2004	Huafa Property Management established its Beijing branch office, marking its first business expansion across the PRC.
2013	Huafa MCS was established in the PRC and started providing municipal services in Zhuhai.

2018	Huafa Property Management completed the transfer of its quality standard from OHSAS18001 to ISO45001, and passed the national standard "commodity after-sales service evaluation system" GB/T27922-2011 and was accredited with five-star certification.
2019	Huafa Property Management was ranked 28th by the CIA among the Top 100 Property Management Companies in the PRC in terms of overall strength.
	Huafa Property Management was awarded the title of "2019 China Property Service Top 100 Leading Companies in Customer Satisfaction.

TARGET COMPANY

The Target Company was incorporated in Hong Kong as a private company on 6 March 2000 under the then Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the "**Companies Ordinance**") and is an investment holding company with no business operation.

As at the date of its establishment, the authorised share capital of the Target Company was HK$10,000 divided into 10,000 shares of HK$1 each and 1 shares of HK$1 each were allotted and issued to the two initial subscribers of the Target Company, Pioneer Nominees Limited and Pioneer Consultants Limited, respectively.

The following alterations in the share capital of the Target Company have taken place since its date of incorporation up to the Latest Practicable Date:

(a) on 9 February 2001, the Target Company issued and allotted 8 Sale Shares to Invader International Ltd in consideration of HK$8.00; and

(b) on 15 May 2019, the Target Company issued and allotted 93,000,000 Sale Shares to HK Huafa in consideration of HK$93 million.

Pursuant to the Companies Ordinance, with effect from 3 March 2014, companies incorporated in Hong Kong no longer have an authorised share capital and there is no longer the concept of par value in respect of issued shares.

PRINCIPAL SUBSIDIARIES

Beijing Jiujun

Beijing Jiujun is a limited liability company incorporated in Beijing on 17 January 2002 with an initial registered capital of US$11.2 million. Since establishment, Beijing Jiujun has been a wholly own subsidiary of the Target Company.

Beijing Jiujun had engaged in property leasing business and ceased all its business operation immediately before the Reorganisation. As at Latest Practicable Date, Beijing Jiujun is a dormant company with no business operation.

Huafa Property Management

Huafa Property Management (formerly known as Zhuhai Special Economic Zone Development Company Property Management Company* (珠海經濟特區發展公司房產物業管理公司)) is a limited liability company incorporated in Zhuhai on 2 September 1985 with an initial registered capital of RMB300,000. As of the date of establishment, Huafa Property Management was owned as to 100% by Guangdong Zhuhai Special Economic Zone Development Co., Ltd.* (廣東省珠海經濟特區發展有限公司).

On 23 June 1989, Huafa Property Management increased its registered capital from RMB300,000 to RMB500,000 and the its sole shareholder was changed to Zhuhai Special Economic Zone Development Company Huafa Group Company* (珠海經濟特區發展公司華發集團公司), which later changed its name to Zhuhai Huafa in 2008.

Subsequent to multiple transfers of equity interests from 1993 to 2016, Huafa Property Management became a wholly-owned subsidiary of Zhuhai Huafa Modern Service on 28 December 2016 and Huafa Property Management increased its registered capital from RMB500,000 in 1993 to RMB50,000,000 on 27 February 2019.

Furthermore, on 31 May 2019, Huafa Property Management became a wholly-owned subsidiary of Beijing Jiujun after the Reorganisation. For details, please refer to the sub-section headed “REORGANISATION” in this section.

* *for identification purpose only*

Huafa Elevator

Huafa Elevator (formerly known as Zhuhai Huafa Elevator Engineering Co., Ltd. (珠海華發樓宇電梯工程有限公司)) is a limited liability company incorporated in Zhuhai on 12 December 2001 with an initial registered capital of RMB2,000,000 and was owned as to 75% by Huafa Property Management, and 25% by Zhuhai Huafa Modern. The registered capital of Huafa Elevator increased from RMB2,000,000 to RMB5,000,000 on 6 September 2016.

On 26 June 2019, Huafa Elevator became a wholly-owned subsidiary of Huafa Property Management after the Reorganisation. For details, please refer to the sub-section headed "REORGANISATION" in this section.

Huafa MCS

Huafa MCS ((formerly known as Zhuhai Henghua Municipal Comprehensive Services Co., Ltd (珠海橫華城市政綜合服務有限公司)) is a limited liability company incorporated in Zhuhai on 2 May 2013 with an initial registered capital of RMB10,010,000. Since the date of establishment, Huafa MCS has been wholly-owned by Huafa Property Management.

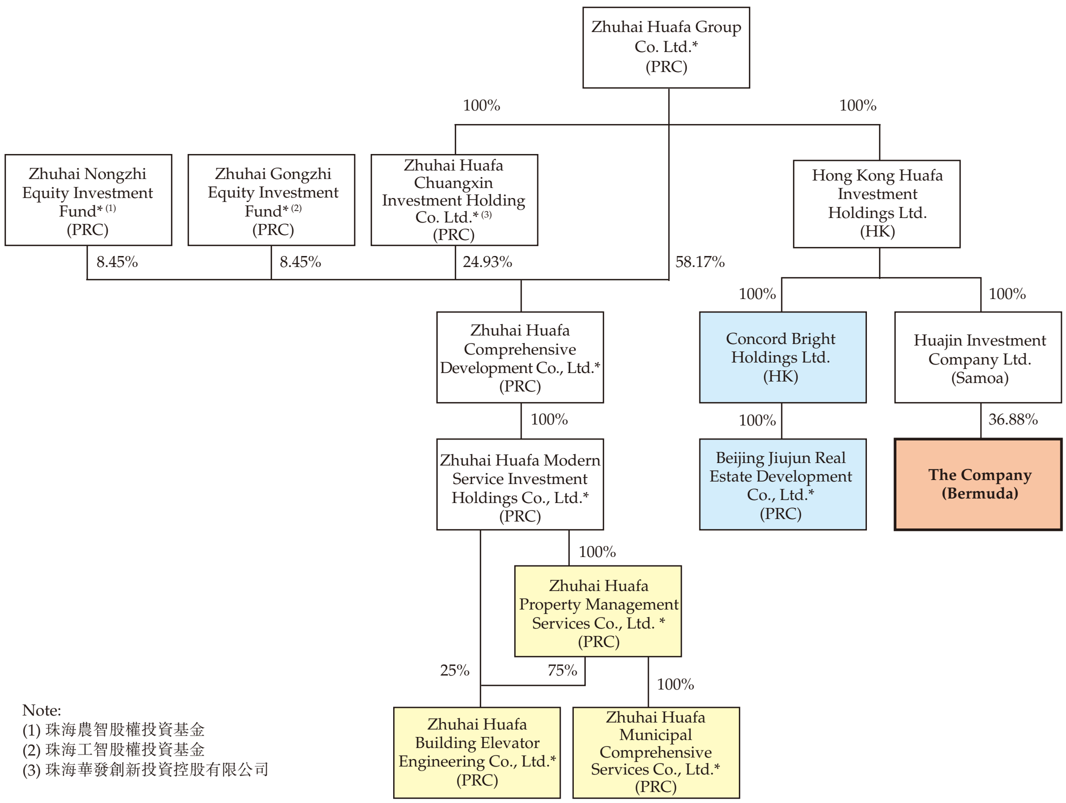
Huafa JLL

Huafa Property Management and Beijing Jones Lang LaSalle Property Management Services Co., Ltd.* (北京仲量聯行物業管理服務有限公司), entered into a shareholders' agreement on 16 August 2019 in relation to the formation of Huafa JLL. Huafa JLL is held as to 60% and 40% by Huafa Property Management and Beijing Jones Lang LaSalle Property Management Services Co., Ltd. respectively, representing their cash contributions paid for the registered capital of Huafa JLL of RMB0.5 million. The scope of business of Huafa JLL shall be the provision of comprehensive property management operational services for Zhuhai Huafa Group's projects. As of the date of this circular, Huafa JLL does not have any business operations.

* *for identification purpose only*

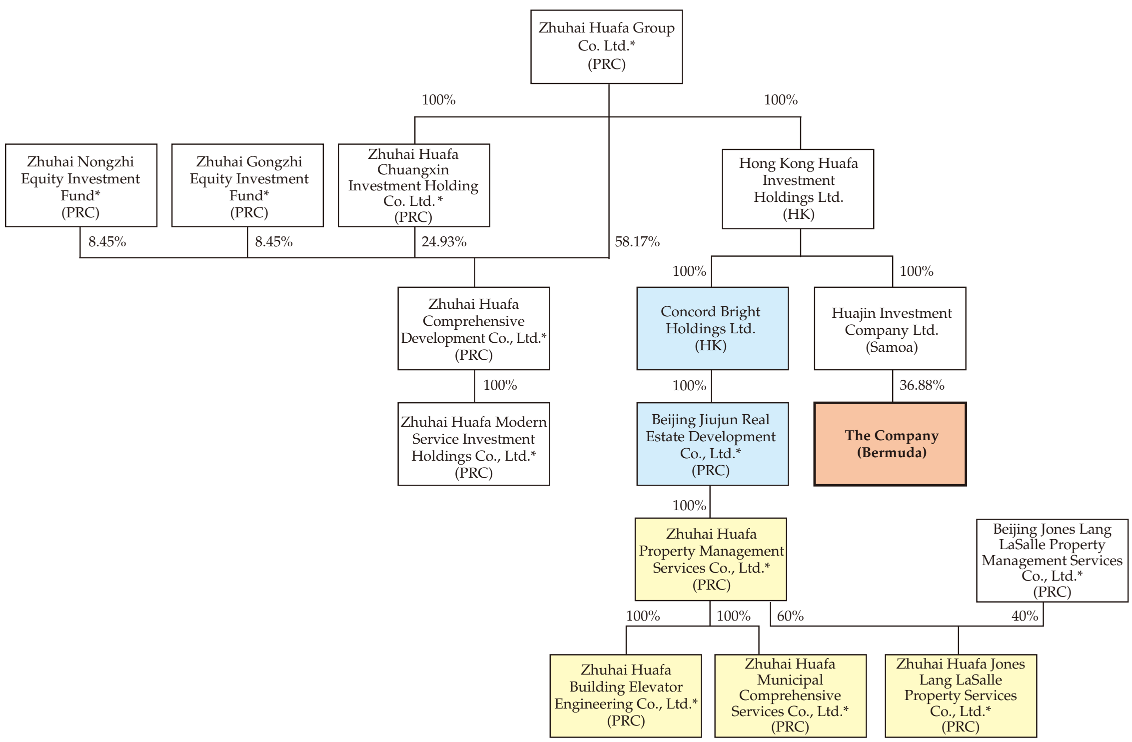
REORGANISATION

To facilitate the Acquisition, the Reorganisation in relation to Huafa Property Management Group has been implemented. Set out below the organisation chart of the Target Group before the Reorganisation.

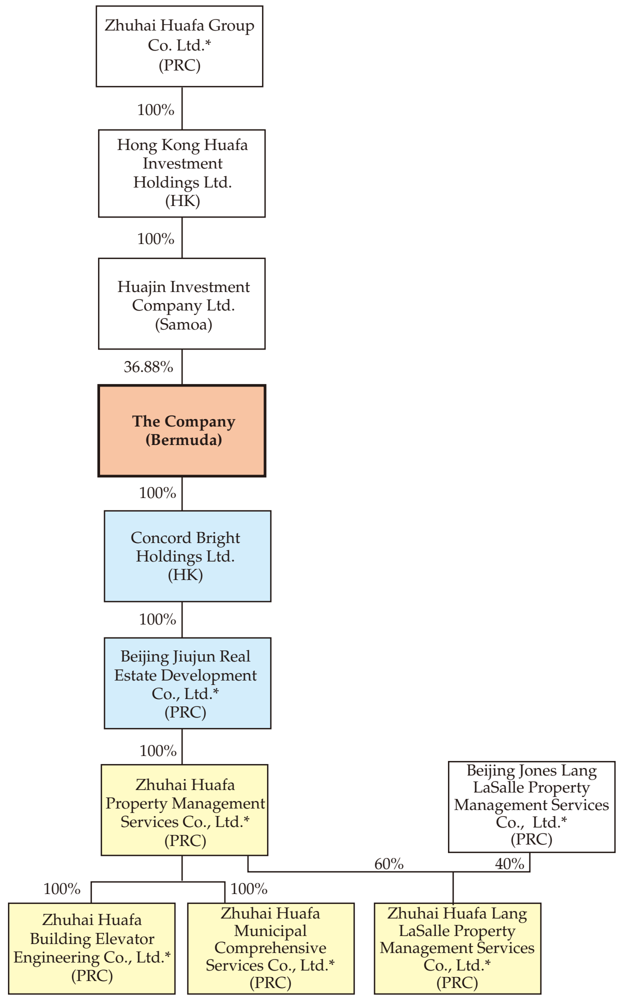


Concord Bright is a limited liability company incorporated in Hong Kong on 6 March 2000. Both Concord Bright and Beijing Jiujun are investment holding companies with no business operation at the time of the Reorganisation.

The Reorganisation has been completed on 26 June 2019, and Huafa Property Management became a wholly-owned subsidiary of Beijing Jiujun and Huafa Elevator became a wholly-owned subsidiary of Huafa Property Management after the Reorganisation. In addition, Huafa JLL was established on 2 September 2019 and is held as to 60% and 40% by Huafa Property Management and Beijing Jones Lang LaSalle Property Management Services Co., Ltd.* (北京仲量聯行物業管理服務有限公司), respectively. Set out below is the organisation chart of the Target Group as at the Latest Practicable Date.



After the Completion, Concord Bright will become a wholly-owned subsidiary of the Company. Set out below is the organisation chart of the Target Group upon the Completion.



SUMMARY

Headquartered in Zhuhai, Guangdong Province, Huafa Property Management Group is a leading regional residential property management service provider in the PRC, ranking twenty-eighth by CIA in 2019 among the Top 100 Property Management Companies in the PRC in terms of overall strength. Huafa Property Management Group has been providing property management services in the PRC for more than 30 years and manages a portfolio of properties covering 16 cities across 9 provinces, municipalities and autonomous regions in the PRC, with a total contracted GFA of approximately 21.4 million sq.m. as at 30 June 2019. Huafa Property Management Group provided property management services and value-added services to 133 properties with an aggregate revenue-bearing GFA of approximately 12.7 million sq.m. and support services to two industrial parks in Zhuhai as at 30 June 2019.

The Target Group has three main business lines, namely, (i) property management services, (ii) value-added services to property owners, and (iii) other value-added services, which form an integrated service offering to its customers and cover the entire value chain of property management.

- Property management services: The Target Group provides a range of property management services to property owners and residents, as well as property developers, including, amongst others, security, cleaning, greening, gardening and repair and maintenance services, with a focus on residential communities. Its property management portfolio also covers non-residential properties, including office buildings, industrial parks, commercial centres, government and other public facilities (such as conference and exhibition centres, schools and hospitals).

- Value-added services to property owners: The Target Group provides property owners and residents at the properties managed by the Target Group with a wide array of community value-added services which mainly include: (i) home living services, such as housekeeping, repair and maintenance and other customised services; (ii) office building customised services, such as reception services, cleaning and repair and maintenance services; and (iii) common area value-added services, such as elevator maintenance, external wall and elevator advertising.

- Other value-added services: The Target Group provides (i) support services for municipal projects, such as maintenance, sanitation and cleaning, road and bridge maintenance, and street lamp maintenance; (ii) cleaning, greening, repair and maintenance services to property developers at the pre-delivery stage; and (iii) consultancy services to property developers for the management of their pre-sale activities, as well as consultancy services for properties managed by other property management companies.

The property management services business of the Target Group serves as the basis to generate revenue and expand its business scale, and will provide an increasing customer base for its value-added services to property owners and residents. The value-added services business of the Target Group, by offering a full range of diversified and customised services to property owners and residents, helps increase its engagement level with customers and improve their satisfaction and loyalty, while the other value-added services of the Target Group help it gain early access to property development projects and establish and cultivate business relationships with property developers and governmental institutions, putting the Target Group in a better and stronger position to secure engagements for property management services at the post-delivery and post-completion stages.

The combination of such three business models leads to a greater market acceptance of the brand and services of the Target Group, and presents new business opportunities for the Target Group to diversify revenue streams and enhance the breadth and depth of its services along the value chain of property development and management.

The table below sets out the breakdown of the revenue of the Target Business by business segments during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Property management services	314,713	78	350,444	74	452,685	72	215,218	74	243,640	70
Value-added services to property owners	13,921	3	14,655	3	22,051	3	9,956	3	12,303	4
Other value-added services	75,322	19	108,061	23	155,382	25	65,453	23	92,329	26
Total revenue	**403,956**	**100**	**473,160**	**100**	**630,118**	**100**	**290,627**	**100**	**348,272**	**100**

COMPETITIVE STRENGTHS

According to CIA, the property management industry is fragmented and competitive in the PRC with increasing concentration in recent years. Industry players at different levels are showing increasing differentiation, and larger companies commanding higher growth. In particular, companies in the Top 100 Property Management Companies listed by CIA have experienced a rapid increase in the GFA and the number of projects under management, with their total market share in terms of GFA under management increased to 38.9% in 2018 as compared to 32.4% in 2017.

In 2019, the Target Group was ranked twenty-eighth by CIA among the Top 100 Property Management Companies in the PRC in terms of overall strength, and was awarded the title of "2019 China Property Service Top 100 Leading Companies in Customer Satisfaction" ("2019中國物業服務百強滿意度領先企業"). In addition, the Target Group's revenue and net profit per revenue-bearing GFA under management was approximately RMB52.1 per sq.m. and RMB4.74 per sq.m. in 2018, which were ranked 4 and 13 in the Top 30 Property Management Companies respectively and were both above industry average.

During the Track Record Period, the Target Group has achieved numerous awards for its projects under management: (i) 6 projects, including Huafa New City, were awarded the "National Property Management Showcase Project" (全國物業管理示範項目); (ii) 20 projects were awarded "Provincial Property Management Showcase Project" (省級物業管理示範項目); and (iii) 34 projects were awarded "City Property Management Showcase Project" (市級物業管理示範項目).

The Target Group has also streamlined and standardised its property management services, focusing particularly on key elements such as environmental management, occupational health and safety management, quality management and other services which involve significant customer interaction based on the ISO9001, ISO14001 and ISO45001 standards.

BUSINESS STRATEGIES

Further expanding the scale of property management business by deploying multiple channels

The Target Group will further reinforce its leadership in Zhuhai and establish its presence in the key areas of other regions, with an aim to attain larger business scale and market share for the Target Group by ramping up revenue-bearing GFA under management and the number of property management projects.

In terms of regional deployment, the Target Group will further strengthen its base in Zhuhai, the main source of its business revenue, and lay emphasis on "residential business as the core, expansion of commercial and office properties as well as public infrastructure projects, industrial parks and municipal projects" and "1+2" business when developing the target market. Service quality will also be boosted to further bolster the brand awareness and reputation of the Target Group in Zhuhai. Meanwhile, constant efforts will be made to explore a variety of business in Zhuhai as the pilot city and gradually expand such pilot practice across the country, developing the business in Zhuhai into a model for the Target Group to provide value-added services nationwide.

In other regions, the Target Group will continue to commit more efforts to work intensively in key cities based on the development strategy of continuous scale expansion, with roots in Zhuhai, foothold in the Pearl River Delta and expansion across China. Under continuous outward expansion, the Target Group will see its business cover cities such as Beijing, Shanghai, Guangzhou, Zhongshan, Jiangmen, Wuhan, Baotou, Dalian, Shenyang, Weihai, Nanjing, Wuxi and Suzhou, growing gradually into a national property management brand with first-class modern property management services.

In terms of service scope, the Target Group will leverage on the diversity of its existing business relations and coverage with Zhuhai Huafa Group to provide good resources and support for expanding the industrial chain of value-added property services, such as community finance, community commercial service and other community commercial services, while further developing smart communities of Target Group's property management business via technological resources.

Further enhancing professional competitive capabilities by growing strengths in specific business segments

In addition to traditional residential property service, the Target Company will continue to actively work on multiple types of operations with emphasis on commercial and municipal projects, enhancement of its edge in the above business segments and improvement of professional competitive capabilities.

In terms of commercial projects, the Target Group will continue to bid for commercial projects from Zhuhai Huafa Group and independent property developers and accumulate service experience to further enhance its brand name, bringing greater competitiveness on expanding commercial projects whilst enhancing service quality.

In terms of municipal projects, the Target Group is committed to exploring this area of service by continuously enhancing skills in professional services, so as to further enrich its sources of revenue. With the corporate mission of "Rest Assured with Our Service" (有我在，您放心), the Target Group will provide property owners with "Big Property, Great Butler" (大物業，大管家式) services on urban public supporting facilities, through professional techniques and consummate construction processes. Specific services include municipal road maintenance, garden greening and maintenance, street lamp maintenance, sanitation and cleaning. The Target Group also plans to tap into its existing experience to further expand the value-added services to municipal projects clients, with a view to better satisfying their demands in the entire property development value chain.

Actively promoting "standardisation + intelligence" and optimising corporate operation and control

Standardisation

By combining its business features and future strategic planning, the Target Group works to successively launch standardised work systems, continuously promote refined management concepts, implement specific work rules and further improve the management system to enhance work efficiency, thereby improving customer experience and brand image.

Intelligence

The Target Group regards "Technology+" strategy of Zhuhai Huafa Group as an opportunity to accelerate the development of information technology, further improve service quality and enhance business effectiveness. The Target Group manages, standardises and enhances its business in four aspects, namely "People, Tasks, Finance and Materials" and gradually executes technology application to refine its operation, strengthen quality management and create a robust enterprise reputation. On one hand, technology applications help property services companies to conduct refined daily property management through digital and intelligent methods and deliver comprehensive control on details, thus further elevating service quality. On the other hand, with deep integration of technology and property, diversified and convenient value-added services are constantly emerging, which can create a more comfortable and well-considered living environment for the owners with better living experience.

The Target Group believes that these professional measures will help to systematically raise the efficiency and quality of its property management services through progressive changes and iteration.

Optimising talent structure and enriching staff experience

Talent structure

The Target Group will further optimise its talent structure to lay a solid foundation for advancing its property service quality. The Target Group will further invest resources in recruiting, training and retaining talents of different positions and functions, and optimise the structure of high educational qualifications of its talents to ensure quality development of the Target Group.

Diversifying talent training approaches and comprehensively enhancing staff skills

The Target Group will continue to adhere to the "people-oriented" concepts and combine high-calibre talent introduction with internal training. While constantly introducing key talents in high-end management and strategic operation, it keeps launching incentive policies to improve the educational and professional qualifications of its staff. Specifically, a training system is in place for staff training that covers the process from staff induction to safety training to create a safe working environment for staffs. The Target Group plans to continue to expand its project manager training camp program for middle management personnel, with a number of methods to improve their site management and professional skills for multiple operation types, further enhance their awareness of service quality and cultivate more professional talents to manage multiple operation types and diversified project management for the Target Group.

PROPERTY MANAGEMENT SERVICES

The table below sets out the Target Group's (i) contracted GFA, (ii) revenue-bearing GFA, and (iii) number of properties managed for revenue-bearing GFA for property management services, as at the dates indicated:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	('000 sq.m.)	*('000 sq.m.)*	*('000 sq.m.)*	*('000 sq.m.)*
Contracted GFA	15,311	17,182	21,342	21,447
Revenue-bearing GFA	9,155	10,801	12,089	12,670
	Number	**Number**	**Number**	**Number**
Number of properties managed for revenue-bearing GFA				
– Residential properties	64	73	84	85
– Non-residential properties	28	34	46	48
	92	107	130	133

Types of Properties Managed

The table below sets out the breakdowns of the Target Business's (i) revenue generated from property management services and (ii) revenue-bearing GFA by property type, for the periods or as at the dates indicated:

	For the year ended/As at 31 December												For the six months ended/As at 30 June							
	2016				2017				2018				2018				2019			
	Revenue		Revenue-bearing GFA		Revenue		Revenue-bearing GFA		Revenue		Revenue-bearing GFA		Revenue		Revenue-bearing GFA		Revenue		Revenue-bearing GFA	
	RMB'000	%	*'000 sq.m.*	%	*RMB'000*	%	*'000 sq.m.*	%	*RMB'000*	%	*'000 sq.m.*	%	*RMB'000*	%	*'000 sq.m.*	%	*RMB'000*	%	*'000 sq.m.*	%
Residential communities	215,347	68%	7,569	83%	250,745	72%	9,064	84%	322,379	71%	9,935	82%	153,340	71%	9,795	82%	183,320	75%	10,269	81%
Non- residential properties	99,366	32%	1,586	17%	99,699	28%	1,737	16%	130,306	29%	2,154	18%	61,878	29%	2,135	18%	60,320	25%	2,401	19%
Total	314,713	100%	9,155	100%	350,444	100%	10,801	100%	452,685	100%	12,089	100%	215,218	100%	11,930	100%	243,640	100%	12,670	100%

Nature of the Property Developers

During the Track Record Period, the properties under the management by the Target Business were developed principally by Zhuhai Huafa Group while the rest were developed by independent property developers. The table below sets out the breakdowns of (i) its revenue-bearing GFA, and (ii) its revenue generated from the management of properties developed by Zhuhai Huafa Group and independent property developers, respectively, for the periods or as at the dates indicated:

	For the year ended/As at 31 December												For the six months ended/As at 30 June							
	2016				2017				2018				2018				2019			
	Revenue		Revenue-bearing GFA		Revenue		Revenue-bearing GFA		Revenue		Revenue-bearing GFA		Revenue		Revenue-bearing GFA		Revenue		Revenue-bearing GFA	
	RMB'000	%	*'000 sq.m.*	%	*RMB'000*	%	*'000 sq.m.*	%	*RMB'000*	%	*'000 sq.m.*	%	*RMB'000*	%	*'000 sq.m.*	%	*RMB'000*	%	*'000 sq.m.*	%
Properties developed by Zhuhai Huafa Group	276,874	88%	8,302	91%	301,646	86%	9,742	90%	381,793	84%	10,718	89%	181,880	85%	10,578	89%	207,306	85%	11,257	89%
Properties developed by independent property developers	37,839	12%	853	9%	48,798	14%	1,059	10%	70,892	16%	1,371	11%	33,338	15%	1,352	11%	36,334	15%	1,413	11%
Total	314,713	100%	9,155	100%	350,444	100%	10,801	100%	452,685	100%	12,089	100%	215,218	100%	11,930	100%	243,640	100%	12,670	100%

The following tables set out the further breakdowns of (i) revenue-bearing GFA and number of properties managed from property management services, and (ii) revenue generated from property management services by source of projects and stage of projects as at the dates indicated:

	As at 31 December									As at 30 June		
	2016			2017			2018			2019		
	Revenue-bearing GFA		Number of properties	Revenue-bearing GFA		Number of properties	Revenue-bearing GFA		Number of properties	Revenue-bearing GFA		Number of properties
	'000 sq.m.	%		*'000 sq.m.*	%		*'000 sq.m.*	%		*'000 sq.m.*	%	
Properties developed by Zhuhai Huafa Group												
– Preliminary stage for residential properties	5,726	63%	45	7,162	66%	53	6,818	56%	58	7,152	56%	58
– Property owners' association stage for residential properties	1,225	13%	9	1,225	11%	9	2,279	19%	15	2,279	19%	15
– Non-residential properties	1,351	15%	17	1,355	13%	19	1,621	14%	24	1,826	14%	24
Subtotal	**8,302**	**91%**	**71**	**9,742**	**90%**	**81**	**10,718**	**89%**	**97**	**11,257**	**89%**	**97**
Properties developed by independent developers												
– Preliminary stage for residential properties	231	3%	5	290	2%	6	329	3%	5	329	3%	6
– Property owners' association stage for residential properties	386	3%	5	386	4%	5	509	4%	6	509	4%	6
– Non-residential properties	236	3%	11	383	4%	15	533	4%	22	575	4%	24
Subtotal	**853**	**9%**	**21**	**1,059**	**10%**	**26**	**1,371**	**11%**	**33**	**1,413**	**11%**	**36**
Total	**9,155**		**92**	**10,801**		**107**	**12,089**		**130**	**12,670**		**133**

	For the year ended 31 December						For the six months ended 30 June			
	2016		**2017**		**2018**		**2018**		**2019**	
	Revenue *RMB'000*	%	**Revenue** *RMB'000*	%	**Revenue** *RMB'000*	%	**Revenue** *RMB'000*	%	**Revenue** *RMB'000*	%
Properties developed by Zhuhai Huafa Group										
– Preliminary stage for residential properties										
– before properties are delivered to owners	11,063	3%	7,746	2%	20,829	4%	9,034	4%	9,634	4%
– after properties are delivered to owners	140,370	45%	177,052	51%	180,174	40%	84,474	40%	110,020	45%
	151,433	48%	184,798	53%	201,003	44%	93,778	44%	119,654	49%
– Property owners' association stage for residential properties	47,890	15%	47,647	14%	97,510	22%	48,359	22%	50,318	21%
– Non-residential properties	77,551	25%	69,201	19%	83,280	18%	39,743	19%	37,334	15%
Subtotal	**276,874**	**88%**	**301,646**	**86%**	**381,793**	**84%**	**181,880**	**85%**	**207,306**	**85%**
Properties developed by independent developers										
– Preliminary stage for residential properties	6,804	2%	8,889	2%	8,932	2%	6,089	3%	5,332	2%
– Property owners' association stage for residential properties	9,220	3%	9,411	3%	14,934	3%	5,114	2%	8,016	3%
– Non-residential properties	21,815	7%	30,498	9%	47,026	11%	22,135	10%	22,986	10%
Subtotal	**37,839**	**12%**	**48,798**	**14%**	**70,892**	**16%**	**33,338**	**15%**	**36,334**	**15%**
Total	**314,713**		**350,444**		**452,685**		**215,218**		**243,640**	

The Target Group has established a business development department in 2014, and subsequently upgraded it to business development centre in 2018, with a focus of (i) development and enhancement of its business development system; (ii) provision of guidance and support to business development activities of regional companies; (iii) conducting industry and market research to provide support to the Target Group's strategic development; and (iv) maintaining customer relationship.

The Target Group is a leading regional residential property management service provider headquartered in Zhuhai, ranking twenty-eighth by CIA in 2019 among the Top 100 Property Management Companies in the PRC in terms of overall strength. The Target Group commanded strong brand recognition in securing property management service engagements, especially in relation to property development projects in Zhuhai. Zhuhai Huafa Group, on the other hand, is also headquartered in Zhuhai and holds a leading position in the property development market in Zhuhai with footprint all over the PRC.

According to CIA, projects developed by a sister company remain a key source of projects for Top 100 Properties Management Companies to expand their business scales and secure their project pipelines. A majority of the Top 100 Property Management Companies in the PRC have their parent companies or controlling shareholders engaging in property development business. Out of the 220 companies comprising the Top 100 Property Management Companies for 2018, 167, or approximately 76%, of them manage properties developed by property developers which were their related parties ("**Selected Top 100 Property Management Companies**"). In 2018, all 167 of the Selected Top 100 Property Management Services Companies have approximately 50% of their revenue-bearing GFA from properties developed by their respective related parties. Furthermore, 80 of the Selected Top 100 Property Management Services Companies have more than 80% of their revenue-bearing GFA from properties developed by their respective related parties, while 60 of the Selected Top 100 Property Management Services Companies have more than 90% of their revenue-bearing GFA from properties developed by their respective related parties. As at 31 December 2016, 2017 and 2018, and 30 June 2019, approximately 91%, 84%, 89% and 89% of the revenue-bearing GFA were of properties developed by Zhuhai Huafa Group, respectively.

In FY2016, FY2017, FY2018 and 1H2019, Zhuhai Huafa Group solicited bids for 7, 10, 17 and 9 property development projects respectively and the Target Group has tendered for and signed property management contracts with all of them.

In addition to the properties developed by Zhuhai Huafa Group, the Target Group has also managed properties developed by independent property developers during the Track Record Period. By leveraging on the Target Group's increasing market penetration in existing geographic markets, its industry ranking and brand recognition as discussed above, the high customer satisfaction rate, reputable credentials, capital resources, diverse property portfolio under management, and wide service offerings, the Target Group's revenue-bearing GFA for properties developed by independent property developers had recorded significant growth of approximately 24.2% from 2016 to 2017 and approximately 29.5% from 2017 to 2018, while revenue from property management services of properties by independent property developers had increased by approximately 29.0% from 2016 to 2017 and approximately 45.3% from 2017 to 2018. In particular, as at 30 June 2019, the Target Group's revenue-bearing GFA for properties developed by independent property developers was approximately 1,413,000 sq.m., representing an increase of approximately 3.1% as compared to approximately 1,371,000 sq.m. as at 31 December 2018.

The Target Group's efforts to increase its property management portfolio for properties developed by independent property developers can also be seen by its increased bidding efforts for properties developed by independent property developers and demonstrated high success rates during the Track Record Period. The table below sets out the number of tenders submitted by the Target Group for new property projects developed by independent property developers, the number of tenders won and the success rate during the Track Record Period:

	FY2016	FY2017	FY2018	1H2019
Number of tenders submitted by the Target Group for properties developed by independent property developers	2	3	8	6
Number of tenders won	2	3	6	5
Success rate (%)	100%	100%	75%	83%

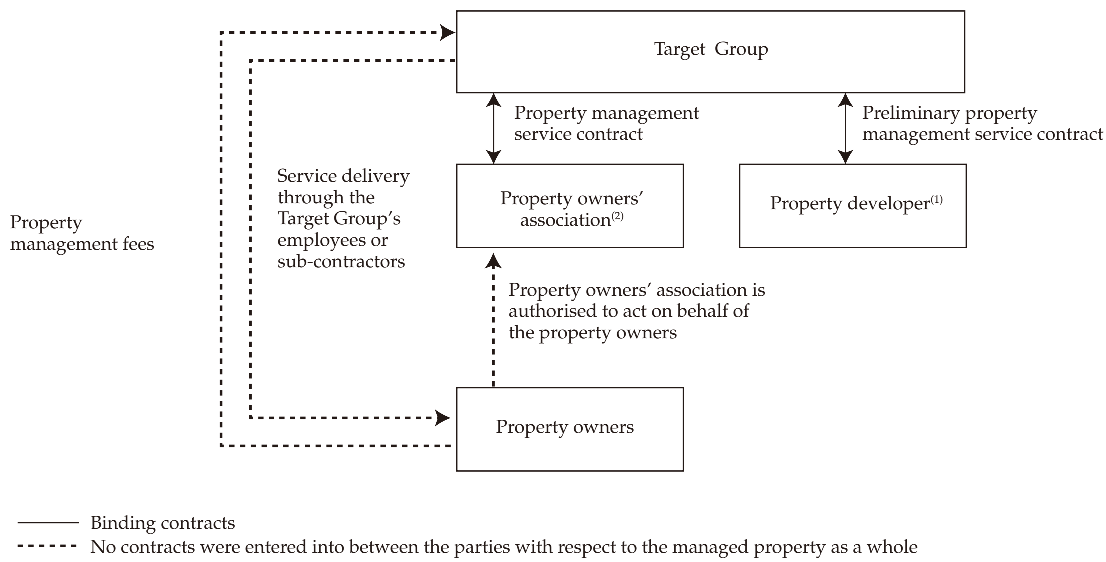
For 1H2019, the Target Group submitted tenders for 6 new projects developed by independent property developers and won 5 bids with a total contracted GFA of approximately 140,700 sq.m. Subsequently and up to the Latest Practicable Date, the Target Group has identified 7 potential new projects developed by independent property developers and is currently in the process of preparing the tenders for such projects and has entered into agreements on 2 new projects.

The Target Group will continue to increase its marketing efforts to obtain more information regarding tender and bidding put up by independent property developers so as to increase engagements in the market and broaden its revenue source. The Target Group appointed Mr. Wang Yulun, who has more than 12 years of property management service business development, on 22 April 2019 as the general manager of business development centre. Please refer to Appendix IV to this circular for further details of Mr. Wang Yulun. Going forward, the Target Group plans to further increase the revenue-bearing GFA as well as the number of properties under its management by both actively participating in quality tenders, industry forums, commercial negotiations and arranging business visits to large scale third party developers and property owners' associations, who are target customers of the Target Group in addition to the Zhuhai Huafa Group. The Target Group further plans to locate quality property management projects in these regions, and to increase the headcount in the current business development team from 8 as at 30 June 2019 to 40 in 2020, who will be responsible for (a) promoting its service offerings to third party developers and property owners' associations; and (b) seeking quality tenders for the Target Group to participate in. Furthermore, the Target Group plans to implement various incentive measures to encourage its employees to obtain property management contracts developed by third-party developers through investigation and analysis of and communication with target customers in the real estate industry and taking advantage of its resources, including its brands, capital and expertise.

Property Management Service Contracts

For the provision of property management services, the Target Group generally enters into (i) preliminary property management service contracts with property developers, or (ii) property management service contracts with property owners' associations on behalf of the property owners (please refer to the section headed "3. Regulatory Overview – Laws and regulations relating to property management service and other related services" in this appendix).

The diagram below illustrates the Target's Group's relationships with various contracting parties under the Target Group's property management service contracts:



Notes:

(1) Property developer enters into preliminary property management service contract with the Target Group. Such contracts are legally binding on future property owners in accordance with PRC laws until terminated by the property owners' association on behalf of property owners.

(2) Property owners' association enters into property management service contract on behalf of property owners with the Target Group and such contracts are legally binding on all property owners in accordance with PRC laws.

The table below sets out the breakdown of the Target Business's expiration schedule of property management service contracts for properties under its management as at 30 June 2019:

Expiration schedule of property management service contracts

	Revenue-bearing GFA		Number of Contracts	
	'000 sq.m.	%		%
Property management service contracts without fixed term(1)	9,372	74.0	72	54.1
Property management service contracts under which the Target Group provided services beyond contract expiration(2)	140	1.1	3	2.3
Property management service contracts with fixed terms expiring in				
Year ending 31 December 2019	180	1.4	8	6.0
Year ending 31 December 2020	1,954	15.4	33	24.8
Year ending 31 December 2021 and beyond	1,024	8.1	17	12.8
Subtotal	3,158	24.9	58	43.6
Total	12,670	100.0	133	100.0

Note:

(1) A property management service contract without fixed term primarily refers to a preliminary property management service contract entered into with the property developer which does not have a fixed term and will be terminated automatically when the property owners' association is formed and another property management service contract has been entered into. A considerable portion of the existing property management service contracts of the Target Group as at 30 June 2019 were preliminary property management service contracts entered into with property developers.

(2) The Target Group continued to provide services under these property management service contracts despite their contract terms being expired as at 30 June 2019. This was mainly because the relevant property owners' general meetings of such properties has yet to be convened to renew the property management service contracts or to select a replacing property management service provider. As advised by the PRC legal adviser, the Target Group is entitled to receive property management fees for the continued services which the Target Group provided for such property management service contracts beyond contract expiration.

The Target Group maintained a high retention rate for its property management services for residential properties. During the Track Record Period, there were a total of 5 residential projects managed by the Target Group where the respective property owners' association was formed, among which, 3 property owners' associations did not terminate the respective preliminary property management service contracts and continued to engage the Target Group as property management service provider; 2 property owners' associations entered into property management service contracts with the Target Group. The number of property management service contracts between the Target Group and property owners' associations which expired for each of the years ended 31 December 2016, 2017 and 2018 and the six months period ended 30 June 2019 were 1, 1, 1 and nil, respectively. All of such expired contracts have been successfully renewed.

PRICING AND REVENUE MODEL

Property management services

The Target Group generally prices its property management services based on factors including but not limited to (i) the types and locations of the properties, (ii) the scope and quality of the services provided, (iii) its budgeted expenses, (iv) its target profit margins, (v) profiles of the property owners and residents, (vi) the local government's guidance price on property management fees (where applicable), and (vii) the pricing of comparable properties in vicinity.

Revenue from providing services is recognised in the accounting period in which the services are rendered as the customer simultaneously receives and consumes the benefits provided by the Target Group.

For property management services, the Target Group charges property management fees primarily on a lump sum basis, with a very small portion on a commission basis.

- For lump sum basis, the Target Group records all the fees as revenue and all the expenses incurred in connection with providing the property management services as cost of services. The Target Group generally charges a pre-determined property management fee on a monthly basis which represents an "all-inclusive" fee for all of the property management services provided by the Target Group to the managed property. According to the property management service contracts, if the amount of property management fees the Target Group collects during the term of a contract is not sufficient to cover all the expenses incurred, the Target Group is not entitled to request property owners and residents or property developers to pay the shortfall.

- For its commission-based fees, the Target Group essentially acts as the agent of the property owners and therefore records only a pre-determined percentage of the property management fees or cost of services set out in the property management service contracts as revenue.

The Target Group generally charges property management fees on a monthly basis. Property management fees for residential properties are due for payment typically by the start of that month. Property management fees for non-residential properties are due for payment typically by the start of the next month in accordance with the contract terms. The Target Group generally does not have a specific credit term. The Target Group may charge late fines on overdue fees on a daily basis, generally at a rate of 0.01% to 0.03%. In FY2016, FY2017, FY2018, 1H2018 and 1H2019, the collection rates of property management fees, calculated by dividing the property management fees received by the total property management fees receivables for the same periods, were approximately 91%, 92%, 95%, 78% and 77%, respectively. The collection rates for 1H2018 and 1H2019 were lower compared to those in FY2016 to FY2018 as the Target Company generally focuses its collection efforts in the second half of the year.

The table below sets out the breakdowns of the Target Business's (i) revenue from property management services and (ii) revenue-bearing GFA by revenue model for the years or as at the dates indicated:

	For the year ended/ As at 31 December												For the six months ended/As at 30 June							
	2016				2017				2018				2018				2019			
	Revenue		Revenue-bearing GFA		Revenue		Revenue-bearing GFA		Revenue		Revenue-bearing GFA		Revenue		Revenue-bearing GFA		Revenue		Revenue-bearing GFA	
	RMB'000	%	*'000 sq.m*	%	*RMB'000*	%	*'000 sq.m*	%	*RMB'000*	%	*'000 sq.m*	%	*RMB'000*	%	*'000 sq.m*	%	*RMB'000*	%	*'000 sq.m*	%
lump sum basis	312,079	99.2%	9,129	99.7%	348,518	99.5%	10,775	99.8%	446,940	98.7%	11,902	98.5%	211,467	98.3%	11,742	98.4%	242,879	99.7%	12,644	99.8%
commission basis	2,634	0.8%	26	0.3%	1,926	0.5%	26	0.2%	5,745	1.3%	187	1.5%	3,751	1.7%	188	1.6%	761	0.3%	26	0.2%
Total	314,713	100%	9,155	100%	350,444	100%	10,801	100%	452,685	100%	12,089	100%	215,218	100%	11,930	100%	243,640	100%	12,670	100%

Value-added services to property owners

For value-added service to property owners, the Target Group charges a pre-negotiated fixed amount for each type of services provided on a per-transaction basis, and the amount charged is usually comparable for properties in the same geographic region.

Other value-added services

For support services for municipal projects, the Target Group charges a fee on a per-transaction basis. According to the PRC rules and regulations, local government institutions are required to select service providers and enter into service contracts through a tender and bidding process.

For other value-added services to property developers, the Target Group charges a pre-determined fee on a per-transaction basis. The Target Group determines the fee amount charged based on an estimation of the expenses incurred in performing such services by taking into account the headcounts and positions of the staff to be employed and the size, location and positioning of the properties.

CUSTOMERS AND SUPPLIERS

The Target Business has a large, growing and loyal customer base primarily comprising of (i) property owners and residents for its property management services and value-added services; (ii) property developers for its property management services and other value-added services; and (iii) local governmental institutions for municipal support services. The five largest customers of the Target Business, which were mostly property developers and local governmental institutions, contributed to approximately 43.1%, 45.1%, 49.6% and 44.6% of the total revenue for FY2016, FY2017, FY2018 and 1H2019, respectively. During the same periods, revenue from Zhuhai Huafa Group, the Target Business's single largest customer, accounted for approximately 34.1%, 34.2%, 38.1% and 34.3%, respectively, of the Target Business's total revenue. As at the Latest Practicable Date, none of the Target Group's directors, their close associates or any its shareholders which, to the knowledge of the Target Group's directors, owns more than 5% of the number of issued shares of the Target Group, had any interest in any of the Target Group's five largest customers, other than Zhuhai Huafa Group, during the Track Record Period.

The following tables set out certain details of the Target Business's five largest customers for the Track Record Period:

For the year ended 31 December 2016

Rank	Name of the customer	Customer Type	Length of business relationship with the Target Business	Types of services provided by the Target Business	Revenue	Percentage of total revenue
					(RMB'000)	*(%)*
1	Customer A (Zhuhai Huafa Group)	Property Developer and Property Owner	35 years	Property management services and other value-added services to property owners	137,600	34.1%
2	Customer B	Public Institution	7 years	Other value-added services (Municipal support services)	20,058	5.0%
3	Customer C	Government Institution	17 years	Property management services	11,030	2.7%
4	Customer D	Government Institution	7 years	Other value-added services (Municipal support services)	2,662	0.7%
5	Customer E	Property Owner	10 years	Property management services	2,380	0.6%
						43.1%

For the year ended 31 December 2017

Rank	Name of the customer	Customer Type	Length of business relationship with the Target Business	Types of services provided by the Target Business	Revenue	Percentage of total revenue
					(RMB'000)	*(%)*
1	Customer A (Zhuhai Huafa Group)	Property Developer and Property Owner	35 years	Property management services and other value-added services to property owners	162,021	34.2%
2	Customer B	Public Institution	7 years	Other value-added services (Municipal support services)	29,781	6.3%
3	Customer C	Government Institution	17 years	Property management services	13,711	2.9%
4	Customer F	Property Owner	2 years	Property management services	5,788	1.2%
5	Customer E	Property Owner	10 years	Property management services	2,356	0.5%
						45.1%

For the year ended 31 December 2018

Rank	Name of the customer	Customer Type	Length of business relationship with the Target Business	Types of services provided by the Target Business	Revenue *(RMB'000)*	Percentage of total revenue *(%)*
1	Customer A (Zhuhai Huafa Group)	Property Developer and Property Owner	35 years	Property management services and other value-added services to property owners	240,078	38.1%
2	Customer B	Public Institution	7 years	Other value-added services (Municipal support services)	44,160	7.0%
3	Customer C	Government Institution	17 years	Property management services	13,637	2.2%
4	Customer G	Public Institution	1 year	Property management services	9,047	1.4%
5	Customer H	Property Developer	5 years	Property management services	5,768	0.9%
						49.6%

For the six months ended 30 June 2019

Rank	Name of the customer	Customer Type	Length of business relationship with the Target Business	Types of services provided by the Target Business	Revenue *(RMB'000)*	Percentage of total revenue *(%)*
1	Customer A (Zhuhai Huafa Group)	Property Developer and Property Owner	35 years	Property management services and other value-added services to property owners	119,332	34.3%
2	Customer B	Public Institution	7 years	Other value-added services (Municipal support services)	12,844	3.7%
3	Customer I	Government Institution	1 year	Other value-added services (Municipal support services)	12,694	3.6%
4	Customer C	Government Institution	17 years	Property management services	7,412	2.1%
5	Customer G	Public Institution	1 year	Property management services	3,066	0.9%
						44.6%

The Target Business has a large number of suppliers primarily consisting of (i) service providers and vendors of materials needed for its daily operations; and (ii) utility providers. Purchase from its five largest suppliers accounted for approximately 4.3%, 2.6%, 6.2% and 4.3% of its total cost of sales for FY2016, FY2017, FY2018 and 1H2019, respectively. As at the Latest Practicable Date, none of the Target Group's directors, their close associates or any its shareholders which, to the knowledge of the Target Group's directors, owns more than 5% of the number of issued shares of the Target Group, had any interest in any of the Target Group's five largest suppliers, other than Zhuhai Huafa Group, during the Track Record Period.

SALES AND MARKETING

The Target Group's sales and marketing team is primarily responsible for planning and developing its overall marketing strategy, conducting market research, coordinating its sales and marketing activities to acquire new customers and maintaining and strengthening its relationships with existing customers. The Target Group's headquarter manages its overall sales and marketing strategies, while its regional branches oversee the implementation of its sales and marketing activities within their respective regions.

The Target Group has taken sales and marketing measures that are tailored to the characteristics of the following categories of customers:

- *Property owners and residents*. The Target Group intends to continue improving its property management service quality to obtain more recommendations and referrals by its existing property owners and residents customers, which the Target Group believes is an effective and cost-efficient way to promote its business. The Target Group believes its property management services also helps it obtain new engagements for its value-added services by providing property owners and residents of its managed properties with the benefit of accessing a wide range of services addressing their life-style and everyday needs.

- *Property developers*. In addition to maintaining a long-term and stable business relationship with Zhuhai Huafa Group, the Target Group will endeavor to expand its collaboration with independent third party property developers by providing customised, diversified and quality services. The Target Group has implemented various incentive measures to encourage its employees to obtain property management contracts of properties developed by third-party developers through investigation and analysis of and communication with target customers in the real estate industry by taking advantage of its resources, including its brands, capital and expertise.

COMPETITION

The property management industry in the PRC is highly competitive and fragmented with numerous market participants. The Target Group's major competitors include large national, regional and local residential property management companies, some of which may have longer track records and greater financial and other resources, greater brand recognition and greater economies of scale than the Target Group. The Target Group competes with its major competitors in relation to a number of factors, including primarily scale, brand recognition, financial resources, price and service quality.

For more details about the industry and markets that the Target Group operates in, please refer to the section headed "2. Industry Overview" in this appendix.

QUALITY CONTROL

The Target Group has a proven track record in prioritising quality in its services, and it believes quality control is crucial to the long-term success of its business. As at 30 June 2019, the Target Group had a dedicated quality control team consisting of 22 members, who primarily focused on, among other things, strengthening and continuously improving service standards, standardising service procedures, participating in the selection of suppliers and supervising quality of the Target Group and its suppliers' services at the corporate level, and improving customer satisfaction. The quality control team also monitors and reviews the Target Group's fire safety, electricity and access control at its managed properties.

The Target Group has obtained ISO9001, ISO14001 and ISO45001 certification in recognition of its service quality. The ISO9001 is an international standard for quality management services standards is designed to help organisations to comply with the needs of customers and regulatory requirements relating to a product or service. ISO14001 is a family of standards that provides practical tools to help organisations to set up effective environmental management for their environmental responsibilities. In contrast, ISO45001 is an international occupational health and safety management system specification strives to ensure safety in the workplace by risk reduction and legal compliance.

For the Target Group's sub-contractors, the Target Group typically includes in the agreements with sub-contractors detailed quality standards for the services to be provided. The Target Group has put in place a system to regularly monitor and evaluate the performance of the sub-contractors and may require the sub-contractors to take necessary rectification measures when their services do not meet the agreed standards. The Target Group may also conduct surveys among property owners and residents regarding the quality of services provided by the sub-contractors. If the sub-contractors do not meet the Target Group's standards or the property owners' satisfaction, or fail the annual performance review, the Target Group has the contractual right to adjust the sub-contracting fees, to terminate the agreements, and/or to exclude the sub-contractors from the Target Group's selected list of qualified sub-contractors.

EMPLOYEES

As at 30 June 2019, the Target Business directly employs 6,085 employees, among which 121 are administrative staff and 5,964 are front-line staff.

INTELLECTUAL PROPERTY

The Target Group possesses and/or controls the necessary licences, approvals, permits, and qualifications required for its ongoing business operations. Huafa Property Management and Zhuhai Huafa had entered into a Trademark Licensing Agreement on 31 August 2018 and a confirmation letter dated 25 September 2019, respectively, pursuant to which Zhuhai Huafa agreed irrevocably and unconditionally to grant Huafa Property Management without consideration a license to use Zhuhai Huafa's registered trademarks "華發" and "" in the PRC until commencing from the date of the Trademark Licensing Agreement to the expiry date of the Trademarks validity period. The expiry date of the Trademarks validity period is dependent upon the expiry date of the individual Trademark subject to the Trademark Licensing Agreement, ranging from 13 October 2027 to 6 April 2029. For details, please refer to the paragraph headed "2. Trademark Licensing Agreement" in the Letter from the Board of this circular. Zhuhai Huafa is in the process of registration of the trademark "Huafa Property" (華發物業) in the PRC, and upon completion of its registration, is expected to enter into a license agreement with Huafa Property Management for its exclusive use of the trademark "Huafa Property" in the PRC without consideration. The cumulative effect of such grant of intellectual property rights is that the Target Group would have ongoing protection for its business operations. For further details, please refer the sections headed "1. Risk Factors – Risks relating to the Business and Industry of The Target Group – If the Target Group fails to protect its intellectual property rights, its business, financial conditions and results of operations would be severely harmed." and "1. Risk Factors – Risks relating to the Business and Industry of The Target Group – Brand image is a key factor in the client's purchase decisions and any failure to renew the Trademark Licensing Agreement with Zhuhai Huafa or failure for Zhuhai Huafa to renew the Trademarks, the business operations and financial condition of Target Group might be affected." in Appendix 1 to this circular.

INSURANCE

The Target Group maintains several insurance coverage: namely for (i) public liability insurance to cover liabilities for damages suffered by third parties arising out of the Target Group's business operations; (ii) personal accident insurance for its employees; and (iii) vehicle insurance. The Target Group suggests its sub-contractors to purchase accident insurance for their employees, and the sub-contractors are responsible for all workplace injuries to their employees, except for the injuries directly attributable to the Target Group. The Target Group believes its insurance coverage is in line with industry practise for similar property management companies in the PRC. However, the Target Group's insurance coverage may not be adequate to protect it against certain operating risks and hazards, which may result in adverse effects on its business. For more details, please refer to the section headed "1. Risk Factors — Risks relating to the Business and Industry of the Target Group— The Target Group's insurance policies may not provide adequate coverage for all claims associated with its business operations" in this appendix.

SOCIAL HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

The Target Group is subject to PRC laws in relation to labour, safety and environment protection matters. In addition, the Target Group has implemented the national occupational safety and sanitation rules and standards, to establish its occupational safety and sanitation systems, and has provided employees with workplace safety trainings to its employees on a regular basis to increase their awareness of work safety issues. As advised by the Company's PRC legal adviser, during the Track Record Period and up to the Latest Practicable Date, the Target Group has complied with PRC laws in relation to workplace safety in all material respects and have not had any incidents which have materially and adversely affected its operations.

INTERNAL CONTROL AND RISK MANAGEMENT

In preparation for the Acquisition, the Company has engaged an independent internal control adviser to perform an internal control review of the Target Group's internal control system, which covers the entity-level controls and business process controls in certain aspects including financial closing and reporting, sales, purchases, treasury, human resources and information technology general controls; and a report has been issued to the Target Group on factual findings and recommendations for improvements of internal controls over the above-mentioned processes. The Target Group has adopted a series of internal control policies, procedures and mechanism designed to enhance the effectiveness and efficiency of the internal control system, and to provide a more reliable financial reporting and compliance with applicable rules.

The Target Group maintains a set of risk management policies and measures to identify, evaluate and manage risks arising from its operations. The major features of its risk management policies include the following:

- The Target Group has adopted stringent quality control and supervision measures and procedures to prevent risks throughout the daily operation. Please refer to the section headed "Quality Control" above for more details;

- The Target Group's human resources department is responsible for establishing internal rules and manuals and delivering to the employees to ensure that the Target Group's employees understands the relevant regulatory requirements. The responsibility for monitoring the compliance to the Target Group's internal rules and manuals is vested to the management offices at each project site to ensure that the applicable laws and relevant regulatory requirements are complied, so as to reduce its legal risks;

- The Target Group has put in place internal procedures for handling complaints from customers; and

- The Target Group has established a selection and monitoring policy in relation to the sub-contractors engaged by it, including the selection criteria and the review systems to deal with any complaints or negligence with regards to the sub-contractors.

LEGAL PROCEEDINGS AND COMPLIANCE

As advised by the Company's PRC legal adviser, during the Track Record Period and up to the Latest Practicable Date, the Target Group had obtained all material approvals, permits, licences and certificates for its operations from the relevant government authorities, all of which are valid and current, and it had been in compliance in all material respects with the applicable PRC laws and regulations.

As advised by the Company's PRC legal adviser, the Target Group had not been subject to significant fines or legal action involving non-compliance with any PRC laws or regulations relating to its business operation during the Track Record Period and up to the Latest Practicable Date.

The Target Group may from time to time may be involved in legal proceedings or disputes in the ordinary course of business, such as contract disputes with its customers and suppliers. As at the Latest Practicable Date, there were no litigation or arbitration proceedings or administrative proceedings pending or threatened against the Target Group or any of the Target Group's Directors which would have a material adverse effect on its financial position or results of operations.

The following sets out certain information of the core management team of the Target Group whom shall continue to serve the Target Group after Completion:

Name	Age	Position	Date of appointment	Date of joining the Target Group
Zhou Wenbin (周文彬)[1]	51	Chairman, Huafa Property Management Chairman, Huafa Elevator	4 November 2013 26 December 2013	4 November 2013
Zeng Shi (曾師)[2]	41	Director, Huafa Property Management	11 February 2019	12 September 2005
		General Manager, Huafa Property Management	3 August 2016	
		Executive Director, Huafa MCS	6 November 2015	
Li Dongxue (李東學)	49	Managing Deputy General Manager, Huafa Property Management	6 November 2015	21 November 2012
Luo Haozhou (駱昊周)	39	Deputy General Manager, Huafa Property Management	26 December 2013	19 March 2003
Deng Ao (鄧鰲)	38	Deputy General Manager, Huafa Property Management	6 November 2015	15 August 2011
Sun Zhuolin (孫卓林)	35	Deputy General Manager, Huafa Property Management	6 November 2015	29 May 2013
Zheng Yinglin (鄭應林)	46	Deputy General Manager, Huafa Property Management	24 March 2017	1 January 2003
Sun Jing (孫靜)	36	Deputy General Manager, Huafa Property Management	24 March 2017	22 March 2012
Wang Yulun (王宇倫)[3]	34	Deputy General Manager, Huafa Property Management	22 April 2019	13 May 2019

Notes:

(1) Mr. Zhou was appointed as a member of the core management team on 4 November 2013 when he was appointed as chairman of Huafa Property Management on that day.

(2) Mr. Zeng was appointed as a member of the core management team on 7 May 2014 when he was promoted to Deputy General Manager of Huafa Property Management on that day.

(3) Mr. Wang was appointed as a member of the core management team on 23 October 2019 after the end of the probation period as a Deputy General Manager of Huafa Property Management on that day.

Mr. Zhou Wenbin (周文彬), aged 51, is the Chairman of the board of Huafa Property Management and Huafa Elevator since 4 November 2013 and 26 December 2013 respectively, and is responsible for the overall strategic developments of the Target Group. Mr. Zhou joined the Target Group on 5 November 2013 and has over 6 years of experience in property management. Mr. Zhou also is a deputy general manager of Zhuhai Huafa Property Development Co., Ltd, (珠海華發房地產開發有限公司), an indirect subsidiary of Zhuhai Huafa, since 27 February 2019. Prior to joining the Target Group, Mr. Zhou served as the supervisor of the Group General Manager Office of Zhuhai Huafa from July 2013 to November 2013 and assistant to the general manager of Zhuhai Huafa from August 2010 to July 2013, and had successively won the titles of "Outstanding Executive of Huafa Group" (華發集團優秀高管) in 2015 and 2016. Mr. Zhou graduated from Hubei University (湖北大學) in 1996 with a degree specialising in English education.

Mr. Zeng Shi (曾師), aged 41, is the director and General Manager of Huafa Property Management since 11 February 2019 and 3 August 2016, respectively, and is currently the Executive director of Huafa MCS. Mr. Zeng is responsible for the overall management of the Target Group's business operations. Mr. Zeng joined the Target Group since May 2005 and has 20 years of experience in property management. Mr. Zeng also serves as the "Property Management Think-tank Specialist of the Construction News of the PRC" (中國建設報物業管理智庫專家), "Vice President of the Guangdong Property Management Industry Institute" (廣東省物業管理行業協會副會長), and the "Property Management Assessment and Rating Specialist of Zhuhai Municipal Housing and Urban-Rural Development Bureau" (珠海市住房和城鄉建設局珠海市物業管理評標專家) from 2018, and as the "President of the Executive Council of the Trade Association of Zhuhai Property Management" (珠海市物業管理行業協會常務理事會會長), the "Member of Standardization Committee of China Property Management Institute" (中國物業管理協會標準化委員會委員) from 2019. Mr. Zeng was appointed as a deputy supervisory committee member of the China Property Management Institute* first Production, Learning and Research Specialisation Committee (中國物業管理協會產學研專業委員會第一屆副主任委員) in 7 December 2019. Mr. Zeng was awarded the title of, among others, "Outstanding Executive of Huafa Group" (華發集團優秀高管) in 2016, "Advanced Mid-level Cadre of Huafa Group" (華發集團先進中層幹部) in 2013. Prior to joining the Target Group, Mr. Zeng served as (i) the Community General Management Manager of Guangzhou Overseas Chinese Property Development Company (廣州市華僑物業發展公司) from May 2002 to April 2005, and (ii) the Property Assistant and Officer of Guangzhou Tianlun Property Management Service Co., Ltd. (廣州市天倫物業管理服務有限公司) from February 2000 to April 2002. Mr. Zeng graduated with a bachelor degree in specialising in property management from Jinan University (暨南大學) in 2001 and a degree in Business Administration from Jilin University (吉林大學) in 2014, was registered as a "Registered property manager" (註冊物業管理師) in February 2014, and was admitted as a chartered member of Chartered Institute of Housing in April 2019.

Mr. Li Dongxue (李東學), aged 49, is the Managing Deputy General Manager of Huafa Property Management since 6 November 2015, and is responsible for party affairs, labour union, cultural publicity, complaints and petitions handling. Mr. Li joined the Target Group in November 2012 and has 7 years of experience in property management and was awarded the title of "Outstanding Mid-Level of Huafa Group" (華發集團優秀中層) in 2015. Mr. Li graduated with a bachelor degree in Chinese Language and Literature from Jinan University (暨南大學) in 1993.

Luo Haozhou (駱昊周), aged 39, is the Deputy General Manager of Huafa Property Management since 26 December 2013, and is currently its general manager for Zhuhai Eastern District. Mr. Luo joined the Target Group in January 2004 and has over 15 years of experience in property management. Mr. Luo was registered as a "Registered property manager" (註冊物業管理師) in February 2014 and was appointed as the vice chairman of the "Zhuhai Security Association" (珠海市保安協會) since 2016. Mr. Luo was awarded the title of, among others, "Outstanding Executive of Huafa Group" (華發集團優秀高管) in 2017 and "Advanced Mid-Level of Huafa Group" (華發集團先進中層) in 2014. Mr. Luo graduated with a bachelor degree in Business Administration from Jilin University (吉林大學) in 2014.

Mr. Deng Ao (鄧鰲), aged 38, is the secretary to the board of directors of Zhuhai Huafa Property since November 2013, the Deputy General Manager of Huafa Property Management since 6 November 2015 and is currently its general manager of the human resources center. Mr. Deng is responsible for discipline inspection and supervision, personnel management, informatisation work. Mr. Deng joined the Target Group in August 2011 and has over 6 years of experience in human resources. Mr. Deng was awarded the title of, among others, "Excellent Executive" (優秀高管) of Zhuhai Huafa Modern Service in 2018 and "Advanced Employee of Huafa Group" (華發集團先進員工) in 2012. Mr. Deng graduated from South China Normal University (華南師範大學) in 2008 specialising in Human Resources.

Mr. Sun Zhuolin (孫卓林), aged 35, is the Deputy General Manager of Huafa Property Management since 6 November 2015, and is responsible for business operations of the Target Group in the western region. Mr. Sun joined the Target Group in May 2013 and has over 15 years of experience in property management. Mr. Sun was awarded, among others, "Excellent Middle Management Model" (優秀中層管理標兵) and "Excellent Middle Cadre" (優秀中層幹部) of Huafa Property Management in 2013 and 2014, respectively. Mr. Sun graduated with a bachelor degree in Business Administration from Shenzhen University (深圳大學) in 2008.

Mr. Zheng Yinglin (鄭應林), aged 46, is the Deputy General Manager of Huafa Property Management since 24 March 2017 and is currently the general manager for the South China region. Mr. Zheng is responsible for the daily operation and management in the South China region and the management of safety production. Mr. Zheng joined the Target Group in April 2001 and has over 22 years of experience in property management. Mr. Zheng was awarded, among others, "Excellent Mid-level of Huafa Group" (華發集團優秀中層) in 2015 and 2016. Mr. Zheng obtained a bachelor degree in Economics from Xian Political College (西安政治學院) (now known as PLA Xi'an Institute of Politics) (解放軍西安政治學院) in 1998 and graduated from Beijing Jiaotong University (北京交通大學) with a degree in Engineering Management* (工程管理本科專業) in 2019.

Ms. Sun Jing (孫靜), aged 36, is the Deputy General Manager of Huafa Property Management since 24 March 2017 and is currently the general manager of the quality control management centre. Ms. Sun is responsible for quality management. Ms. Sun joined the Target Group in March 2012 and has over 16 years of experience in property management. Ms. Sun was rewarded the title of the deputy general director of the "Trade Association of Zhuhai Property Management" (珠海物業管理行業協會) in 2013, was registered as a "Registered property manager" (註冊物業管理師) in 2014 and was appointed as a "tender evaluation expert of Zhuhai property management industry" (珠海市物業管理行業評標專家) in 2018 and a committee member of the "Standardised Working Committee of the Guangdong Property Management Industry Institute" (廣東省物業管理協會標準化工作委員會), a "Guangdong property management industry trainer" (廣東省物業管理行業培訓師) and a chartered member of Chartered Institute of Housing in 2019. Ms. Sun graduated with a degree in Human Resources Management from Guangdong Business School (廣東商學院) (now known as Guangdong University of Finance & Economics) (廣東財經大學) in 2012.

Mr. Wang Yulun (王宇倫), aged 34, joined the Huafa Property Management as a Deputy General Manager on 22 April 2019 with a probationary period of six months. Upon the end of the probation period on 23 October 2019, Mr. Wang was retained and was subsequently considered as a member of the core management team of the Target Group. Mr. Wang is the general manager of the business development centre and community management department of Huafa Property Management respectively, and has over 12 years of experience in property management. Mr. Wang graduated with a bachelor degree in Business Management from Guangzhou University (廣州大學) in 2007.

Save as disclosed above, none of the above core management team members has held directorship positions in any public companies in the past three years.

Save as disclosed above, none of the above core management team members is connected with any other directors, senior management or substantial or controlling shareholders of the Target Group or the Company.

As at the Latest Practicable Date, none of the above core management team members has any interest in the shares of the Target Group or the Company within the meaning of Part XV of the SFO.

Save for disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51(2) or Paragraph 41(3) of Appendix 1A to the Listing Rules.

Set out below is the management discussion and analysis on the Target Business for the Track Record Period.

RESULTS OF OPERATIONS

The following table sets forth the combined statements of comprehensive income for the years and/or periods indicated:

	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**403,956**	**473,160**	**630,118**	**290,627**	**348,272**
Cost of sales	(343,683)	(395,836)	(499,899)	(224,554)	(265,672)
Gross profit	**60,273**	**77,324**	**130,219**	**66,073**	**82,600**
Net impairment reversal/(losses) on financial assets	–	–	1,320	(561)	(3,641)
Administrative expenses	(29,207)	(34,545)	(42,869)	(16,906)	(23,047)
Other income	2,824	11,428	1,196	937	1,107
Other (losses)/gains – net	(19)	(2)	(166)	(42)	52
Operating profit	33,871	54,205	89,700	49,501	57,071
Finance cost	(64,907)	(59,304)	(67,870)	(26,117)	(42)
Finance income	57,220	53,540	54,651	22,996	771
Finance (costs)/income, net	(7,687)	(5,764)	(13,219)	(3,121)	729
Profit before income tax	**26,184**	**48,441**	**76,481**	**46,380**	**57,800**
Income tax expenses	(6,139)	(9,856)	(19,210)	(11,564)	(14,553)
Profit for the year and attributable to the owners of the Target Business	**20,045**	**38,585**	**57,271**	**34,816**	**43,247**

Discussion of key income statement items

Revenue

The Target Business's revenue was generated from three business segments, being (i) property management services, (ii) value-added services to property owners, and (iii) other value-added services.

The following table set forth a breakdown of the Target Business's business revenue derived from the three segments for the years as indicated below:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*
Property management services	314,713	78%	350,444	74%	452,685	72%	215,218	74%	243,640	70%
Value-added services to property owners	13,921	3%	14,655	3%	22,051	3%	9,956	3%	12,303	4%
Other value-added services	75,322	19%	108,061	23%	155,382	25%	65,453	23%	92,329	26%
Total Revenue	**403,956**	**100%**	**473,160**	**100%**	**630,118**	**100%**	**290,627**	**100%**	**348,272**	**100%**

The Target Business's revenue increased by approximately RMB69.2 million, or approximately 17.1%, from approximately RMB404.0 million for FY2016 to approximately RMB473.2 million for FY2017. The increase in revenue is mainly attributable to:

(i) increase in revenue-bearing GFA by approximately 2.4% in FY2017 from 8 new projects leading to an increase of approximately RMB10.6 million in revenue in the property management services segment;

(ii) (a) increase in revenue-bearing GFA by approximately 15.6% in FY2017 from existing projects with completion of development of new phases in existing projects and; and (b) expansion in types of services provided to existing projects, from security and cleaning which are usually first provided in earlier stages, to greening gardening, repair and maintenance, leading to an increase in revenue of approximately RMB25.1 million in the property management services segment;

(iii) one new municipal project and increase in types of support services to existing municipal projects leading to an increase of approximately RMB15.0 million in revenue in the other value-added services segment; and

(iv) increase from support services to property developers in 5 new projects and exiting projects leading to approximately RMB17.8 million in revenue in the other value-added services segment.

The Target Business's revenue then further increased by approximately RMB157.0 million, or approximately 33.2%, from approximately RMB473.2 million for FY2017 to approximately RMB630.1 million for FY2018. The increase in revenue is mainly attributable to:

(i) increase in revenue-bearing GFA by approximately 4.3% in FY2018 from 9 new projects leading to an increase of approximately RMB19.2 million in revenue in the property management services segment;

(ii) (a) increase in revenue-bearing GFA by approximately 7.6% in FY2018 from existing projects with completion of development of new phases in existing projects; and (b) expansion in types of services provided to existing projects, from security and cleaning which are usually first provided in earlier stages, to greening gardening, repair and maintenance, leading to an increase of revenue of approximately RMB83.1 million in the property management services segment;

(iii) increase in the provision of office building customised services, such as reception, maintenance and cleaning services, in the value-added services to property owners segment leading to an increase of approximately RMB7.4 million in revenue;

(iv) increase in types of support services to municipal projects leading to an increase of approximately RMB24.9 million in revenue in the other value-added services segment; and

(v) provision of support services to property developers to 8 new projects and existing projects leading to an increase of approximately RMB22.4 million in revenue from in the other value-added services segment.

The Target Business's revenue increased by approximately RMB57.6 million, or approximately 19.8%, from approximately RMB290.6 million for 1H2018 to approximately RMB348.3 million for 1H2019. The increase in revenue is mainly attributable to:

(i) increase in revenue-bearing GFA by approximately 1.2% in 1H2019 from 7 new projects leading to an increase of approximately RMB6.9 million in revenue in the property management services segment;

(ii) increase in revenue-bearing GFA by approximately 5.0% in 1H2019 from existing projects and types of services provided to existing projects leading to an increase of revenue of approximately RMB21.5 million in the property management services segment;

(iii) increase in the provision of office building customised services, such as reception, maintenance and cleaning services, in the value-added services to property owners segment leading to an increase of approximately RMB2.3 million in revenue;

(iv) increase in contract price for support services to municipal projects leading to an increase of approximately RMB5.9 million in revenue in the other value-added services segment; and

(v) provision of support services to property developers to 11 new projects and existing projects leading to an increase of approximately RMB21.0 million in revenue from in the other value-added services segment.

Cost of sales

The Target Business's cost of sales increased by approximately RMB52.1 million, or approximately 15.2%, from approximately RMB343.7 million for FY2016 to approximately RMB395.8 million for FY2017. This increase was mainly attributable to increase in front-line staff costs of approximately RMB42.2 million, or approximately 15.4%, due to the increase in the average number of front-line staff from approximately 4,410 in FY2016 to 4,823 in FY2017 and the average monthly salary per front-line staff of approximately RMB5,200 in FY2016 to RMB5,500 in FY2017.

The Target Business's cost of sales further increased by approximately RMB104.1 million, or approximately 26.3%, from approximately RMB395.8 million for FY2017 to approximately RMB499.9 million for FY2018. This increase was mainly attributable to (i) increase in front-line staff costs of approximately RMB63.3 million, or approximately 20.0%, due to the increase in the average number of front-line staff of approximately 4,823 in FY2017 to 5,514 in FY2018 and the average monthly salary per front-line staff of approximately RMB5,500 in FY2017 to RMB5,700 in FY2018; and (ii) increase in greening and cleaning expenses of approximately RMB20.4 million, or approximately 76.4%, mainly because of increases in subcontracting of services to third-party service providers.

The Target Business's cost of sales increased by approximately RMB41.1 million, or approximately 18.3%, from approximately RMB224.6 million for 1H2018 to approximately RMB265.7 million for 1H2019. This increase was mainly attributable to (i) increase in front-line staff costs of approximately RMB27.6 million, or approximately 15.6%, due to the increase in the average number of front-line staff of approximately 5,262 in 1H2018 to 5,950 in 1H2019 and the average monthly salary per front-line staff maintaining stable at approximately RMB5,600 in 1H2018 to RMB5,700 in 1H2019; and (ii) increase in greening and cleaning expenses of approximately RMB9.2 million, or approximately 48.7%, mainly because of increases in subcontracting of services to third-party service providers.

Gross profit and gross profit margin

The following table set forth a breakdown of the Target Business's gross profit and the gross profit margin derived from the three segments for the years and periods as indicated below:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Property management services	35,142	11.2%	39,711	11.3%	74,545	16.5%	39,501	18.4%	45,139	18.5%
Value-added services to property owners	4,116	29.6%	4,592	31.3%	7,608	34.5%	3,426	34.4%	4,258	34.6%
Other value-added services	21,015	27.9%	33,021	30.6%	48,066	30.9%	23,146	35.4%	33,203	36.0%
Total gross profit	**60,273**	**14.9%**	**77,324**	**16.3%**	**130,219**	**20.7%**	**66,073**	**22.7%**	**82,600**	**23.7%**

As a result of the foregoing, the Target Business's gross profit increased by approximately RMB17.1 million, or approximately 28.3%, from approximately RMB60.3 million for FY2016 to approximately RMB77.3 million for FY2017, with an improvement in gross profit margin from approximately 14.9% for FY2016 to approximately 16.3% for FY2017. This was mainly due to increase in revenue and gross profit margin from the other value-added service segment.

- *Property management services.* The Target Business's gross profit in the property management services segment increased by approximately RMB4.6 million, or approximately 13.0%, from approximately RMB35.1 million for FY2016 to approximately RMB39.7 million for FY2017, with the gross profit margin remaining stable at approximately 11.2% for FY2016 and approximately 11.3% for FY2017. The increase in gross profit for FY2017 was mainly due to the increase in revenue while the gross profit margin maintains stable.

- *Value-added services to property owners.* The Target Business's gross profit in the value-added services to property owners segment increased by approximately RMB0.5 million, or approximately 11.6%, from approximately RMB4.1 million for FY2016 to approximately RMB4.6 million for FY2017, with the gross profit margin increasing from approximately 29.6% for FY2016 to approximately 31.3% for FY2017. This was mainly due to new expansion into provision of office building customised services which has a higher gross profit margin.

- *Other value-added services*. The Target Business's gross profit in the other value-added services segment increased by approximately RMB12.0 million, or approximately 57.1%, from approximately RMB21.0 million for FY2016 to approximately RMB33.0 million for FY2017, with the gross profit margin increasing from approximately 27.9% for FY2016 to approximately 30.6% for FY2017, mainly due to increased efficiency of allocation of manpower among existing and new projects.

The Target Business's gross profit then further increased by approximately RMB52.9 million, or approximately 68.4%, from approximately RMB77.3 million for FY2017 to approximately RMB130.2 million for FY2018, accompanied with an increase of gross profit margin from approximately 16.3% for FY2017 to approximately 20.7% for FY2018. This was mainly due to increase in revenue and gross profit margin from the property management services segment.

- *Property management services.* The Target Business's gross profit in the property management services segment increased by approximately RMB34.8 million, or approximately 87.7%, from approximately RMB39.7 million for FY2017 to approximately RMB74.5 million for FY2018, with the gross profit margin increasing from approximately 11.3% for FY2017 to approximately 16.5% for FY2018. This was mainly due to (i) economies of scale from overall increased business scale; (ii) increases in average residential property management fees of approximately RMB2.09 per sq.m. for FY2017 to approximately RMB2.46 per sq.m. for FY2018; and (iii) increase in proportion of income from non-residential properties which has a higher profit margin.

- *Value-added services to property owners.* The Target Business's gross profit in the value-added services to property owners segment increased by approximately RMB3.0 million, or approximately 65.7%, from approximately RMB4.6 million for FY2017 to approximately RMB7.6 million for FY2018, with the gross profit margin increasing from approximately 31.3% for FY2017 to approximately 34.5% for FY2018. This is mainly due to increase in the provision of office building customised services which has a higher gross profit margin.

- *Other value-added services*. The Target Business's gross profit in the other value-added services segment increased by approximately RMB15.0 million, or approximately 45.6%, from approximately RMB33.0 million for FY2017 to approximately RMB48.1 million for FY2018, with the gross profit margin increasing from approximately 30.6% for FY2017 to approximately 30.9% for FY2018. This was mainly due to new projects in relation to the provision of consultancy services to property developers which has a higher profit margin.

The Target Business's gross profit increased by approximately RMB16.5 million, or approximately 25.0%, from approximately RMB66.1 million for 1H2018 to approximately RMB82.6 million for 1H2019, accompanied with an increase of gross profit margin from approximately 22.7% for 1H2018 to approximately 23.7% for 1H2019. This was mainly due to:

- *Property management services.* The Target Business's gross profit in the property management services segment increased by approximately RMB5.6 million, or approximately 14.3%, from approximately RMB39.5 million for 1H2018 to approximately RMB45.1 million for 1H2019, with the gross profit margin increasing slightly from approximately 18.4% for 1H2018 to approximately 18.5% for 1H2019. This was mainly due to (i) economies of scale from overall increased business scale; (ii) increases in average residential property management fees of approximately RMB2.39 per sq.m. for 1H2018 to approximately RMB2.65 per sq.m. for 1H2019; and (iii) increase in proportion of income from non-residential properties which has a higher profit margin.

- *Value-added services to property owners.* The Target Business's gross profit in the value-added services to property owners segment increased by approximately RMB0.8 million, or approximately 24.3%, from approximately RMB3.4 million for 1H2018 to approximately RMB4.3 million for 1H2019, with the gross profit margin increasing slightly from approximately 34.4% for 1H2018 to approximately 34.6% for 1H2019. This is mainly due to increase in the provision of office building customised services which has a higher gross profit margin.

- *Other value-added services.* The Target Business's gross profit in the other value-added services segment increased by approximately RMB10.1 million, or approximately 43.5%, from approximately RMB23.1 million for 1H2018 to approximately RMB33.2 million for 1H2019, with the gross profit margin increasing from approximately 35.4% for 1H2018 to approximately 36.0% for 1H2019. This was mainly due to increase in contract price for municipal support services projects.

The gross profit margins for 1H2018 and 1H2019 were generally higher than that for FY2018 which was mainly attributable to the lower average number of employees for 1H2018 and 1H2019 as compared to that of the second half of 2018. This was mainly attributable to higher turnover rate around the lunar new year holiday period and the transitional arrangement of sharing front-line workers among nearby projects resulting in lower labor costs.

The following table sets forth a breakdown of the Target Business's total gross profit and the gross profit margin from services provided to Zhuhai Huafa Group and independent third parties respectively for the years and periods as indicated below:

	For the year ended 31 December						For the six months ended 30 June	
	2016		2017		2018		2019	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Service provided to Zhuhai Huafa Group	27,272	19.8%	32,224	19.9%	54,800	22.8%	29,190	24.5%
Service provided to independent third parties	33,001	12.4%	45,100	14.5%	75,419	19.3%	53,410	23.3%
	60,273	14.9%	77,324	16.3%	130,219	20.7%	82,600	23.7%

The following table sets forth a breakdown of gross profit and gross profit margin from property management services provided to Zhuhai Huafa Group and independent third parties by types of properties managed respectively for the years and periods as indicated below:

	For the year ended 31 December						For the six months ended 30 June	
	2016		2017		2018		2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Services provided to Zhuhai Huafa Group								
– Residential properties	1,328	10.3%	2,148	11.2%	6,741	15.4%	3,588	20.4%
– Non-residential properties	14,691	20.2%	16,077	22.4%	23,004	26.3%	10,437	26.4%
Services provided to independent third parties								
– Residential properties	16,702	8.3%	19,162	8.3%	38,679	13.9%	26,871	16.2%
– Non-residential properties	2,421	9.1%	2,324	8.4%	6,121	14.3%	4,243	20.5%
Total	**35,142**	**11.2%**	**39,711**	**11.3%**	**74,545**	**16.5%**	**45,139**	**18.5%**

The overall gross profit margins from services provided to Zhuhai Huafa Group were higher than those provided to independent third parties during the Track Record Period, while the gap between such margin was narrowing throughout the Track Record Period. The difference was mainly attributable to higher gross profit margin from services provided to Zhuhai Huafa Group comparing with that from to services provided to independent third parties for property management services segment:

(i) For non-residential properties, the Target Group can generally charge Zhuhai Huafa Group for higher prices on higher-end office buildings and commercial centres (with their aggregated average monthly property management fees in the range of approximately RMB7.93-9.25 per sq.m. for each of the three years ended 31 December 2018 and the six months ended 30 June 2019) due to their higher property management service quality requirements, while the Target Group generally charged independent third parties for lower prices on government facilities and lower-end office buildings (with their aggregated average monthly property management fees in the range of approximately RMB5.89-7.03 per sq.m for each of the three years ended 31 December 2018 and the six months ended 30 June 2019); and

(ii) For residential properties, the Target Group can generally charge Zhuhai Huafa Group for higher prices as the properties under management are newly developed by Zhuhai Huafa Group and have not been fully delivered to property owners.

This difference was partly offset by the other-value added services segment where support services provided to independent third parties for municipal projects have a higher profit margin than that of support services provided to Zhuhai Huafa Group at pre-delivery stage.

Administrative expenses

The Target Business's administrative expenses increased by approximately RMB5.3 million, or approximately 18.3%, from approximately RMB29.2 million for FY2016 to approximately RMB34.5 million for FY2017, followed by an increase of approximately RMB8.3 million, or approximately 24.1% to approximately RMB42.9 million for FY2018. This was mainly due to (i) increases in administrative staff expenses of RMB4.9 million, or approximately 27.5% from FY2016 to FY2017; and RMB1.3 million, or approximately 5.9% from FY2017 to FY2018 from increase in overall business scale of the Target Business, with the average number of administrative staff being approximately 93, 100 and 112 in FY2016, FY2017 and FY2018 respectively, the average monthly salary per administrative staff being RMB16,000, RMB19,000 and RMB18,000 in FY2016, FY2017 and FY2018 respectively (the main reason for decrease in average monthly salary per administrative staff from FY2017 to FY2018 being the hiring of a greater number of relatively low-income staff in FY2018); and (ii) one-off professional expenses of approximately RMB6.8 million in FY2018 in relation to financial due diligence and strategic review on the Target Business.

The Target Business's administrative expenses increased by approximately RMB6.1 million, or approximately 36.3%, from approximately RMB16.9 million for 1H2018 to approximately RMB23.0 million for 1H2019. This was mainly due to (i) increases in administrative staff expenses of RMB3.4 million, or approximately 30.0% from 1H2018 to 1H2019 from increase in overall business scale of the Target Business, with the average number of administrative staff being 100 and 112 in 1H2018 and 1H2019 respectively, and the average monthly salary per administrative staff being approximately RMB19,000 in 1H2018 and RMB22,000 in 1H2019; and (ii) legal and auditing professional expenses of approximately RMB2.9 million in 1H2019.

Other income

The Target Business's other income increased by approximately RMB8.6 million, or approximately 304.7%, from approximately RMB2.8 million for FY2016 to approximately RMB11.4 million for FY2017, followed by a decrease of approximately RMB10.2 million, or approximately 89.5%, to approximately RMB1.2 million for FY2018. This was mainly due to the increase in dividend received from available-for-sale financial asset of approximately RMB7.8 million from FY2016 to FY2017 and the subsequent decrease of approximately RMB9.7 million from FY2017 to FY2018, details of which are discussed in the sub-section headed "Available-for-sale financial asset" in the combined balance sheets section below.

The Target Business's other income increased by approximately RMB0.2 million, or approximately 18.1%, from approximately RMB0.9 million for 1H2018 to approximately RMB1.1 million for 1H2019. This was mainly due to increase in government grants.

Finance cost and income

Huafa Property Management obtained the ABS in 2015 at an effective interest rate of 6.07% - 8.04% per annum, and the net proceeds of which was lent to Zhuhai Huafa in full as an unsecured loan at an interest rate of 5.73% to 6.42% per annum. For further details, please refer to the section headed "7. Management discussion and analysis — Indebtedness" in this appendix. Finance cost and income for FY2016, FY2017 and FY2018 were mainly due to the ABS and the Zhuhai Huafa Loan respectively, which were both early settled in full in 2018.

The Target Business's finance cost decreased by approximately RMB5.6 million, or approximately 8.6%, from approximately RMB64.9 million for FY2016 to approximately RMB59.3 million for FY2017. This is in line with the decrease in the Target Business's finance income which decreased by approximately RMB3.7 million, or approximately 6.4%, from approximately RMB57.2 million for FY2016 to approximately RMB53.5 million for FY2017.

The Target Business's finance cost then increased by approximately RMB8.6 million, or approximately 14.4%, from approximately RMB59.3 million for FY2017 to approximately RMB67.9 million for FY2018, while its finance income increased by approximately RMB1.1 million, or approximately 2.1%, from approximately RMB53.5 million for FY2017 to approximately RMB54.7 million for FY2018. The larger increase percentage in the finance cost as compared to the increase in finance income was mainly due to the accelerated amortisation of handling fees, as a result of the early redemption of the ABS, of approximately RMB30.4 million in FY2018, as compared to approximately RMB13.8 million in FY2017.

The Target Business's finance cost decreased by approximately RMB26.1 million, or approximately 99.8%, from approximately RMB26.1 million for 1H2018 to approximately RMB42,000 for 1H2019, while its finance income decreased by approximately RMB22.2 million, or approximately 96.6%, from approximately RMB23.0 million for 1H2018 to approximately RMB0.8 million for 1H2019. This was mainly due to both the ABS and the Zhuhai Huafa Loan being early settled in full in FY2018.

Profit for the year

As a result of the foregoing, the Target Business's profit for the year increased by approximately RMB18.5 million, or approximately 92.5%, from approximately RMB20.0 million for FY2016 to approximately RMB38.6 million for FY2017, and its net profit margin improved from approximately 5.0% for FY2016 to approximately 8.2% for FY2017. This was mainly due to the (i) improvement in gross profit and gross profit margin; (ii) improvement in operational efficiency of administrative staff and (iii) the one-off dividend received in other income.

The Target Business's profit for the year then further increased by approximately RMB18.7 million, or approximately 48.4%, to approximately RMB57.3 million for FY2018, and its profit margin increased to approximately 9.1% for the same period. This was mainly due to (i) improvement in gross profit and gross profit margin; and (ii) improvement in operational efficiency of administrative staff.

The Target Business's profit for the year increased by approximately RMB8.4 million, or approximately 24.2%, from approximately RMB34.8 million for 1H2018 to approximately RMB43.2 million for 1H2019, and its net profit margin increased from approximately 12.0% for 1H2018 to approximately 12.4% in 1H2019. This was mainly due to (i) improvement in gross profit and gross profit margin; and (ii) improvement in operational efficiency of administrative staff.

COMBINED BALANCE SHEET

The following table sets forth the Target Business's combined balance sheet as at 31 December 2016, 2017 and 2018, and 30 June 2019:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	17,267	13,938	22,937	19,826
Right-of-use assets	–	–	–	18,373
Intangible assets	376	327	277	252
Prepayment	18,166	17,167	16,167	–
Other receivables	864,960	720,041	–	–
Available-for-sale financial asset	76,876	153,367	–	–
Deferred income tax assets	426	332	11,016	11,631
Total non-current assets	**978,071**	**905,172**	**50,397**	**50,082**
Current assets				
Inventories	501	1,013	570	255
Trade receivables	109,280	109,262	134,419	142,059
Other receivables	128,108	161,483	14,025	13,298
Prepayment	1,000	1,000	1,000	–
Time deposits	1,030	30	30	30
Cash and cash equivalents	149,362	148,891	261,786	203,914
Total current assets	**389,281**	**421,679**	**411,830**	**359,556**
Total assets	**1,367,352**	**1,326,851**	**462,227**	**409,638**
Current liabilities				
Borrowings	109,039	135,960	–	–
Lease liabilities	–	–	–	969
Contract liabilities	–	–	30,347	32,550
Trade payables	9,012	17,200	24,434	31,040
Other payables	222,362	216,252	227,672	172,572
Current income tax liabilities	32,585	36,877	39,980	8,202
Total current liabilities	**372,998**	**406,289**	**322,433**	**245,333**

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net current assets	**16,283**	**15,390**	**89,397**	**114,223**
Total assets less current liabilities	**994,354**	**920,562**	**139,794**	**164,305**
Non-current liabilities				
Borrowings	830,252	694,292	–	–
Lease liabilities	–	–	–	751
Deferred income tax liabilities	–	16,217	–	–
Total non-current liabilities	**830,252**	**710,509**	**–**	**751**
Equity				
Combined capital	6,250	6,250	6,250	54,763
Other reserves	30,030	90,850	13,475	13,475
Retained earnings	127,822	112,953	120,069	95,316
Total equity	**164,102**	**210,053**	**139,794**	**163,554**

Discussion of key balance sheet items

Property, plant and equipment

As at 31 December 2016, 2017 and 2018, and 30 June 2019, property, plant and equipment amounted to approximately RMB17.3 million, RMB13.9 million, RMB22.9 million and RMB19.8 million, respectively, representing approximately 1.3%, 1.1%, 5.0% and 4.8% of the Target Business's total assets, respectively.

The Target Business's property, plant and equipment decreased from approximately RMB17.3 million as at 31 December 2016 to approximately RMB13.9 million as at 31 December 2017, mainly because of depreciation and disposal of vehicles in FY2017.

The Target Business's property, plant and equipment then increased to approximately RMB22.9 million as at 31 December 2018, primarily due to purchase of vehicles in FY2018.

The Target Business's property, plant and equipment then decreased from approximately RMB22.9 million as at 31 December 2018 to approximately RMB19.8 million as at 30 June 2019, mainly because of depreciation.

Prepayment

The following table set forth a breakdown of the Target Business's prepayment as at the indicated dates:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current portion	18,166	17,167	16,167	–
Current portion	1,000	1,000	1,000	–
Total	19,166	18,167	17,167	–

As at 31 December 2016, 2017 and 2018, and 30 June 2019, prepayment amounted to approximately RMB19.2 million, RMB18.2 million, RMB17.2 million and nil, respectively, representing approximately 1.4%, 1.4%, 3.7% and 0% of the Target Business's total assets, respectively. Prepayment consist of mainly rental prepayment in relation to the office building of Huafa Property Management.

Non-current portion of the prepayment decreased from approximately RMB18.2 million as at 31 December 2016 to approximately RMB17.2 million as at 31 December 2017, then further decreased to approximately RMB16.2 million as at 31 December 2018 which was due to amortisation of rental expenses. As at 30 June 2019, the balance decreased to nil as the result of the adoption of HKFRS 16 hence the balance was reclassified to right-to-use assets and lease liabilities.

Available-for-sale financial asset

As at 31 December 2016, 2017 and 2018, and 30 June 2019, available-for-sale financial asset amounted to approximately RMB76.9 million, RMB153.4 million, nil and nil, respectively, representing approximately 5.6%, 11.6%, 0% and 0% of the Target Business's total assets, respectively. The balance as at 31 December 2016 and 2017 represented investment in the listed shares of Zhuhai Huafa Industrial Co., Ltd. (珠海華發實業股份有限公司) (600325.SH), a subsidiary of Zhuhai Huafa Group (the "**Investment**").

The Target Business's available-for-sale financial asset increased from approximately RMB76.9 million as at 31 December 2016 to approximately RMB153.4 million as at 31 December 2017, primarily due to the revaluation gain in relation to the Investment of approximately RMB76.5 million in 2017.

The Target Business's available-for-sale financial asset then decreased to zero as at 31 December 2018 and 30 June 2019 due to the disposal of the Investment in full to Zhuhai Huafa Modern Service with no consideration which was treated as a deemed distribution.

Trade receivables and other receivables

The following table set forth a breakdown of the Target Business's trade receivables and other receivables as at the indicated dates:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	109,280	109,262	134,419	142,059
Other receivables				
– Non-current portion	*864,960*	*720,041*	*–*	*–*
– Current portion	*125,959*	*159,188*	*10,694*	*9,326*
– Sub-total	990,919	879,229	10,694	9,326
Other prepayments	2,149	2,295	3,331	3,972
Total	**1,102,348**	**990,786**	**148,444**	**155,357**

As at 31 December 2016, 2017 and 2018, and 30 June 2019, trade receivables and other receivables amounted to approximately RMB1,102.3 million, RMB990.8 million, RMB148.4 million and RMB155.4 million, respectively, representing approximately 80.6%, 74.7%, 32.1% and 37.9% of the Target Business's total assets, respectively.

Trade receivables remained comparable at approximately RMB109.3 million as at 31 December 2016 and as at 31 December 2017. It further increased by approximately RMB25.2 million to approximately RMB134.4 million as at 31 December 2018 and increased further to approximately RMB142.1 million as at 30 June 2019 mainly due to increase in business scale of the Target Business.

Other receivables of approximately RMB990.9 million and RMB879.2 million as at 31 December 2016 and 2017 represented mainly the Zhuhai Huafa Loan of approximately RMB974.0 million and RMB856.0 million respectively. Other receivables reduced to approximately RMB10.7 million as at 31 December 2018 and RMB9.3 million as at 30 June 2019 since the Zhuhai Huafa Loan was settled in full during the financial year of 2018.

The following table sets forth the breakdown of trade receivables from Zhuhai Huafa Group and third parties as at the indicated dates:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables from Zhuhai Huafa Group	56,653	51,957	60,382	33,648
Trade receivables from third parties	71,710	77,818	93,021	130,907
	128,363	129,775	153,403	164,555
Less: allowance for impairment of trade receivables	(19,083)	(20,513)	(18,984)	(22,496)
Total	109,280	109,262	134,419	142,059

The table below sets out the ageing analysis of the Target Business's trade receivables from Zhuhai Huafa Group and third parties as at the date indicated, based on the invoice date and net of impairment:

	As at 31 December									As at 30 June		
	2016			2017			2018			2019		
	Zhuhai Huafa Group	Third parties	Total	Zhuhai Huafa Group	Third parties	Total	Zhuhai Huafa Group	Third parties	Total	Zhuhai Huafa Group	Third parties	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	43,137	39,148	82,285	32,708	40,404	73,112	57,930	60,426	118,356	28,670	89,794	118,464
1 to 2 years	9,245	11,570	20,815	9,422	15,221	24,643	1,363	11,180	12,543	4,868	17,588	22,456
2 to 3 years	4,271	6,536	10,807	6,237	6,798	13,035	1,089	6,468	7,557	110	7,904	8,014
3 to 4 years	–	4,165	4,165	3,590	4,504	8,094	–	5,080	5,080	–	5,001	5,001
Over 4 years	–	10,291	10,291	–	10,891	10,891	–	9,867	9,867	–	10,620	10,620
Total	**56,653**	**71,710**	**128,363**	**51,957**	**77,818**	**129,775**	**60,382**	**93,021**	**153,403**	**33,648**	**130,907**	**164,555**

The table below sets forth the Target Business's trade receivables turnover days as at the indicated dates:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
Trade receivables turnover days from Zhuhai Huafa Group	150.3	117.0	91.8	51.5
Trade receivables turnover days from third parties	72.1	67.2	69.3	86.4
Trade receivables turnover days *(Note)*	**98.7**	**84.3**	**77.9**	**74.4**

Note: Calculated as the trade receivables as of the end of the relevant year divided by revenue for the year/period, then multiplied by the number of days in the year/period.

The general decrease in trade receivables turnover days from FY2016 to FY2018 and 1H2019 was mainly due to enhanced collection efforts. Trade receivables turnover days from Zhuhai Huafa Group were generally higher than that from third parties during the three years ended 31 December 2018. This was primarily attributable to less frequent collection on trade receivables from Zhuhai Huafa Group as its default risk was considered low. However, the Target Group has been enhancing its collection efforts, especially on trade receivables from Zhuhai Huafa Group, as seen in the narrowing gap between trade receivables turnover days from Zhuhai Huafa Group and third parties throughout the Track Record Period. Trade receivables turnover days from third parties for 1H2019 were higher compared to those in FY2016 to FY2018 as the Target Group generally focuses its collection efforts in the second half of each year.

Contract liabilities

The Target Business's contract liabilities was nil and nil as at 31 December 2016 and 31 December 2017 respectively. It further increased to approximately RMB30.3 million as at 31 December 2018 and increased further to approximately RMB32.6 million as at 30 June 2019, primarily due to reclassification from advance proceeds from customers in FY2018 and increase in deposits received from property owners regarding the in-take of new property units.

Trade payables and other payables

The Target Business's trade payables and other payables increased slightly from approximately RMB231.4 million as at 31 December 2016 to approximately RMB233.5 million as at 31 December 2017. The increase was mainly due to increase in trade payables to third parties of approximately RMB7.7 million, increase in other payables to third parties of approximately RMB18.0 million and increase in accrued payroll of approximately RMB16.1 million and was mostly offset by decrease in other payables to related parties of RMB42.8 million.

Trade payables and other payables further increased by approximately RMB18.7 million to approximately RMB252.1 million as at 31 December 2018 due to increase in other payables to third parties of approximately RMB21.6 million, increase in accrued payroll of approximately RMB14.1 million and increase in trade payables to third parties of approximately RMB7.5 million and was offset by decrease in advance proceeds received from customers of approximately RMB25.4 million due to reclassification as contract liabilities.

Trade payables and other payables then decreased by approximately RMB48.5 million to approximately RMB203.6 million as at 30 June 2019 due to increase in trade payables of approximately RMB6.6 million and was offset by decrease in other payables to related parties of approximately RMB26.0 million, decrease in accrued payroll of approximately RMB19.5 million and decrease in other tax payables of approximately RMB10.6 million.

The table below sets forth the Target Business's trade payables turnover days as at the indicated dates:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
Trade payables turnover days *(Note)*	9.6	15.9	17.8	21.3

Note: Calculated as the trade payables as of the end of the relevant year divided by cost of sales for the year, then multiplied by the number of days in the year.

The general increase in trade payables turnover days from FY2016 to FY2018 and 1H2019 was mainly due to enhanced management of credit terms with suppliers.

Borrowings

The following table sets forth a breakdown of the Target Business's borrowings as at the indicated dates:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current portion	109,039	135,960	–	–
Non-current portion	830,252	694,292	–	–
Total borrowings	**939,291**	**830,252**	**–**	**–**

As at 31 December 2016, 2017 and 2018, and 30 June 2019, the Target Business's borrowings were approximately RMB939.3 million, RMB830.3 million, nil and nil, respectively.

The borrowings as at 31 December 2016 and 2017 comprise entirely of the ABS which was issued by the Target Business in 2015. The borrowings reduced to zero as at 31 December 2018 and 30 June 2019 as the Target Business fully redeemed the ABS on 5 December 2018.

CASH FLOW

The following table sets forth the Target Business's combined cash flow statement for FY2016, FY2017 and FY2018, and 1H2018 and 1H2019:

	For the year ended 31 December			For the six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities					
Cash generated from/(used in) operations	27,865	104,072	120,486	(7,083)	34,634
Income tax paid	(5,754)	(8,379)	(17,171)	(11,218)	(46,946)
Net cash generated from/(used in) operating activities	22,111	95,693	103,315	(18,301)	(12,312)
Cash flows from investing activities					
Purchases of property, plant and equipment	(7,945)	(2,823)	(15,060)	(881)	(1,513)
Purchase of intangible assets	(47)	–	–	–	–
Receipt of repayment of loan advanced to a related party and the underlying interests	146,568	165,470	920,060	90,411	–
Interest received	904	1,028	1,381	604	771
Decrease in time deposit	–	1,000	–	–	–
Receipts of cash advances to related parties	7,354	1,141	6,105	2,199	612
Cash advances to related parties	(1,880)	(1,256)	(552)	(394)	(82)
Proceeds from disposal of property, plant and equipment	6	842	547	–	995
Net cash generated from investing activities	144,960	165,402	912,481	91,939	783

	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from financing activities					
Capital contribution from the owner	750	–	–	–	45,000
Repayments of borrowings	(96,000)	(118,000)	(856,000)	(70,193)	–
Interest paid	(55,658)	(50,749)	(45,113)	(20,218)	–
Cash advance from related parties	27,040	3,932	4,930	37,598	11,325
Repayments of Cash advances to related parties	(5,116)	(46,749)	(6,718)	(315)	(37,342)
Dividends paid to shareholder	–	(50,000)	–	–	(68,000)
Principle and interest elements of lease payment	–	–	–	–	(839)
Proceeds from Reorganisation	–	–	–	–	3,513
Net cash used in financing activities	(128,984)	(261,566)	(902,901)	(53,128)	(46,343)
Net increase/(decrease) in cash and cash equivalents	38,087	(471)	112,895	20,510	(57,872)
Cash and cash equivalents at beginning of year/period	111,275	149,362	148,891	148,891	261,786
Cash and cash equivalents at end of year	149,362	148,891	261,786	169,401	203,914

Net cash generated from operating activities

Cash generated from operating activities primarily consist of receipts from customers from property management services and municipal support services. Cash used in operating activities primarily consist of payments in relation to labour, sub-contracting, and procurement expenses.

Net cash generated from operating activities amounted to approximately RMB22.1 million for FY2016, which was primarily attributable to profit before income tax of approximately RMB26.2 million and increase in trade payables and other payables of approximately RMB59.5 million. These cash inflows were partially offset by increase in trade receivables and other receivables by approximately RMB63.4 million.

Net cash generated from operating activities amounted to approximately RMB95.7 million for FY2017, which was primarily attributable to profit before income tax of approximately RMB48.4 million and increase in trade payables and other payables of approximately RMB45.3 million.

Net cash generated from operating activities amounted to approximately RMB103.3 million for FY2018, which was primarily attributable to profit before income tax of approximately RMB76.5 million, increase in contract liabilities of approximately RMB30.3 million and increase in trade payables and other payables of approximately RMB23.4 million. These cash inflows were partially offset by increase in trade receivables and other receivables by approximately RMB28.7 million.

Net cash used in operating activities amounted to approximately RMB12.3 million for 1H2019, which was primarily attributable to income tax paid of approximately RMB46.9 million, increase in trade receivables and other receivables by approximately RMB11.1 million and decrease in trade and other payables by approximately RMB22.5 million. These cash outflows were partially offset by profit before income tax of approximately RMB57.8 million.

Net cash generated from investing activities

Cash generated from investing activities primarily consist of receipt of repayment of loan advanced to related party and the underlying interests and receipts of cash advances to related parties. Cash used in investing activities mainly related to purchases of property, plant and equipment.

Net cash generated from investing activities were approximately RMB145.0 million, RMB165.4 million and RMB912.5 million FY2016, FY2017 and FY2018, respectively. For 1H2019, net cash generated from investing activities amounted to RMB0.8 million. The fluctuation in net cash generated from investing activities in FY2018 was mainly due to settlement of the Zhuhai Huafa Loan in full during the year.

Net cash generated from financing activities

Cash used in financing activities primarily consist of repayment of borrowings, interest paid, repayments of cash advances to related parties, and dividends paid to shareholder. Net cash used in financing activities amounted to approximately RMB129.0 million for FY2016, which was primarily attributable to repayment of borrowings of approximately RMB96 million and interest paid of approximately RMB55.7 million. These cash outflows were partially offset by cash advance from related parties by approximately RMB27.0 million.

Net cash used in financing activities amounted to approximately RMB261.6 million for FY2017, which was primarily attributable to repayment of borrowings of RMB118 million, interest paid of approximately RMB50.7 million, repayments of cash advances to related parties of approximately RMB46.7 million and dividends paid to shareholder of RMB50 million.

Net cash used in financing activities amounted to approximately RMB902.9 million for FY2018, which was primarily attributable to repayment of borrowings of RMB856 million and interest paid of approximately RMB45.1 million.

Net cash used in financing activities amounted to approximately RMB46.3 million for 1H2019, which was primarily attributable to repayments of cash advances from related parties of approximately RMB37.3 million and dividends paid of approximately RMB68 million and was partly offset by cash contribution from the owner of RMB45 million.

INDEBTEDNESS

The table below sets forth the Target Business's outstanding indebtedness as of 31 December 2016, 2017 and 2018 and as of 30 June 2019:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ABS				
Non-current portion	830,252	694,292	–	–
Current portion	109,039	135,960	–	–
Sub-total	939,291	830,252	–	–
Lease liabilities				
Non-current portion	–	–	–	751
Current portion	–	–	–	969
Sub-total	–	–	–	1,720
Total	939,291	830,252	–	1,720

Huafa Property Management entered into an asset-back securities ("**ABS**") arrangement with an asset management company by pledging of the future 7 years' right of receiving management fee for certain properties under its management. On 4 December 2015, the ABS was formally established with an aggregate nominal value of RMB1,120,000,000, with a 7-year maturity amongst which RMB50,000,000 was subordinate securities purchased by Huafa Property Management as original equity holder. The effective interest rate of the ABS is at 6.07% – 8.04% per annum. The net proceeds from the ABS, after deducting the issuance costs and the subordinate securities purchased by Huafa Property Management, amounted to approximately RMB1,025,000,000, the full amount of which was lent by Huafa Property Management to Zhuhai Huafa as an unsecured, interest bearing loan ("**Zhuhai Huafa Loan**") which was repayable based on contractarian payment terms and had been early settled in full in 2018. The effective interest rate of such loan was 5.73% – 6.42% per annum. Huafa Property Management has fully early redeemed the ABS as at 5 December 2018.

As at 31 December 2016, 2017 and 2018, and 30 June 2019, the Target Business's borrowings were repayable as follows:

	As of 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	109,039	135,960	–	–
Between 1 and 2 years	144,000	160,000	–	–
Between 2 and 5 years	491,252	534,292	–	–
Over 5 years	195,000	–	–	–
Total	939,291	830,252	–	–

COMMITMENTS

During the Track Record Period, the Target Business's commitments are lease commitments mainly related to lease payments for its offices. The table below sets forth its lease commitments as of the dates indicated:

Minimum lease payments under non-cancellable operating leases

	As of 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Up to 1 year	618	1,367	1,274	1,706
1 to 3 years	783	1,014	372	–
	1,401	2,381	1,646	1,706

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENT

Save as disclosed under the section headed "Commitments" above, as of the Latest Practicable Date, the Target Business does not have any off-balance sheet arrangements.

CONTINGENT LIABILITIES

As at the Latest Practicable Date, the Target Business did not have any significant contingent liabilities or outstanding guarantees in respect of payment obligations of any third parties.

As of the Latest Practicable Date, the Target Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other contingent liabilities.

DISTRIBUTABLE RESERVES

As of 30 June 2019, the Target Business had retained earnings of approximately RMB95.3 million which is available for distribution.

KEY FINANCIAL RATIOS

The following table sets forth certain of the Target Business's key financial ratios as of the dates and for the periods indicated.

		For the year ended 31 December			For the six months ended 30 June
		2016	**2017**	**2018**	**2019**
Current ratio	*1*	1.04	1.04	1.28	1.47
Gearing ratio	*2*	5.72	3.95	Nil	Nil
Return on total assets	*3*	1.5%	2.9%	12.4%	N/A(5)
Return on total equity	*4*	12.2%	18.4%	41.0%	N/A(5)

Notes:

(1) Current ratio is calculated by dividing total current assets by total current liabilities as at the date indicated.

(2) Gearing ratio is calculated by dividing total borrowings by total equity as at the date indicated.

(3) Return on total assets is calculated by dividing net profit for the year by the closing balance of total assets in the relevant period and multiplied by 100%.

(4) Return on equity is calculated by dividing net profit for the year by the closing balance of total equity in the relevant period and multiplied by 100%.

(5) The ratios are not meaningful because the profit for the period only represented six months of profit.

The Target Business's current ratio as at 31 December 2016, 2017 and 2018 and 30 June 2019 was approximately 1.04, 1.04, 1.28 and 1.47, respectively. The current ratio increased from approximately 1.04 as at 31 December 2017 to approximately 1.28 as at 31 December 2018 mainly due to the higher decrease in current liabilities than current assets as a result of increase in cash and cash equivalents from net cash generated from operating activities and decrease of both other receivables and borrowings from the full settlement of the Zhuhai Huafa Loan and the ABS. The current ratio then increased from approximately 1.28 as at 31 December 2018 to approximately 1.47 as at 30 June 2019 mainly due to the higher decrease in current liabilities than current assets as a result of decrease in cash and cash equivalents from net cash used from operating activities and decrease of other payables.

The Target Business's gearing ratio as at 31 December 2016, 2017 and 2018 and 30 June 2019 was approximately 5.72, 3.95, nil and nil, respectively. The gearing ratio decreased from approximately 5.72 as at 31 December 2016 to approximately 3.95 as at 31 December 2017 mainly due to decrease in total borrowings from repayment of the ABS and increase in total equity mainly from change in fair value of available-for-sale financial asset, net of tax. The gearing ratio then decreased from approximately 3.95 as at 31 December 2017 and to nil and nil as at 31 December 2018 and 30 June 2019 respectively mainly due to the full settlement of the ABS.

The Target Business's return on total assets in FY2016, FY2017 and FY2018 was approximately 1.5%, 2.9% and 12.4%, respectively. The return on total assets increased from 1.5% in FY2016 to 2.9% in FY2017 mainly due to the increase of 92.5% in its profit for the year. The return on total assets further increased significantly from 2.9% in FY2017 to 12.4% in FY2018 mainly due to the increase of approximately 48.4% in its profit for the year and a decrease in approximately 65.2% of the total assets as a result of the full settlement of the Zhuhai Huafa Loan and the ABS.

The Target Business's return on total equity in FY2016, FY2017 and FY2018 was approximately 12.2%, 18.4% and 41.0%, respectively. The return on total equity increased from 12.2% in FY2016 to 18.4% in FY2017 mainly due to the increase of 92.5% in its profit for the year. The return on total equity further increased significantly from 18.4% in FY2017 to 41.0% in FY2018 mainly due to the increase of approximately 48.4% in its profit for the year and a decrease in approximately 33.4% of the total equity as a result of the full settlement of the Zhuhai Huafa Loan and the ABS.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Business's principal financial instruments comprise cash and bank balances, trade and other receivables, balances with group companies, financial liabilities included in trade payables, other payables and accruals and interest-bearing loans and borrowings. The main purpose of these financial instruments is to provide finance for the Target Business's operations. The main risks arising from the Target Business's financial instruments are interest rate risk, price risk, credit risk and liquidity risk. These risks are managed by the Target Business's financial management policies and practices described below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Business's exposure to the risk of changes in market interest rates relates primarily to the Target Business's borrowings.

The Target Business's interest rate risk arises primarily from borrowings and loan to a related party. Loan to a related party and borrowings obtained at fixed rates expose the Target Business to fair value interest-rate risk. Loan to a related party and borrowings obtained at variable rates expose the Target Business to cash flow interest-rate risk. The Target Business had no loan to a related party borrowings with floating interest rates during the Track Record Period. The Target Business currently does not use any financial instruments to hedge against its interest rate risk exposure. Management will continue to monitor interest rate risk exposure and will consider hedging significant interest rate risk exposure should the need arise.

Price Risk

The Target Business's exposure to equity securities price risk arises from investments held by the Target Business and classified in the balance sheet as at fair value through other comprehensive income.

The Target Business's equity investments are publicly traded and are included in the Shanghai Stock Exchange.

As at December 31, 2017 and 2016, if the price of the equity investments had been 10% higher/lower, the FVOCI reserve would increase/decrease by RMB11,502,530 and RMB5,765,780 respectively.

Credit risk

The Target Business is exposed to credit risk in relation to its trade receivables, and other receivables and cash deposits at banks. The carrying amounts of trade receivables, and other receivables, cash and cash equivalents represent the Target Business's maximum exposure to credit risk in relation to financial assets.

For the cash deposits, the Target Business expects that there is no significant credit risk associated with cash deposits at banks since they are substantially deposited at state-owned banks and other medium or large-sized listed banks. In this regard, the Target Group consider that the its credit risk is significantly reduced. The Target Business does not expect that there will be any significant losses from non-performance by these counterparties.

For the trade receivables and other receivables, the Target Business has a large number of customers and there was no concentration of credit risk. The Target Business has monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the Target Business reviews the recoverability of these receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Target Business consider that the its credit risk is significantly reduced. The Target Business considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

Liquidity risk

The Target Business monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the its operations and mitigate the effects of fluctuations in cash flows.

Capital management

The primary objectives of the Target Business's capital management are to safeguard the Target Business's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Target Business may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt. The Target Business monitors capital on the basis of the asset-liability ratio. This ratio is calculated as total liabilities divided by total assets.

	As of 31 December			As of 30 June
	2016	**2017**	**2018**	**2019**
Asset–liability ratio	88%	84%	70%	60%

NO MATERIAL ADVERSE CHANGE

Up to the Latest Practicable Date, there has been no material adverse change in the financial or trading position of the Target Business since 30 June 2019, the end of the period reported in the Accountant's Report of the Target Business set out in Appendix III to this circular, and there has been no event since 30 June 2019 which would materially affect the information shown in the Accountant's Report of the Target Business set out in Appendix III to this circular.

OVERVIEW

The Target Group is a leading regional residential property management service provider headquartered in Zhuhai, ranking twenty-eighth by CIA in 2019 among the Top 100 Property Management Companies in the PRC in terms of overall strength. The Target Group commanded strong brand recognition in securing property management service engagements, especially in relation to property development projects in Zhuhai. Zhuhai Huafa Group, on the other hand, is also headquartered in Zhuhai and holds a leading position in the property development market in Zhuhai with footprint all over the PRC.

According to CIA, projects developed by a sister company remain a key source of projects for Top 100 Properties Management Companies to expand their business scales and secure their project pipelines. A majority of the Top 100 Property Management Companies in the PRC have their parent companies or controlling shareholders engaging in property development business. Out of the 220 companies comprising the Top 100 Property Management Companies for 2018, 167, or approximately 76%, of them manage properties developed by property developers which were their related parties ("**Selected Top 100 Property Management Companies**"). In 2018, all 167 of the Selected Top 100 Property Management Services Companies have approximately 50% of their revenue-bearing GFA from properties developed by their respective related parties. Furthermore, 80 of the Selected Top 100 Property Management Services Companies have more than 80% of their revenue-bearing GFA from properties developed by their respective related parties, while 60 of the Selected Top 100 Property Management Services Companies have more than 90% of their revenue-bearing GFA from properties developed by their respective related parties. As at 31 December 2016, 2017 and 2018, and 30 June 2019, approximately 91%, 84%, 89% and 89% of the revenue-bearing GFA were of properties developed by Zhuhai Huafa Group, respectively.

In FY2016, FY2017, FY2018 and 1H2019, Zhuhai Huafa Group solicited bids for 7, 10, 17 and 9 property development projects respectively and the Target Group has tendered for and signed property management contracts with all of them.

The table below sets out the breakdowns of total revenue of the Target Business generated from properties developed by Zhuhai Huafa Group and independent property developers, respectively, for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Properties developed by Zhuhai Huafa Group	340,975	84.4%	383,222	81.0%	491,437	78.0%	228,980	78.8%	279,037	80.1%
Properties developed by independent property developers	62,981	15.6%	89,938	19.0%	138,681	22.0%	61,647	21.2%	69,235	19.9%
Total	403,956	100%	473,160	100%	630,118	100%	290,627	100.0%	348,272	100.0%

The strong and stable relationship between Zhuhai Huafa Group and the Target Group can be partially reflected by the steady contribution of revenue from Zhuhai Huafa Group to the Target Business's total revenue of around 30-40% for each of the three years ended 31 December 2018, as further detailed in the section headed "5. Business — Customers and Suppliers" in this appendix.

Having considered (i) the branding and shared geographic advantage; (ii) the historical success rate of bidding for providing property management services by the Target Group to projects developed Zhuhai Huafa Group; and (iii) the stable long term business relationship between Zhuhai Huafa Group and the Target Group, the Company is of the view that there is a mutual reliance relationship between Zhuhai Huafa Group and the Target Group, and the said relationship is mutual and complementary and is in line with the industry norm, which is unlikely to be terminated or otherwise materially adversely change or terminated in the foreseeable future, except for the interest income related to the ABS which is not expected to recur following the full redemption of the ABS.

INDEPENDENCE FROM THE GROUP'S CONTROLLING SHAREHOLDER

Operational Independence

The Target Group does not share any business operations with Zhuhai Huafa. Save for the disclosure below in relation to the provision of property management services to Zhuhai Huafa, there is no material customer-supplier relationship between the Target Group and the existing business of Zhuhai Huafa.

The Target Group possesses and/or controls the necessary licences, approvals, permits, and qualifications required for its ongoing business operations. Huafa Property Management and Zhuhai Huafa had entered into the Trademark Licensing Agreement on 31 August 2018 and a confirmation letter dated 25 September 2019, respectively, pursuant to which Zhuhai Huafa agreed irrevocably and unconditionally to grant Huafa Property Management without consideration a license to use Zhuhai Huafa's registered trademarks "華發" and "" in the PRC commencing from the date of the Trademark Licensing Agreement to the expiry date of the Trademarks validity period. The expiry date of the Trademarks validity period is dependent upon the expiry date of the individual Trademark subject to the Trademark Licensing Agreement, ranging from 13 October 2027 to 6 April 2029. For details, please refer to the paragraph headed "2. Trademark Licensing Agreement" in the Letter from the Board of this circular. Zhuhai Huafa is in the process of registration of the trademark of "Huafa Property" (華發物業) in the PRC, and upon completion of its registration, is expected to enter into a license agreement with Huafa Property Management for its exclusive use of the trademark "Huafa Property" in the PRC without consideration. The cumulative effect of such grant of intellectual property rights and other protections is that the Target Group would have ongoing protection for its business operations. For further details, please refer the sections headed "1. Risk Factors Risks – relating to the Business and Industry of The Target Group – If the Target Group fails to protect its intellectual property rights, its business, financial conditions and results of operations would be severely harmed." and "1. Risk Factors – Risks relating to the

Business and Industry of The Target Group – Brand image is a key factor in the client's purchase decisions and any failure to renew the Trademark Licensing Agreement with Zhuhai Huafa or failure for Zhuhai Huafa to renew the Trademarks, the business operations and financial condition of Target Group might be affected." in Appendix 1 to this circular.

Though most of the projects the Target Group managed during the Track Record Period are developed by Zhuhai Huafa Group, which is in line with the industry norm, the Target Group secures a majority of preliminary property management service engagements through tender process regulated by applicable PRC laws and regulations.

Before residential properties are sold and delivered to property owners (i.e. at the pre-delivery stage), Zhuhai Huafa Group, being the property developer, could engage the Target Group as the property management service provider under a preliminary property management service contract either via tender and bidding process or under authorisation by the relevant government authority through arms-length negotiations with reference to comparable market price. The Target Group's preliminary property management service contracts entered into with Zhuhai Huafa Group in relation to residential properties generally do not have any fixed term or have a fixed term but are renewed automatically upon expiration unless terminated.

In the post-delivery stage where residential property units have been wholly or partially sold and the owners' associations have been established by the property owners' general meeting, the owners' associations are authorised by the property owners' general meeting to dismiss/disengage the preliminary property management service contract with the Target Group and enter into contracts with another property management service provider selected by the property owners' general meeting. Zhuhai Huafa Group does not have any influence over the selection (or replacement) of the property management service provider for residential properties at both the pre-delivery and post-delivery stages. In short, Zhuhai Huafa Group as the property developer does not have the discretion in engaging or dismissing the property management service provider for residential properties it developed at both the pre-delivery and post-delivery stages. During the Track Record Period, no preliminary property management service contracts or existing property management agreements entered into by the Target Group with Zhuhai Huafa Group in relation to residential properties were terminated and replaced by new property management agreements entered into with another property management service provider.

Furthermore, although approximately 84.4%, 81.0%, 78.0% and 80.1% of the total revenue of the Target Business was generated from properties developed by Zhuhai Huafa Group for FY2016, FY2017, FY2018 and 1H2019 respectively, only approximately 34.1%, 34.2%, 38.1% and 34.3% of the total revenue of the Target Business was generated from Zhuhai Huafa Group for FY2016, FY2017, FY2018 and 1H2019, respectively.

Upon Completion, the transactions between Zhuhai Huafa and the Target Group will constitute connected transactions of the Company. The Group has adopted internal control procedures and corporate governance measures in relation to the connected transactions. Please refer to the section headed "III. Continuing Connected Transactions" in the letter from the Board in this circular for further details.

During the three years ended 31 December 2016, 2017 and 2018, the percentages of revenue from properties developed by Zhuhai Huafa Group represent a gradual decreasing trend. Although revenue from Zhuhai Huafa Group is also expected to increase in the future as shown by the proposed annual caps under the Property Management Services Cooperation Framework Agreement, it is expected that the total revenue of the Target Business is also expected to increase significantly in the three years ending 31 December 2022. Therefore, the percentages of revenue from Zhuhai Huafa Group, based on the annual cap figures, are expected to remain stable and within the range of approximately 35.5% to 36.5% for the three years ended 31 December 2022, which is in line with the historical percentage range of approximately 34.1% to 38.1% during the Track Record Period.

The Target Group is not expected to rely on Zhuhai Huafa Group for procurement of products and services. The annual caps under the Procurement Cooperation Framework Agreement represents a right, but not an obligation of the Target Group to procure products and services from Zhuhai Huafa Group. Prior to entering into any individual agreement or conducting a purchase, the Target Group will conduct market research and may choose to conduct transactions with independent third parties that offer more favourable terms to the Company. In relation to leasing of venues for event in particular, the Target Group may also choose to lease venues at hotels operated by independent third parties if their terms are more favourable to the Company.

The Target Group is not expected to rely on Zhuhai Huafa Group in relation to leasing of the Leased Property, and may enter into an agreement with independent third parties upon expiring of the Property Lease Agreement if their terms are more favourable to the Company.

Financial Independence

The Company believes that the business of the Target Group will be able to be funded by its operational cash flow and independent and external banks and finance facilities without credit support from Zhuhai Huafa following the Completion.

As at 31 December 2018 and 30 June 2019, there was no outstanding loans owing by the Target Group to Zhuhai Huafa Group or outstanding loans guaranteed by Zhuhai Huafa Group.

Management Independence

Save for Mr. Zhou Wenbin, chairman of Huafa Property Management and Huafa Elevator respectively, who is also a deputy general manager of Zhuhai Huafa Property Development Co., Ltd. (珠海華發房地產開發有限公司) an indirect subsidiary of Zhuhai Huafa, none of the members of the core management team of the Target Group has or is expected to have an overlapping position in Zhuhai Huafa Group following the Completion. Please refer to the section headed "6. Core Management Team" in this appendix for further details.

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial information of the Group for each of the three years ended 31 December 2016, 2017 and 2018 are disclosed in the following annual reports of the Company which have been published on the websites of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.ioneholdings.com/en/home.php):

- The audited consolidated financial statements of the Group for the year ended 31 December 2016 is disclosed in the 2016 annual report of the Company published on 21 April 2017, from pages 56 to 112. Please also see below the link to the 2016 annual report of the Company:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0421/ltn20170421738.pdf

- The audited consolidated financial statements of the Group for the year ended 31 December 2017 is disclosed in the 2017 annual report of the Company published on 5 March 2018, from pages 71 to 136. Please also see below the links to the 2017 annual report of the Company:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0305/ltn201803051578.pdf

- The audited consolidated financial statements of the Group for the year ended 31 December 2018 is disclosed in the 2018 annual report of the Company published on 26 April 2019, from pages 93 to 167. Please also see below the links to the 2018 annual report of the Company:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0426/ltn201904261717.pdf

The unaudited consolidated financial information of the Group for the six months ended 30 June 2019 is disclosed in the following interim report of the Company which have been published on the websites of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.ioneholdings.com/en/home.php):

- The unaudited consolidated financial statements of the Group for the six months ended 30 Jun 2019 is disclosed in the 2019 interim report of the Company published on 26 September 2019, from pages 3 to 31. Please also see below the links to the 2019 interim report of the Company:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0926/ltn20190926111.pdf.

2. STATEMENT OF INDEBTEDNESS OF THE ENLARGED GROUP

As at the close of business on 31 October 2019, being the latest practicable date for the purpose of this indebtedness statement, the indebtedness of the Enlarged Group was as follows:

Bank loans

As at 31 October 2019, being the latest practicable date for the purpose of this statement of indebtedness prior to the date of this circular, the Enlarged Group had outstanding bank loans of HK$144,000,000 which comprised:

(i) unsecured and guaranteed bank borrowings of HK$128,000,000; and

(ii) unsecured and unguaranteed bank borrowings of HK$16,000,000.

Lease liabilities

As at 31 October 2019, the Enlarged Group had lease liabilities amounting to HK$29,978,000.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, as of 31 October 2019, being the latest practicable date for determining indebtedness, the Enlarged Group did not have any outstanding mortgages, charges, debentures, debt securities or other loan capital or bank overdrafts or loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments or guarantees or other material contingent liabilities, nor any authorised or otherwise created but unissued debt securities.

3. WORKING CAPITAL

As at the Latest Practicable Date, the Company has obtained an uncommitted revolving credit facility amounting up to US$30,000,000 (equivalent to approximately HK$234,000,000) and a loan facility amounting up to RMB740,000,000 (equivalent to approximately HK$824,138,000) with two banks, respectively. The uncommitted revolving credit facility amounting up to US$30,000,000 is subject to renewal on 20 June 2020 and the Directors are of the opinion that the aforesaid renewal will be available to the Company. The loan facility amounting up to RMB740,000,000 is subject to approval of board of directors of the Company. The Directors are of the opinion that the aforesaid loan facility will be approved by the Board by January 2020.

Taking into account of the completion of the Acquisition and the financial resources available to the Enlarged Group, including the internally generated funds and banking facilities currently available, and based on the assumption regarding loan facility as set above, in the absence of unforeseeable circumstances, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is, for at least the next twelve months from the date of this circular.

4. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the Group's business and financial performance for the three years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019.

For six months ended 30 June 2019

Business Review and Business Plan

Since the Group obtained Type 9 (asset management) licence from the Securities and Futures Commission in January 2019, the Group has been carrying out regulated activities through its wholly-owned subsidiaries, Huajin Financial (International) Holdings Limited ("**Huajin Financial**"), WAG Worldsec Corporate Finance Limited ("**WAG**") and Huajin International Investment Management Limited, including Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, and also holds a Money Lender's Licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). In addition, the Group has gradually commenced relevant operations of hotel management, convention and exhibition and event planning in the Mainland China through its wholly-owned subsidiaries, Zhuhai Hengqin New Area Huajin International Hotel Management Company Limited* (珠海市橫琴新區華金國際酒店管理有限公司) and Zhuhai Hengqin New Area Huajin International Convention Services Company Limited* (珠海市橫琴新區華金國際會展服務有限公司).

(a) Financial Services

The Group will proactively participate in more Initial Public Offering ("**IPO**") underwriting and equity financing transactions in order to build up its reputation, enlarge its customer base and increase its revenue with a view to becoming one of the leading service providers in assisting corporate financing activities for small to medium enterprises in Hong Kong and the PRC. The Group will continue to provide comprehensive one-stop financial services to customers.

(b) Hotel Advisory, Hotel Management and Exhibition Services Planning

While striving to enhance the competitiveness of its core business, the Group has been identifying and exploring new business opportunities. The Group has recruited a team of relevant experienced personnel with comprehensive expertise in the hotel management industry as well as event planning and management, coupled with the necessary expertise and personnel to provide hotel management and advisory services, and consultancy services in relation to convention, exhibition, conference and event planning and organisation, with a view to expanding its current principal activities of consulting services from financial consulting to other aspects.

(c) Financial Printing Service

In light of tough market conditions, the Group will strive to optimize the business structure and materialize the consolidation of internal resources to enhance the overall operating efficiency of the financial printing service.

Financial Review

For the six months ended 30 June 2019, the Group recorded a revenue of approximately HK$116.5 million (six months ended 30 June 2018: approximately HK$81.0 million), representing an increase of approximately 44% as compared with the corresponding period in 2018, and revenue contributed by financial service's operation to the Group amounted to approximately HK$36.4 million for the six months ended 30 June 2019 (six months ended 30 June 2018: approximately HK$20.2 million), revenue contributed by hotel advisory, hotel management and exhibition services planning's operations to the Group amounted to approximately HK$11.7 million (six months ended

30 June 2018: Nil) and revenue contributed by financial printing service's operation to the Group amounted to approximately HK$68.3 million (six months ended 30 June 2018: approximately HK$60.9 million).

The Group's loss before income tax amounted to approximately HK$3.3 million (six months ended 30 June 2018: approximately HK$29.7 million).

Total comprehensive loss attributable to owners of the Company for the six months ended 30 June 2019 was approximately HK$2.02 million (six months ended 30 June 2018: approximately HK$29.9 million). Basic and diluted loss per share was approximately HK0.019 cent (six months ended 30 June 2018: HK0.295 cent). The decrease in total comprehensive loss for the period attributable to owners of the Company was mainly attributable to the increase in revenue in general, but cost of sales decreased compared with the corresponding period in 2018 causing the overall gross profit margin to increase from approximately 19% to approximately 45%.

Liquidity and Financial Resources

As at 30 June 2019, the Group's cash and cash equivalents amounted to approximately HK$152.8 million (31 December 2018: approximately HK$129.9 million) with approximately HK$75.5 million borrowings from banks (31 December 2018: HK$55.0 million).

The Group had total current assets of approximately HK$324.3 million (31 December 2018: approximately HK$255.0 million) and total current liabilities of approximately HK$220.0 million (31 December 2018: approximately HK$124.2 million). The Group's current ratio, being total current assets over total current liabilities, was 1.47 (31 December 2018: 2.05).

Total equity of the Group as at 30 June 2019 amounted to approximately HK$204.0 million (31 December 2018: approximately HK$209.0 million). The Group's gearing ratio, being total liabilities over total assets, was approximately 53.8% (31 December 2018: 37.3%).

Pledge of Assets

As at 30 June 2019, the Group had no pledge of assets.

Capital Structure

Save as disclosed, the Group's capital structure remained unchanged during the six months ended 30 June 2019.

Contingent Liabilities

As at 30 June 2019, the Group did not have any material contingent liabilities.

Employees

As at 30 June 2019, the Group had a total of 231 employees (31 December 2018: approximately 217). The staff costs of the Group for the six months ended 30 June 2019 were approximately HK$58.0 million (six months ended 30 June 2018: approximately HK$56.1 million), which comprised salaries, commissions, bonuses, other allowances and contributions to the retirement benefit scheme.

The Group operates a defined contribution scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), and provides medical insurance to all its Hong Kong employees. For Mainland employees, social insurance, social housing and pension are provided. The Group structured its employee remuneration packages with reference to general market practice, employees' duties and responsibilities, and the Group's financial performance. The Group provided training courses and developed training programmes to equip staff with the necessary skills, techniques and knowledge in order to enhance their productivity and administrative efficiency.

Share Option Scheme

Pursuant to the resolution passed by the Shareholders on 25 June 2008, the Company approved and adopted a share option scheme (the "**Share Option Scheme**") whereby selected classes of participants may be granted options to subscribe for Shares at the discretion of the Board. No options were granted under the Share Option Scheme during the six months ended 30 June 2019.

Significant Acquisitions and Disposals of Investments

The Group did not acquire or dispose of any significant investments during the six months ended 30 June 2019.

Exposure to Fluctuations in Exchange Rates

The Group conducted its business transactions principally in HK$. As at 30 June 2019, most of the Group's cash and bank deposits balances were mainly denominated in HK$ and US$. As HK$ is pegged to US$, the Group's foreign exchange risk exposure is minimal. As such, the Group did not adopt any foreign exchange derivatives for hedging purpose as at 30 June 2019.

For the year ended 31 December 2018

Business Review and Business Plan

The Company has developed a new business segment in hotel advisory, hotel management and exhibition services planning in 2018 in order to contribute to and share the benefits of development of the Guangdong-Hong Kong-Macao Greater Bay Area.

(a) Financial Services

During the year, the corporate finance division completed sponsorship for two IPO projects, namely Anchorstone Holdings Limited (1592:HK) and Prosperous Industrial (Holdings) Limited (1731:HK), and financial advisory for one very substantial disposal transaction. The corporate finance team will strive to complete IPO projects in progress and has been proactively exploring new customers so as to participate in more IPO sponsorship and underwriting projects as well as financial advisory projects in order to consolidate the foundation of the corporate finance business.

Competition in brokerage business remained intense while new entrants kept on tapping into this market. In response to the market competition, the Group has been continuously optimizing its customer service process so as to attract more clients with quality services.

The Group will further enhance its business cooperation with Zhuhai Huafa and will make use of its business networks. With experienced expertise, the Group will continue to closely keep up with market developments so as to formulate long term sustainable development of the Group.

(b) Hotel Advisory, Hotel Management and Exhibition Services Planning

As the Company has been enhancing the competitiveness of its core business, it has always been seeking to diversify the business of the Group and explore new business opportunities. The Group has recruited a team of relevant experienced personnel with comprehensive expertise in the hotel management industry and event planning and management, and possesses the necessary expertise and personnel to provide hotel management and advisory services, and consultancy services in relation to convention, exhibition, conference and event planning and organization, expanding its current principal activities of consulting services from financial consulting to consultancy in other aspects.

(c) Financial Printing Services

The Company, through its subsidiary, iOne Financial Press Limited ("**iOne Financial**"), has provided the financial printing service since 2008. With a view to improve its profitability, iOne Financial will continue to improve its office facilities, streamline work procedures and service quality, and upgrade its software and equipment to enhance its competitiveness. Furthermore, in light of tough market conditions, the Group will strive to optimize the business structure and materialize the consolidation of internal resources to enhance the overall operating efficiency of the financial printing services.

Financial Review

The Group recorded a revenue of approximately HK$247.3 million for the year ended 31 December 2018, representing an increase of about 29.3% compared with the previous financial year, which was mainly due to increase in revenue from financial services segment, and hotel advisory, hotel management and exhibition services planning segment. The new segment (hotel advisory, hotel management and exhibition services planning) has contributed revenue of approximately HK$23.6 million while the financial services segment brought revenue of approximately HK$94.2 million to the Group for the year ended 31 December 2018.

The Group's profit before income tax increased to approximately HK$4.0 million (2017: approximately HK$1.2 million), which was mainly due to increase in revenue from financial services segment, and hotel advisory, hotel management and exhibition services planning segment.

Profit attributable to owners of the Company was reduced from approximately HK$0.34 million for the year ended 31 December 2017 to approximately HK$0.04 million for the year ended 31 December 2018. Basic earnings per share was approximately HK0.0004 cent (2017: approximately HK0.0036 cent).

Liquidity and Financial Resources

As at 31 December 2018, the Group's cash and cash equivalents amounted to approximately HK$129.9 million (2017: approximately HK$99.8 million) with bank borrowings of approximately HK$55.0 million (2017: Nil).

The Group has current assets of approximately HK$255.0 million (2017: approximately HK$207.3 million) and total current liabilities of approximately HK$124.3 million (2017: approximately HK$102.9 million). The Group's current ratio, being total current assets over total current liabilities, was 2.05 (2017: 2.01).

Total equity of the Group as at 31 December 2018 amounted to approximately HK$208.9 million (2017: approximately HK$194.8 million). The Group's gearing ratio, being total liabilities over total assets, was 37.3% (2017: 34.6%).

Pledge of Assets

As at 31 December 2018, the Group has restricted bank balances of approximately HK$15.0 million to secure the bank borrowings.

Capital Structure

There was no material change in the capital structure of the Company during the year.

Contingent Liabilities

As at 31 December 2018, the Group did not have any contingent liabilities.

Capital Commitments

As at 31 December 2018, the Group did not have any capital commitments.

Capital Expenditure

For the year ended 31 December 2018, capital expenditure for property, plant and equipment of the Group amounted to approximately HK$1.56 million (2017: approximately HK$0.52 million).

Employees

As at 31 December 2018, the Group had a total of about 217 employees (2017: 176). The staff costs of the Group for the year ended 31 December 2018 were approximately HK$103.5 million (2017: approximately HK$86.6 million), which comprised salaries, commissions, bonuses and other allowances, and contributions to their retirement benefit scheme.

The Group operates a defined contribution scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), and provides medical insurance to all its Hong Kong employees. For Mainland employees, social insurance, social housing and pension are provided. The Group structured its employee remuneration packages with reference to general market practice, employees' duties and responsibilities, and the Group's financial performance. The Group provided training courses and developed training programmes to equip staff with the necessary skills, techniques and knowledge in order to enhance their productivity and administrative efficiency.

Share Option Scheme

Pursuant to the resolution passed by the Shareholders on 25 June 2008, the Company approved and conditionally adopted the Share Option Scheme whereby selected classes of the participants may be granted options to subscribe for shares at the discretion of the Board. No options were granted under the Share Option Scheme for the year ended 31 December 2018.

Significant Acquisitions and Disposals of Investments

On 31 August 2018, Miracle View Group Limited, a direct wholly-owned subsidiary of the Company, completed the disposal of 40% of the entire issued share capital of Rising Win Ltd, an indirect wholly-owned subsidiary of the Company, at a consideration of HK$12 million. For details, please refer to the Company's announcement dated 31 August 2018.

Save as disclosed as above, the Group did not acquire or dispose of any significant investments or properties, nor did the Group carry out any material acquisitions or disposals of the Company's subsidiaries and associates during the year.

Exposure to Fluctuations in Exchange Rates

The Group conducted its business transactions principally in HK$. As at 31 December 2018, most of the Group's bank deposits and cash balances were mainly denominated in HK$ and US$. The HK$ is pegged to the US$, and this made the Group's foreign exchange risk exposure minimal. As such, the Group did not utilize any foreign exchange derivatives for hedging purposes as at 31 December 2018.

For the year ended 31 December 2017

Business Review and Business Plan

Facing the complicated business environment and increasingly fierce competition, the Company had gone through a challenging year. Subsequent to the completion of the acquisition of Huajin Financial and its subsidiaries (collectively, "**Huajin Group**") on 13 September 2017, the Group carries out regulated activities through its wholly-owned subsidiaries, Huajin Group and WAG, including Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and also holds a Money Lender's Licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong).

(a) Financial Services

In order to leverage on the complementary synergy between the financial services business of Huajin Group and the financial advisory services of the Group, the Group has expanded its financial services business to cover securities underwriting and consultancy, securities and futures brokerage and equity research businesses which enable the Group to provide comprehensive one-stop financial services to its customers and to have instant access to a readily available financial business platform which is complementary to the financial services business of the Group.

The Group will strive to participate in more IPO underwriting and equity financing transactions in order to build up its reputation, enlarge its customer base and increase its revenue with a view to becoming one of the leading players in assisting fund raising activities for small to medium enterprises in Hong Kong and the PRC. Huajin Group will continue to collaborate with WAG as sponsor in IPO projects to provide comprehensive one-stop financial services to customers.

Moreover, while the Group will further expand its brokerage business, it will also actively expand its margin financing business, with a view to expanding its interest income in addition to commission income from the securities brokerage business.

Capitalising on the previous successful experience of Huajin Group participating in debt issuance program of Zhuhai Huafa, the Group will strive to expand its customer base to include other PRC corporations.

(b) Financial Printing Services

The Company, through its wholly-owned subsidiary, iOne Financial, has provided financial printing service since 2008. With a view to improve its profitability, iOne Financial will continue to improve its office facilities, streamline work procedures and service quality, and upgrade its software and equipment to enhance its competitiveness. Furthermore, in light of tough market conditions, the Group will strive to optimize the business structure and materialize the consolidation of internal resources to enhance the overall operating efficiency of the financial printing services.

Financial Review

The Group's revenue generated from continuing operations increased for the year ended 31 December 2017 increased by approximately 19.2% to approximately HK$191.3 million as compared with the previous year ended 31 December 2016, which was approximately HK$160.4 million. Such increase was mainly attributable to the increase in revenue contributed by Huajin Group and WAG. The financial services segment brought revenue of approximately HK$80.2 million to the Group for the year ended 31 December 2017.

The Group's profit before income tax from continuing operations increased to approximately HK$1.2 million (2016 restated: loss of approximately HK$26.3 million), which was mainly due to increased revenue from Huajin Group and WAG.

Profit attributable to owners of the Company was approximately HK$0.34 million (2016 restated: loss of approximately HK$29.0 million). Basic earnings per share was approximately HK0.004 cent (2016 restated: loss per share of approximately HK0.315 cent).

Liquidity and Financial Resources

As at 31 December 2017, the Group's cash and cash equivalents amounted to approximately HK$99.8 million (2016 restated: approximately HK$138.6 million) with HK$35.5 million loan from a related party (2016 restated: HK$23.8 million).

The Group has current assets of approximately HK$207.3 million (2016 restated: approximately HK$324.9 million) and total current liabilities of approximately HK$102.9 million (2016 restated: approximately HK$222.9 million). The Group's current ratio, being total current assets over total current liabilities, was 2.01 (2016 restated: 1.46).

Total equity of the Group as at 31 December 2017 amounted to approximately HK$194.8 million (2016 restated: approximately HK$141.5 million). The increase was mainly driven by share premium from new shares issued during the year. The Group's gearing ratio, being total liabilities over total assets, was 34.6% (2016 restated: 61.2%).

Pledge of Assets

As at 31 December 2017, the Group had no pledge of assets.

Capital Structure

As disclosed in the Company's announcements dated 11 August 2017, 16 August 2017 and 25 August 2017, in accordance with the terms and conditions of the subscription agreement entered into between the Company and IDG Light Solutions Limited, the Company has successfully allotted and issued 860,920,000 new Shares to IDG Light Solutions Limited at the subscription price of HK$0.151 per subscription share with net proceeds of approximately HK$129 million.

Save as disclosed above, there was no material change in the capital structure of the Company during the year.

Contingent Liabilities

As at 31 December 2017, the Group did not have any contingent liabilities.

Capital Commitments

As at 31 December 2017, the Group did not have any capital commitments.

Capital Expenditure

For the year ended 31 December 2017, capital expenditure for property, plant and equipment of the Group amounted to approximately HK$0.52 million (2016 restated: approximately HK$0.78 million).

Employees

As at 31 December 2017, the Group had a total of about 176 employees (2016 restated: 173). The staff costs of the Group for the year ended 31 December 2017 were approximately HK$86.6 million (2016 restated: approximately HK$89.3 million), which comprised salaries, commissions, bonuses and other allowances, and contributions to their retirement benefit scheme.

The Group operates a defined contribution scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), and provides medical insurance to all its Hong Kong employees. For Mainland employees, social insurance, social housing and pension are provided. The Group structured its employee remuneration packages with reference to general market practice, employees' duties and responsibilities, and the Group's financial performance. The Group provided training courses and developed training programmes to equip staff with the necessary skills, techniques and knowledge in order to enhance their productivity and administrative efficiency.

Share Option Scheme

Pursuant to the resolution passed by the Shareholders on 25 June 2008, the Company approved and conditionally adopted the Share Option Scheme whereby selected classes of the participants may be granted options to subscribe for shares at the discretion of the Board. No options were granted under the Share Option Scheme for the year ended 31 December 2017.

Significant Acquisitions and Disposals of Investments

On 25 July 2017, Highly Ventures Limited, an indirect wholly-owned subsidiary of the Company, and Greater Treasure Limited, entered into an agreement, whereby an entity owned as to 30% by Highly Ventures Limited and as to 70% by Greater Treasure Limited has been formed to engage mainly in the business in the development of children's online educational content and related products in the PRC. For details, please refer to the Company's announcement dated 25 July 2017.

On 27 July 2017, the Company subscribed a 3.876% tier 2 subordinated notes in the principal amount of US$2,000,000 at a total consideration of US$2,013,861 (equivalent to approximately HK$15,708,000) issued by Chong Hing Bank Limited with maturity date on 26 July 2027.

On 13 September 2017, the Company completed the acquisition of Huajin Financial, a company through its subsidiaries carrying on licensed business in Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 4 (advising on securities) regulated activities under the SFO as well as money lending business in Hong Kong.

Save as disclosed as above, the Group did not acquire or dispose of any significant investments or properties, nor did the Group carry out any material acquisitions or disposals of the Company's subsidiaries and associates during the year.

Exposure to Fluctuations in Exchange Rates

The Group conducted its business transactions principally in HK$. As at 31 December 2017, most of the Group's bank deposits and cash balances were mainly denominated in HK$ and US$. The HK$ is pegged to the US$, and this made the Group's foreign exchange risk exposure minimal. As such, the Group did not utilize any foreign exchange derivatives for hedging purposes as at 31 December 2017.

For the year ended 31 December 2016

Business Review and Business Plan

Due to rigorous competition in the market and a drop in IPOs revenue, the Group's revenue from continuing operations decreased by 15.1% as compared with the previous year ended 31 December 2015.

Such decrease was mainly attributable to the material decrease in sales and gross profit from the financial printing segment, which underperformed the previous year by 15.4% and 26.9% respectively. For the financial advisory services segment, the Group acquired a licensed corporation carrying on business in Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, which brought revenue of approximately HK$537,000 to the Group for the year ended 31 December 2016.

(a) Financial Advisory Services

As announced on 30 June 2016, the Company has completed the acquisition of the entire equity interest in WAG, a licensed corporation carrying on business in Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. The Company believed that the acquisition will provide a strong foothold for the Company to extend its business presence in the financial services industry in Hong Kong and strengthen the Group's asset base. After the acquisition, the Company has commenced corporate finance and securities advisory services under the SFO, which are believed by the Company to have the potential to make future contribution to the Group and help the Group develop sustainably.

(b) Property Investment

In order to diversify its business activities and secure a steady income stream, the Group will continue to seek for and identify appropriate locations for future property investments.

(c) Financial Printing Services

One of the Group's fundamental business objectives is to establish itself as an international financial printing services provider in the financial sector by strengthening its core competitiveness. The Group will continue to improve its office facilities, streamline work procedures and service quality, and upgrade its software and equipment to enhance its competitiveness. Furthermore, in light of tough market conditions, the Group will strive to optimize the business structure and materialize the consolidation of internal resources to enhance the overall operating efficiency of the financial printing services.

Financial Review

The Group recorded a revenue from continuing operations of approximately HK$156.0 million for the year ended 31 December 2016 (2015: approximately HK$183.8 million), representing a decrease of about 15.1% compared with the previous financial year.

The Group's profit before income tax from continuing operations decreased by approximately 66.6% to approximately HK$6.0 million (2015: approximately HK$17.9 million).

Profit attributable to owners of the Company was approximately HK$3.2 million (2015: approximately HK$13.1 million), representing a decrease of approximately 75.6% when compared with the previous financial year. Basic earnings per share was approximately HK0.04 cent (2015: HK0.14 cent).

Liquidity and Financial Resources

As at 31 December 2016, the Group's cash and cash equivalents amounted to approximately HK$89.4 million (2015: approximately HK$57.6 million) with HK$23.8 million loan from major controlling shareholder (2015: Nil).

The Group has current assets of approximately HK$136.2 million (2015: approximately HK$119.2 million) and total current liabilities of approximately HK$67.4 million (2015: approximately HK$47.2 million). The Group's current ratio, being total current assets over total current liabilities, was 2.0 (2015: 2.5).

Total equity of the Group as at 31 December 2016 amounted to approximately HK$95.1 million (2015: approximately HK$91.2 million). The increase was mainly driven by the net profit after tax for the year. The Group's gearing ratio, being total liabilities over total assets, was 41.5% (2015: 34.7%).

Pledge of Assets

As at 31 December 2016, the Group had no pledge of assets.

Capital Structure

There was no material change in the capital structure of the Company during the year.

Contingent Liabilities

As at 31 December 2016, the Group did not have any contingent liabilities.

Capital Commitments

As at 31 December 2016, the Group did not have any capital commitments.

Capital Expenditure

For the year ended 31 December 2016, capital expenditure for property, plant and equipment of the Group amounted to approximately HK$0.41 million (2015: approximately HK$2.0 million).

Employees

As at 31 December 2016, the Group had a total of about 146 employees (2015: approximately 185). The staff costs of the Group for the year ended 31 December 2016 were approximately HK$70.6 million (2015: approximately HK$74.3 million), which comprised salaries, commissions, bonuses and other allowances, and contributions to their retirement benefit scheme.

The Group operates a defined contribution scheme under the Mandatory Provident Fund Schemes Ordinance, and provides medical insurance to all its Hong Kong employees. For Mainland employees, social insurance, social housing and pension are provided. The Group structured its employee remuneration packages with reference to general market practice, employees' duties and responsibilities, and the Group's financial performance. The Group provided training courses and developed training programmes to equip staff with the necessary skills, techniques and knowledge in order to enhance their productivity and administrative efficiency.

Share Option Scheme

Pursuant to the resolution passed by the Shareholders on 25 June 2008, the Company approved and conditionally adopted the Share Option Scheme whereby selected classes of the participants may be granted options to subscribe for shares at the discretion of the Board. No options were granted under the Share Option Scheme for the year ended 31 December 2016.

Significant Acquisitions and Disposals of Investments

As disclosed in the announcement of the Company dated 10 March 2016, Rapid Swift Limited, an indirect wholly-owned subsidiary of the Company, entered into an agreement with an independent third party to sell the entire equity interest in its wholly-owned subsidiary, Wealth Porter Limited ("**Wealth Porter**"), at a total consideration of HK$6,330,000. Wealth Porter held an investment property located at Office No. 2, 3rd Floor, Conwell House, Nos. 34, 36 and 38 Stanley Street, Central, Hong Kong. The disposal was completed on 5 April 2016.

In March 2016, the Company entered into a sale and purchase agreement with independent third parties, pursuant to which the Company conditionally agreed to purchase the entire equity interest in WAG, a licensed corporation carrying on business in Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. The acquisition was completed on 30 June 2016.

As disclosed in the announcements of the Company dated 18 August 2016 and 20 September 2016 respectively, Miracle View Group Limited, a direct wholly-owned subsidiary of the Company, entered into an agreement with an independent third party to sell the entire issued share capital of Richroad Group Limited, an indirect wholly-owned subsidiary of the Company, at a total consideration of HK$3,140,000. The disposal was completed on 20 September 2016.

Save as disclosed as above, the Group did not acquire or dispose of any significant investments or properties, nor did the Group carry out any material acquisitions or disposals of the Company's subsidiaries and associates during the year.

Exposure to Fluctuations in Exchange Rates

The Group conducted its business transactions principally in HK$. As at 31 December 2016, most of the Group's bank deposits and cash balances were mainly denominated in HK$ and US$. The HK$ is pegged to the US$, and this made the Group's foreign exchange risk exposure minimal. As such, the Group did not utilize any foreign exchange derivatives for hedging purposes as at 31 December 2016.

The following is the text of a report set out on pages III-1 toIII-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 TO THE DIRECTORS OF HJ CAPITAL (INTERNATIONAL) HOLDINGS COMPANY LIMITED

Introduction

We report on the historical financial information of the property management services and related value-added services carried on in the PRC by Zhuhai Huafa Property Management Services Co., Ltd. ("HFPM") and its subsidiaries ("the Target Business") set out on pages III-4 to III-61, which comprises the combined statements of financial position as at 31 December 2016,2017 and 2018 and 30 June 2019, and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the periods then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages III-4 to III-61 forms an integral part of this report, which has been prepared for inclusion in the circular of HJ Capital (International) Holdings Company Limited (the "Company") dated 27 December 2019 (the "Circular") in connection with the proposed acquisition of the Target Business by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The financial statements of the Target Business for the Track Record Period ("Underlying Financial Statements"), on which the Historical Financial Information is based, were prepared by the directors of the Company based on the previously issued financial statements of Target Business for the Track Record Period. The directors of HFPM are responsible for the preparation of the previously issued financial statements of the Target Business that gives a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the combined financial position of the Target Business as at 31 December 2016, 2017 and 2018 and 30 June 2019 and of its combined financial performance and its combined cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target Business which comprises the combined statements of comprehensive income, changes in equity and cash flows for the six months ended 30 June 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong

Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

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, no adjustments to the Underlying Financial Statements have been made.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 27 December 2019

I. HISTORICAL FINANCIAL INFORMATION OF THE TARGET BUSINESS

Preparation of Historical Financial Information

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

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

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

Combined statements of comprehensive income

		Year ended 31 December			Six months ended 30 June	
	Note	**2016**	**2017**	**2018**	**2018**	**2019**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Revenue	*6*	403,956	473,160	630,118	290,627	348,272
Cost of sales	*6, 8*	(343,683)	(395,836)	(499,899)	(224,554)	(265,672)
Gross profit		60,273	77,324	130,219	66,073	82,600
Administrative expenses	*8*	(29,207)	(34,545)	(42,869)	(16,906)	(23,047)
Net impairment reversal/(losses) on financial assets	*3.1.3*	–	–	1,320	(561)	(3,641)
Other income	*7*	2,824	11,428	1,196	937	1,107
Other (losses)/gains – net		(19)	(2)	(166)	(42)	52
Operating profit		33,871	54,205	89,700	49,501	57,071
Finance income	*10*	57,220	53,540	54,651	22,996	771
Finance costs	*10*	(64,907)	(59,304)	(67,870)	(26,117)	(42)
Finance (costs)/income – net	*10*	(7,687)	(5,764)	(13,219)	(3,121)	729
Profit before income tax		26,184	48,441	76,481	46,380	57,800
Income tax expenses	*11*	(6,139)	(9,856)	(19,210)	(11,564)	(14,553)
Profit for the year and attributable to the owners of the Target Business		20,045	38,585	57,271	34,816	43,247

	Note	Year ended 31 December 2016	2017	2018	Six months ended 30 June 2018	2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Earnings per share (expressed in RMB per share)						
– Basic and diluted earnings per share	12	N/A	N/A	N/A	N/A	N/A
Other comprehensive income						
Items that will not be reclassified to profit or loss						
– Change in the fair value of financial asset at fair value through other comprehensive income, net of tax		–	–	12,871	12,871	–
Items that may be reclassified to profit or loss						
– Change in the fair value of available-for-sale financial asset, net of tax		(16,835)	57,366	–	–	–
Total comprehensive income for the year and attributable to the owners of the Target Business		3,210	95,951	70,142	47,687	43,247

Combined balance sheets

	Note	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets					
Non-current assets					
Property, plant and equipment	*13*	17,267	13,938	22,937	19,826
Right-of-use assets	*24*	–	–	–	18,373
Intangible assets		376	327	277	252
Prepayment	*16*	18,166	17,167	16,167	–
Other receivables	*16*	864,960	720,041	–	–
Available-for-sale financial asset	*17*	76,876	153,367	–	–
Deferred income tax assets	*23*	426	332	11,016	11,631
		978,071	905,172	50,397	50,082
Current assets					
Inventories		501	1,013	570	255
Trade receivables	*16*	109,280	109,262	134,419	142,059
Other receivables	*16*	128,108	161,483	14,025	13,298
Prepayment	*16*	1,000	1,000	1,000	–
Time deposits		1,030	30	30	30
Cash and cash equivalents	*18*	149,362	148,891	261,786	203,914
		389,281	421,679	411,830	359,556
Total assets		1,367,352	1,326,851	462,227	409,638
Equity					
Combined capital	*19*	6,250	6,250	6,250	54,763
Other reserves	*20*	30,030	90,850	13,475	13,475
Retained earnings	*20*	127,822	112,953	120,069	95,316
Total equity		164,102	210,053	139,794	163,554

	Note	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000	As at 30 June 2019 RMB'000
Liabilities					
Non-current liabilities					
Borrowings	*21*	830,252	694,292	–	–
Lease liabilities	*24*	–	–	–	751
Deferred income tax liabilities	*23*	–	16,217	–	–
		830,252	710,509	–	751
Current liabilities					
Borrowings	*21*	109,039	135,960	–	–
Lease liabilities	*24*	–	–	–	969
Contract liabilities	*6*	–	–	30,347	32,550
Trade payables	*22*	9,012	17,200	24,434	31,040
Other payables	*22*	222,362	216,252	227,672	172,572
Current income tax liabilities		32,585	36,877	39,980	8,202
		372,998	406,289	322,433	245,333
Total liabilities		1,203,250	1,116,798	322,433	246,084
Total equity and liabilities		1,367,352	1,326,851	462,227	409,638

Combined statements of changes in equity

	Note	**Combined capital** *RMB'000* *(Note 19)*	**Other reserves** *RMB'000* *(Note 20)*	**Retained earnings** *RMB'000* *(Note 20)*	**Total equity** *RMB'000*
Balance at 1 January 2016		5,500	45,355	109,287	160,142
Comprehensive income					
Profit for the year		–	–	20,045	20,045
Change in fair value of available-for-sale financial asset, net of tax		–	(16,835)	–	(16,835)
Total comprehensive income		–	(16,835)	20,045	3,210
Transactions with owners					
Contribution from then owners		750	–	–	750
Appropriation of statutory reserves	*20(a)*	–	1,510	(1,510)	–
		750	1,510	(1,510)	750
Balance at 31 December 2016		6,250	30,030	127,822	164,102
Balance at 1 January 2017		6,250	30,030	127,822	164,102
Comprehensive income					
Profit for the year		–	–	38,585	38,585
Change in fair value of available-for-sale financial asset, net of tax		–	57,366	–	57,366
Total comprehensive income		–	57,366	38,585	95,951

	Note	Combined capital RMB'000 (Note 19)	Other reserves RMB'000 (Note 20)	Retained earnings RMB'000 (Note 20)	Total equity RMB'000
Transactions with owners of the Target Business					
Dividend declared	25	–	–	(50,000)	(50,000)
Appropriation of statutory reserves	20(a)	–	3,454	(3,454)	–
		–	3,454	(53,454)	(50,000)
Balance at 31 December 2017		6,250	90,850	112,953	210,053
Balance at 1 January 2018		6,250	90,850	112,953	210,053
Comprehensive income					
Profit for the year		–	–	57,271	57,271
Change in the fair value of financial assets at fair value through other comprehensive income, net of tax		–	12,871	–	12,871
Total comprehensive income		–	12,871	57,271	70,142
Transactions with owners of the Target Business					
Disposal of financial assets at fair value through other comprehensive income *(Note 17)*		–	(103,721)	(36,680)	(140,401)
Appropriation of statutory reserves	20(a)	–	13,475	(13,475)	–
		–	(90,246)	(50,155)	(140,401)
Balance at 31 December 2018		6,250	13,475	120,069	139,794

	Note	Combined capital RMB'000 (Note 19)	Other reserves RMB'000 (Note 20)	Retained earnings RMB'000 (Note 20)	Total equity RMB'000
Balance at 1 January 2019		6,250	13,475	120,069	139,794
Comprehensive income					
Profit for the period		–	–	43,247	43,247
Total comprehensive income		–	–	43,247	43,247
Transactions with owner of the Target Business					
Capital contribution from then owner	19	45,000	–	–	45,000
Dividends	25	–	–	(68,000)	(68,000)
Reorganisation	19	3,513	–	–	3,513
Balance at 30 June 2019		54,763	13,475	95,316	163,554
Balance at 1 January 2018		6,250	90,850	112,953	210,053
Comprehensive income					
Profit for the period		–	–	34,816	34,816
Change in the fair value of financial assets at fair value through other comprehensive income, net of tax		–	12,871	–	12,871
Total comprehensive income		–	12,871	34,816	47,687
Transactions with owners of the Target Business					
Disposal of financial assets at fair value through other comprehensive income *(Note 17)*		–	(103,721)	(36,680)	(140,401)
Balance at 30 June 2018		6,250	–	111,089	117,339

Combined statements of cash flows

	Note	Year ended 31 December 2016 RMB'000	2017 RMB'000	2018 RMB'000	Six months ended 30 June 2018 RMB'000 (Unaudited)	2019 RMB'000
Cash flows from operating activities						
Cash generated from/(used in) operations	26	27,865	104,072	120,486	(7,083)	34,634
Income tax paid		(5,754)	(8,379)	(17,171)	(11,218)	(46,946)
Net cash generated from/ (used in) operating activities		22,111	95,693	103,315	(18,301)	(12,312)
Cash flows from investing activities						
Purchases of property, plant and equipment	13	(7,945)	(2,823)	(15,060)	(881)	(1,513)
Purchase of intangible assets		(47)	–	–	–	–
Receipt of repayment of loan advanced to a related party and the underlying interests		146,568	165,470	920,060	90,411	–
Interest received		904	1,028	1,381	604	771
Decrease in time deposits		–	1,000	–	–	–
Receipts of cash advances to related parties		7,354	1,141	6,105	2,199	612
Cash advances to related parties		(1,880)	(1,256)	(552)	(394)	(82)
Proceeds from disposal of property, plant and equipment		6	842	547	–	995
Net cash generated from investing activities		144,960	165,402	912,481	91,939	783

	Note	Year ended 31 December			Six months ended 30 June	
		2016	2017	2018	2018	2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Cash flows from financing activities						
Capital contribution from the owner		750	–	–	–	45,000
Repayments of borrowings	*26(a)*	(96,000)	(118,000)	(856,000)	(70,193)	–
Interest paid	*26(a)*	(55,658)	(50,749)	(45,113)	(20,218)	–
Cash advance from related parties		27,040	3,932	4,930	37,598	11,325
Repayments of cash advances from related parties		(5,116)	(46,749)	(6,718)	(315)	(37,342)
Dividends	*25*	–	(50,000)	–	–	(68,000)
Principle and interest elements of lease payment		–	–	–	–	(839)
Proceeds from Reorganisation		–	–	–	–	3,513
Net cash used in financing activities		(128,984)	(261,566)	(902,901)	(53,128)	(46,343)
Net increase/(decrease) in cash and cash equivalents		38,087	(471)	112,895	20,510	(57,872)
Cash and cash equivalents at beginning of year/period		111,275	149,362	148,891	148,891	261,786
Cash and cash equivalents at end of year/period		149,362	148,891	261,786	169,401	203,914

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

1.1 General information

The Target Business of Zhuhai Huafa Group Co., Ltd. ("Zhuhai Huafa"), the ultimate holding company of Zhuhai Huafa Property Management Services Co., Ltd. ("HFPM") and is incorporated in the People's Republic of China ("PRC") is conducted by HFPM and its subsidiaries. The Target Business is primarily engaged in the provision of property management services and related value-added services in the PRC.

From 1 January 2016 to 30 May 2019, HFPM's immediate parent company is Zhuhai Huafa Modern Service Investment Holding Co., Ltd., which is incorporated in the PRC.

The Historical Financial Information is presented in Renminbi ("RMB"), unless otherwise stated.

1.2 Reorganisation

The Target Business underwent the following reorganisation steps (the "Reorganisation") in preparation for the proposed acquisition of the Target Business by HJ Capital (International) Holdings Company Limited (the "Acquisition").

On 31 May 2019, Beijing Jiujun Real Estate Development Co., Ltd. ("Beijing Jiujun"), a wholly-owned subsidiary of Concord Bright Holdings Limited ("Concord Bright"), has acquired 100% equity interests of HFPM and 100% equity interests of Zhuhai Huafa Municipal Comprehensive Services Co., Ltd. ("Huafa Municipal Comprehensive") and 75% equity interests of Zhuhai Huafa Elevator Engineering Co., Ltd. ("Huafa Elevator"), two subsidiaries of HFPM from its then owner Zhuhai Huafa Modern Service Investment Holding Co., Ltd. without consideration. On 26 June 2019, HFPM has acquired 25% equity interests of Huafa Elevator from its then owner Zhuhai Huafa Modern Service Investment Holding Co., Ltd without consideration.

Since then HFPM and its two subsidiaries became wholly-owned subsidiaries of Beijing Jiujun. The ultimate parent company of Concord Bright is Zhuhai Huafa. Both Concord Bright and Beijing Jiujun were not involved in any other business immediately before the Reorganisation.

Before and after the Reorganisation and during the Track Record Period, Zhuhai Huafa continues to hold 100% of the Target Business indirectly through the following principal subsidiaries:

Company name	Place and date of incorporation/ establishment	Registered capital	Attributable equity interest to Zhuhai Huafa as at 31 December 2016	Attributable equity interest to Zhuhai Huafa as at 31 December 2017	Attributable equity interest to Zhuhai Huafa as at 31 December 2018	Attributable equity interest to Zhuhai Huafa as at 30 June 2019	Principal activities and place of operation
HFPM	PRC 2 September 1985	RMB50,000,000	100%	100%	100%	100%	Property management services in Zhuhai
Huafa Municipal Comprehensive* 珠海華發市政綜合服務有限公司	PRC 2 May 2013	RMB10,010,000	100%	100%	100%	100%	Property management services in Zhuhai
Huafa Elevator* 珠海華發樓宇電梯工程有限公司	PRC 12 December 2001	RMB5,000,000	100%	100%	100%	100%	Elevator engineering services in Zhuhai

* The English name of the subsidiaries represents the best effort by the management of the HFPM in translating their Chinese names as they do not have an official English name

1.3 Basis of presentation

The combined financial information comprises the combined statements of financial position of the Target Business as at 31 December 2016, 2017 and 2018 and 30 June 2019 and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Target Business for each of the years ended 31 December 2016, 2017 and 2018 and the period ended 30 June 2018 and 2019 ("Track Record Period"). The Target Business was under the control and management of Zhuhai Huafa and has been managed as a single business by Zhuhai Huafa during the Track Record Period.

Concord Bright became the holding company of the Target Business via the Reorganisation as described in note 1.2 above. Concord Bright and its subsidiary Beijing Jiujun were not involved in any other business immediately before the Reorganisation and do not meet the definition of a business. The Reorganisation is merely a reorganization of the Target Business with no change in business substance, management or ultimate owners of the Target Business. Accordingly, the Reorganisation is regarded as a recapitalisation of the Target Business. The statement of financial position of Concord Bright as at 30 June 2019 is disclosed in Note 30.

For the purpose of this report and to illustrate the historical performance of the Target Business under the control of Zhuhai Huafa, the Historical Financial Information has been prepared on a combined basis to represent the Target Business conducted by HFPM and its subsidiaries and includes their assets, liabilities, revenue, expenses and cash flows attributable to Zhuhai Huafa for the Track Record Period and the net equity (equivalent to cash and cash equivalents amounting to RMB3,513,000 as disclosed in note 19) in Concord Bright and Beijing Jiujun which were contributed by Zhuhai Huafa to the Target Business through the Reorganisation. Concord Bright was an investment holding company and Beijing Jiujun was engaged in property leasing business ("non-Target Business"), the non-Target Business was transferred to a related party controlled by Zhuhai Huafa immediately before the Reorganisation. The financial information of the non-Target Business operated by Concord Bright and Beijing Jiujun for the Track Record Period had not been included in the Historical Financial Information which has been prepared to present the financial information of the Target Business. The net assets and results of the Target Business were combined using the existing book values from Zhuhai Huafa's perspective.

The Historical Financial Information of the Target Business of Zhuhai Huafa prepared on a combined basis is different from that of the consolidated financial statements of Concord Bright.

Inter-company transactions, balances and unrealized gains/losses on transactions between group companies are eliminated.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA. The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial asset and financial assets at fair value through comprehensive income, which are carried at fair value.

The preparation of Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Business'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 are disclosed in Note 4.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Target Business

A number of new or amended standards became applicable for the reporting period beginning on 1 January 2018 and 1 January 2019 and the Target Business had to change its accounting policies and make modified retrospective adjustments as a result of adopting the following standards:

- HKFRS 9 Financial Instruments,
- HKFRS 15 Revenue from Contracts with Customers, and
- HKFRS 16 Leases.

The impact of the adoption of HKFRS 9, HKFRS 15 and HKFRS 16 is disclosed in Note 2.2. The other standards did not have any impact on the Target Business's accounting policies and did not require retrospective adjustments.

(b) New and amended standards not yet adopted

The following new standards and amendments to standards have been issued but are not effective for the financial period beginning 1 January 2019 and have not been early adopted:

		Effective for annual periods beginning on or after
HKFRS 1 and HKAS 8 (Amendment)	Definition of Material	1 January2020
HKFRS 3 (Amendment)	Definition of a Business	1 January2020
HKFRS 17	Insurance Contract	1 January 2021
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	To be determined

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers and HKFRS 16 Leases on the Target Business's financial information and also discloses the new accounting policies.

2.2.1 Impact on the financial information

The Directors of HFPM consider that the changes in the Target Business's accounting policies do not have any material impacts on prior year financial information.

2.2.2 HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 only resulted in changes in accounting policies. No adjustments were made to the amounts recognised in the financial information except for the reclassification disclosed as in this section below. The new accounting policies are set out in Note 2.8 below. In accordance with the transitional provisions in HKFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

The effect of the adoption of HKFRS 9 are as follows:

Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Target Business's management has assessed which business models apply to the financial assets held by the Target Business and has classified its financial instruments into the appropriate HKFRS 9 categories.

The impact of the reclassification on the combined balance sheet is as follows:

Financial assets – 1 January 2018	**Available-for-sale financial asset**	**Financial asset at fair value through other comprehensive income ("FVOCI")**
	RMB'000	*RMB'000*
Closing balance at 31 December 2017 – HKAS 39	153,367	–
Reclassify investments from available-for-sale financial asset to financial assets at FVOCI*	(153,367)	153,367
Opening balance at 1 January 2018 – HKFRS 9	–	153,367

The impact of these changes on the Target Business's equity

Financial assets – 1 January 2018	**Available-for-sale financial asset revaluation reserve**	**Financial assets at fair value through other comprehensive income ("FVOCI") revaluation reserve**
	RMB'000	*RMB'000*
Closing balance at 31 December 2017 – HKAS 39	77,507	–
Reclassify investments from available-for-sale financial asset to financial assets at FVOCI*	(77,507)	77,507
Opening balance at 1 January 2018 – HKFRS 9	–	77,507

* Available-for-sale equity instruments classified as FVOCI

The Target Business elected to present changes in the fair value of all its previously classified as available-for-sale investment in other comprehensive income ("OCI") as they are long-term and strategic investments. As a result, available-for-sale financial asset with a fair value of RMB153,367,000 were reclassified to financial assets at FVOCI and fair value gains of RMB77,507,000 were reclassified from the available-for-sale financial asset reserve to the FVOCI reserve on 1 January 2018.

(a) HKFRS 9 Financial Instruments – Impairment of financial assets

The Target Business has two types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- trade receivables, and
- other receivables

The Target Business was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The Target Business makes estimates and assumption concerning the futures which are discussed below:

Significant estimates and judgements

Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Target Business uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Target Business's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

By using the expected credit losses model, management concluded the impact on the Target Business's retained earnings as at 1 January 2018 is not material.

2.2.3 HKFRS 15 Revenue from Contracts with Customers

The Target Business has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and no adjustments were made to the amounts recognised in the financial information except for the reclassification disclosed as in this section below. In accordance with the transition provisions in HKFRS 15, the Target Business elect to apply HKFRS 15 retrospectively only to contracts that are not completed at the date of initial application as at 1 January 2018 and recognising the cumulative effects of those changes in accounting policies as adjustments to the opening balances at 1 January 2018 and has not restated comparatives.

	Closing balance at 31 December 2017	**Reclassification**	**Opening balance at 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities	–	24,104	24,104
Other payables	233,452	(24,104)	209,348

The Directors of the Target Business consider that, except for the liabilities related to contracts with customers that were previously presented as advance proceeds received from customers were classified as contract liabilities, the changes on the Target Business's revenue recognition policies do not have material impact on the amounts recognised in the financial information.

(i) Practical expedients applied

In applying HKFRS 15 for the first time, the Target Business has used the following practical expedients permitted by the standard:

- Not restate contracts that begin and end within the same annual reporting period and/or were completed at the beginning of the earliest period presented;
- The effect of contract modifications that occurred before the beginning of the earliest period presented may be reflected in aggregate rather than being determined individually for each modification;
- For completed contracts that have variable consideration, an entity can use hindsight and use the transaction price at the date the contract was completed;
- For reporting periods presented before the date of initial application (1 January 2018 for the Target Business), the Target Business is not required to disclose the amount of transaction price allocated to the remaining performance obligations and an explanation of when the entity expect to recognise that amount as revenue.

2.2.4 HKFRS 16 Leases

The Target Business has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the years ended 31 December 2016, 2017 and 2018 and six months ended 30 June 2018, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

(a) Impact on the financial statements

On adoption of HKFRS 16, the Target Business recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.75%.

	1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	1,646
Discounted using the lessee's incremental borrowing rate of at the date of initial application	1,528
Less: short-term leases recognised on a straight–line basis as expense	(375)
Lease liability recognised as at 1 January 2019	1,153
Of which are:	
Current lease liabilities	795
Non-current lease liabilities	358
	1,153

Under the modified retrospective approach, the associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. Recognised right-of-use assets related to the following types of assets:

	30 June 2019	**1 January 2019**
	RMB'000	*RMB'000*
Property, plant and equipment	18,373	18,320

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

– Right-of-use assets – increase by RMB18,320,000

– prepayment (current portion) – decrease by RMB1,000,000

– prepayment (non-current portion) – decrease by RMB16,167,000

– Lease liabilities (current portion) – increase by RMB795,000

– Lease liabilities (non-current portion) – increase by RMB358,000

There is no impact on the retained earnings on 1 January 2019.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Target Business has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Target Business has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Target Business relied on its assessment made applying HKAS 17 and HK(IFRIC)-INT 4 determining whether an arrangement contains a lease.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker ("CODM"), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial information of each of the Target Business's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Historical Financial Information are presented in RMB, which is the functional currency of the Target Business's operating entities and the Target Business's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions 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 within "other (losses)/gains – net" in the combined statements of comprehensive income.

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. 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 the Target Business 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 combined statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives or, in case of certain leasehold improvements, the shorter lease term, as follows:

– leasehold improvements	3-5 years
– Vehicles	5 years
– Office equipment	3-5 years
– Machinery	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 (Note 2.7).

Construction in progress represents the direct costs of construction incurred of property, plant and equipment less any impairment losses. No provision for depreciation is made on construction in progress until such time the relevant assets are completed and put into use. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other (losses)/gains - net " in the combined statements of comprehensive income.

2.6 Intangible assets

Software

Acquired computer software programmes are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (2 to 10 years).

2.7 Impairment of non-financial assets

Assets are tested 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 of disposal 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 reporting date.

2.8 Financial assets

2.8.1 Accounting policies applied until 31 December 2017

(a) Classification

The Target Business classifies its financial assets in the following categories: loans and receivables and available-for-sale financial asset. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Target Business's loans and receivables comprise "trade receivables", "other receivables" and "cash and cash equivalents" in the combined balance sheet.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Target Business commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Target Business has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Target Business measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets are subsequently carried at fair value. Gains or losses arising from changes in the fair values of monetary and non-monetary securities classified as available-for-sale financial assets are recognised in other comprehensive income.

Interest on available-for-sale securities calculated using the effective interest method is recognised in combined statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income as part of other income when the Target Business's right to receive payments is established.

(d) Impairment of financial assets

The Target Business assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

2.8.2 Accounting policies applied from 1 January 2018

(a) Classification

From 1 January 2018, the Target Business classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income, and
- those to be measured at amortised cost.

The classification depends on the Target Business's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments, this will depend on whether the Target Business has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Target Business commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Target Business has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Target Business measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. The Target Business classifies its debt instruments in one measurement category:

- Amortised cost: 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 finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Equity instruments

The Target Business subsequently measures all equity investments at fair value. Where the Target Business's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in combined statement of comprehensive income as other income when the Target Business's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "other (losses)/gains– net" in the combined statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(d) Impairment

From 1 January 2018, the Target Business assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For trade receivables, the Target Business applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1.3 for further details. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Impairment on other receivables from third parties are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the combined balance sheets when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realize the assets and settle the liabilities 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 Target Business or the counterparty.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is measured by using specific identification of their individual costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Until 31 December 2017, trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

From 1 January 2018, trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Target Business holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 16 for further information about the Target Business's accounting for trade receivables and Note 3.1.3 for a description of the Target Business's impairment policies.

2.12 Contract liabilities

A contract liabilities is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration.

2.13 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions.

2.14 Combined capital

Combined capital represents the capital contribution by Zhuhai Huafa.

2.15 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 and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

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

2.16 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in combined statement of comprehensive income 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 capitalized as a prepayment 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 combined statement of comprehensive income as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in combined statement of comprehensive income, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Target Business has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.17 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. Other borrowing costs are expensed in the period in which they are incurred.

2.18 Current and deferred income tax

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.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where by the Target Business' subsidiaries operate and generate 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.

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial information. The deferred income tax is 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 balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Target Business is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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 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.

2.19 Employee benefits

(a) Pension obligations

The Target Business only operate defined contribution pension plans. In accordance with the rules and regulations in the PRC, the PRC based employees of the Target Business participate in various defined contribution retirement benefit plans organized by the relevant municipal and provincial governments in the PRC under which the Target Business and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Target Business has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Target Business in independently administrated funds managed by the governments.

The Target Business's contributions to the defined contribution retirement scheme are expensed as incurred.

(b) Housing funds, medical insurances and other social insurances

Employees of the Target Business in the PRC are entitled to participate in various government-supervised housing funds, medical insurances and other social insurance plan. The Target Business contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Target Business's liability in respect of these funds is limited to the contributions payable in each year. Contributions to the housing funds, medical insurances and other social insurances are expensed as incurred.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Target Business before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Target Business recognises termination benefits at the earlier of the following dates: (a) when the Target Business can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2.20 Provisions

Provisions for legal claims and service warranties are recognised when the Target Business has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.21 Revenue recognition

The Target Business provides property management services and value-added services. Revenue from providing services is recognised in the accounting period in which the services are rendered as the customer simultaneously receives and consumes the benefits provided by the Target Business's performance when the Target Business performs.

For property management services, the Target Business bills a fixed amount for services provided on a monthly basis and recognises as revenue in the amount to which the Target Business has a right to invoice and that corresponds directly with the value of performance completed.

For property management services income from properties managed under lump sum basis, where the Target Business acts as principal, the Target Business entitles to revenue at the value of property management services fee received or receivable. For property management service income from properties managed under commission basis, where the Target Business acts as an agent of the property owner, the Target Business entitles revenue at a pre-determined percentage or amount of the property management fee received or receivable by the properties.

For value-added services, revenue is recognised when the related community value-added services are rendered. Payment of the transaction is due immediately when the community value-added services are rendered to the customer.

Accounting policies applied from 1 January 2018

If contracts involve the sale of multiple services, the transaction price allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

When either party to a contract has performed, the Target Business presents the contract in the balance sheet as a contract asset or a contract liability, depending on the relationship between the Target Business's performance and the customer's payment.

A contract asset is the Target Business's right to consideration in exchange for services that the Target Business has transferred to a customer.

If a customer pays consideration or the Target Business has a right to an amount of consideration that is unconditional, before the Target Business transfers services to the customer, the Target Business presents the contract as a contract liability when the payment is received or a receivable is recorded (whichever is earlier). A contract liability is the Target Business's obligation to transfer services to a customer for which the Target Business has received consideration (or an amount of consideration is due) from the customer.

A receivable is recorded when the Target Business has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Incremental costs incurred to obtain a contract, if recoverable, are capitalized and presented as assets and subsequently amortised when the related revenue is recognised. The Target Business applied the practical expedient to recognise the incremental costs of obtaining a contract as an expense immediately if the amortisation period is less than 12 months.

2.22 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.23 Dividend income

Dividends are received from financial assets measured at FVOCI (from available-for-sale financial asset before 1 January 2018). Dividends are recognised as other income in combined statement of comprehensive income when the right to receive payment is established.

2.24 Leases

2.24.1 Accounting policies applied until 31 December 2018

(a) The Target Business is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the combined statements of comprehensive income on a straight-line basis over the period of the lease.

(b) The Target Business is the lessor

When assets are leased out under operating lease, the assets are included in the balance sheet based on the nature of the assets. Rental income is recognised in the combined statements of comprehensive income on a straight-line basis over the term of the lease.

2.24.2 Accounting policies applied from 1 January 2019

The Target Business leases certain properties. Rental contracts are typically made for fixed periods of 1 to 20 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Target Business. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term of 2 to 17 years on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Target Business's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment, which is not material.

2.25 Dividend distribution

Dividend distribution to the owner of the Target Business is recognised as a liability in the Target Business's financial statements in the period in which the dividends are approved by the directors or shareholders of HFPM, where appropriate.

2.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Target Business will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the combined statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Target Business's activities expose it to a variety of financial risks: interest rate risk, price risk, credit risk and liquidity risk. The Target Business's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Target Business's financial performance.

3.1.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Business's exposure to the risk of changes in market interest rates relates primarily to the Target Business's borrowings.

The Target Business's interest rate risk arises primarily from borrowings and loan to a related party. Loan to a related party and borrowings obtained at fixed rates expose the Target Business to fair value interest-rate risk. Loan to a related party and borrowings obtained at variable rates expose the Target Business to cash flow interest-rate risk. The Target Business had no loan to a related party borrowings with floating interest rates during the Track Record Period. The Target Business currently does not use any financial instruments to hedge against its interest rate risk exposure. Management will continue to monitor interest rate risk exposure and will consider hedging significant interest rate risk exposure should the need arise.

3.1.2 Price Risk

The Target Business's exposure to equity securities price risk arises from investments held by the Target Business and classified in the balance sheet as at fair value through other comprehensive income (Note 17).

The Target Business's equity investments are publicly traded and are included in the Shanghai Stock Exchange.

As at 31 December 2017 and 2016, if the price of the equity investments had been 10% higher/lower, the FVOCI reserve would increase/decrease by RMB11,502,530 and RMB5,765,780 respectively.

3.1.3 Credit risk

The Target Business is exposed to credit risk in relation to its trade receivables, other receivables and cash deposits at banks. The carrying amounts of trade receivables, other receivables and cash and cash equivalents represent the Target Business's maximum exposure to credit risk in relation to financial assets.

The Target Business expects that there is no significant credit risk associated with cash deposits at banks since they are substantially deposited at state-owned banks and other medium or large-sized listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

For trade receivables and other receivables, the management of the Target Business has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Business reviews the recoverability of these receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of HFPM consider that the Target Business's credit risk is significantly reduced.

As at 31 December 2016 and 2017, the movement on the provision for impairment of trade receivables and other receivables (exclude prepayment) are as follows:

	Trade receivables (excluding trade receivables from related parties and government)	Other receivables (excluding prepayments and other receivables from related parties, government and staffs)	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2016	17,661	725	18,386
Provision for loss allowance recognised in profit or loss	1,422	33	1,455
At 31 December 2016	19,083	758	19,841
At 1 January 2017	19,083	758	19,841
Provision for loss allowance recognised in profit or loss	1,430	–	1,430
Unused amounts reversed	–	(74)	(74)
At 31 December 2017	20,513	684	21,197

As at 31 December 2016 and 2017, the gross carrying amount of trade receivables and other receivables (excluding trade receivables from related parties and government, prepayments, and other receivables from related parties, government and staffs) was RMB71,997,000 and RMB79,632,000 and thus the maximum exposure to loss was RMB52,156,000 and RMB58,435,000.

The Target Business has assessed the recoverability of the trade receivables from related parties and government and other receivables from related parties, government and staffs based on past settlement history. There is no significant indicators that these receivables may not be collectible. Thus no allowance provision for trade receivables from related parties and government and other receivables from related parties, government and staffs was recognised during the year ended 31 December 2016 and 2017.

The Target Business has adopted HKFRS 9 Financial Instrument from 1 January 2018, and applied new expected credit loss model to assess the credit risk of financial assets.

The Target Business considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the period from 1 January 2018. To assess whether there is a significant increase in credit risk the Target Business compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations

- actual or expected significant changes in the operating results of individual property owner or the borrower

- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Target Business and changes in the operating results of the borrower.

(i) A summary of the assumptions underpinning the Target Business's expected credit loss model is as follows:

Category	**Group definition of category**	**Basis for recognition of expected credit loss provision**
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	Receivables for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due	Lifetime expected losses
Non-performing	Interest and/or principal repayments are 365 days past due	Lifetime expected losses

The Target Business accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Target Business considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data.

(ii) Trade receivables and other receivables (excluding prepayments)

The Target Business applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade receivable. The Target Business uses the expected credit loss model in Note 3.1.3(i) to determine the expected loss provision for other receivables (excluding prepayments). As at 31 December 2018 and 30 June 2019, the Target Business has assessed that there is no significant increase of credit risk for other receivables. Thus the Target Business used the 12 months expected credit losses model to assess credit loss of other receivables.

As at 31 December 2018 and 30 June 2019, the Target Business has assessed that the expected loss rate for trade receivables from related parties and government and other receivables from related parties, government and staffs was immaterial considering the good finance position and credit history of the related parties, government and staffs. Thus no loss allowance provision for trade receivables from related parties and government and other receivables from related parties, government and staffs was recognised during the year ended 31 December 2018 and the period ended 30 June 2019.

On that basis, the loss allowance as at 30 June 2019, 31 December 2018 and 1 January 2018 (on adoption of HKFRS 9) was determined based on invoice date as follows for trade receivables:

	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Over 4 years	Total
Trade receivables						
(excluding trade receivables from related parties and government)						
At 30 June 2019						
Expected loss rate	5%	20%	40%	50%	100%	
Gross carrying amount *(RMB'000)*	61,560	15,680	7,905	5,001	10,620	100,766
Loss allowance provision *(RMB'000)*	3,078	3,136	3,162	2,500	10,620	22,496

	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Over 4 years	Total
Trade receivables						
(excluding trade receivables from related parties and government)						
At 31 December 2018						
Expected loss rate	5%	20%	40%	50%	100%	
Gross carrying amount *(RMB'000)*	49,443	11,153	6,075	4,851	9,425	80,947
Loss allowance provision *(RMB'000)*	2,472	2,231	2,430	2,426	9,425	18,984

	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Over 4 years	Total
Trade receivables						
(excluding trade receivables from related parties and government)						
At 1 January 2018						
Expected loss rate	5%	20%	40%	50%	100%	
Gross carrying amount *(RMB'000)*	39,592	14,931	6,636	4,371	10,707	76,237
Loss allowance provision *(RMB'000)*	1,980	2,986	2,654	2,186	10,707	20,513

As at 31 December 2018 and 30 June2019, the loss allowance provision for trade receivables and other receivables (excluding prepayments) reconciles to the opening loss allowance for that provision as follows:

	Trade receivables (excluding trade receivables from related parties and government)	Other receivables (excluding prepayments and other receivables from related parties, government and staffs)	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2018	20,513	684	21,197
Provision for loss allowance recognised in profit or loss	–	209	209
Unused amounts reversed	(1,529)	–	(1,529)
Receivables written off during the year as uncollectable	–	(446)	(446)
At 31 December 2018	18,984	447	19,431
At 1 January 2019	18,984	447	19,431
Provision for loss allowance recognised in profit or loss	3,512	129	3,641
At 30 June 2019	22,496	576	23,072

As at 31 December 2018 and 30 June 2019, the gross carrying amount of trade receivables and other receivables (excluding trade receivables from related parties and government, prepayments, and other receivables from related parties, government and staffs) was RMB86,176,000 and RMB104,906,000 and thus the maximum exposure to loss was RMB66,745,000 and RMB81,834,000.

3.1.4 Liquidity risk

To manage the liquidity risk, the Target Business monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Business's operations and mitigate the effects of fluctuations in cash flows.

The table below analyses the Target Business's financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2016					
Borrowings	163,517	183,941	593,152	203,577	1,144,187
Trade and other payables (excluding advance proceeds received from customer, accrued payroll and other tax payables) *(Note 22)*	137,121	–	–	–	137,121
	300,638	183,941	593,152	203,577	1,281,308

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2017					
Borrowings	183,941	193,178	603,551	–	980,670
Trade and other payables (excluding advance proceeds received from customer, accrued payroll and other tax payables) *(Note 22)*	120,082	–	–	–	120,082
	304,023	193,178	603,551	–	1,100,752

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2018					
Trade and other payables (excluding advance proceeds received from customer, accrued payroll and other tax payables) *(Note 22)*	144,167	–	–	–	144,167

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB' 000	*RMB' 000*	*RMB' 000*	*RMB' 000*	*RMB' 000*
As at 30 June 2019					
Trade and other payables (excluding advance proceeds received from customer, accrued payroll and other tax payables) *(Note 22)*	125,780	–	–	–	125,780
Lease liabilities (including interest payments)	1,520	311	5	–	1,836
	127,300	311	5	–	127,616

3.2 Capital management

The Target Business's objectives when managing capital are to safeguard the Target Business's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Target Business may adjust the amount of dividends paid to owners, issue new shares or sell assets to reduce debt.

The Target Business monitors capital on the basis of the asset-liability ratio. The ratio is calculated as total liabilities divided by total assets.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, asset-liability ratio of the Target Business is as follows:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
Asset-liability ratio	88%	84%	70%	60%

The decrease in the asset-liability ratios as at 31 December 2016, 2017 and 2018 and 30 June 2019 primarily resulted from the improvement in operating cash flow year by year, and early repayment of Asset – back securities in 2018 ("ABS") (Note 21(a)).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Target Business makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Allowance on doubtful receivables

For the years ended 31 December 2016 and 2017, the Target Business makes allowances on doubtful receivables based on an assessment of the recoverability of the receivables. Allowances are provided on receivable where events or changes in circumstances indicate that the receivable may not be collectible. The identification of doubtful receivables requires the use of judgment and estimates.

To determine whether there is any objective evidence of doubtful receivables, the Target Business takes into consideration a number of indicators, including, among others, subsequent settlement status, historical write-off experience and management fee collection rate of the residents in estimating the future cash flows from the receivables.

For the year ended 31 December 2018 and the six months ended 30 June 2019, the Target Business makes allowances on receivables based on assumptions about risk of default and expected loss rates. The Target Business used judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Target Business's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade receivables and other receivables and doubtful debt expenses in the periods in which such estimate has been changed. For details of the key assumptions and inputs used, see Note 3.1.3 above.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the companies engaged in the Target Business. Where loans or receivables have been written off, the Target Business continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

(b) Current and deferred income tax

The Target Business is subject to corporate income taxes in the PRC. Judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxations. 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 period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. The outcome of their actual utilisation may be different.

5 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of HFPM.

During the Track Record Period, the Target Business is principally engaged in the provision of property management services and related value-added services, including household assistance service and other services, in the PRC.

During the Track Record Period, all the underlying operating entities are domiciled in the PRC and all the revenue are derived in the PRC, and these entities are principally engaged in the provision of similar services to similar customers. The Target Business is regarded as a single operating segment by the CODM.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, all of the assets were located in the PRC.

6 REVENUE AND COST OF SALES

Revenue mainly comprises of proceeds from the provision of property management services, value-added services to non-property owners and value-added services to property owners. An analysis of the Target Business's revenue and cost of sales by category for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019 is as follows:

	Year ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	Revenue	Cost of sales	Revenue	Cost of sales	Revenue	Cost of Sales	Revenue	Cost of Sales	Revenue	Cost of Sales
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000*
Revenue from customer and recognised over time:										
Property management service	314,713	279,571	350,444	310,733	452,685	378,140	215,218	175,717	243,640	198,501
Value-added services to property owners	13,921	9,805	14,655	10,063	22,051	14,443	9,956	6,530	12,303	8,045
Value-added services to non-property owners	75,322	54,307	108,061	75,040	155,382	107,316	65,453	42,307	92,329	59,126
	403,956	343,683	473,160	395,836	630,118	499,899	290,627	224,554	348,272	265,672

For the year ended 31 December 2016 2017 and 2018 and the six months ended 30 June 2018 and 2019, revenue from Zhuhai Huafa and fellow subsidiaries other than Concord Bright, Beijing Jiujun, HFPM and fellow subsidiaries ("Zhuhai Huafa and fellow subsidiaries") contributed 34%, 34%, 38% and 34% of the Target Business's revenue, respectively. Other than the Zhuhai Huafa and fellow Subsidiaries, the Target Business has a large number of customers, none of whom contributed 10% or more of the Target Business's revenue during the Track Record Period.

(a) Contract liabilities

The Target Business has recognised the following revenue-related contract liabilities:

	As at 31 December 2018	**As at 30 June 2019**
	RMB'000	*RMB'000*
Property management service	25,476	28,884
Value-added services to property owners	4,871	3,666
	30,347	32,550

(i) Significant changes in contract liabilities

Contract liabilities of the Target Business mainly arise from the advance payments made by customers while the underlying services are yet to be provided. The increase in contract liabilities was mainly due to the expansion of business activities.

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	Year ended 31 December			**Six months ended 30 June**	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Revenue recognised that was included in the balance of contract liabilities at the beginning of the year	–	–	24,104	11,937	11,610

(iii) Unsatisfied performance obligations

For property management services, the Target Business recognises revenue in the amount that equals to the right to invoice which corresponds directly with the value to the customer of the Target Business's performance to date, on a monthly basis. The Target Business has elected the practical expedient for not to disclose the remaining performance obligations for these type of contracts. The majority of the property management services contracts do not have a fixed term.

For value-added services to non-property owners and property owners, they are rendered in short period of time, which is generally less than a year, and the Target Business has elected the practical expedient for not to disclose the remaining performance obligations for these type of contracts.

(iv) Assets recognised from incremental costs to obtain a contract

During the Track Record Period, there was no significant incremental costs to obtain a contract.

7 OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Dividends *(Note(a))*	1,860	9,655	–	–	–
Government grants *(Note(b))*	964	1,773	1,196	937	1,107
	2,824	11,428	1,196	937	1,107

(a) Dividends in year ended 31 December 2016 and 2017 are derived from available-for-sale financial asset.

(b) Government grants, which mainly consisted of financial subsidies granted by the local governments.

8 EXPENSES BY NATURE

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Employee benefit expenses *(Note 9)*	291,232	338,283	402,885	188,371	219,413
Greening and cleaning expenses	23,702	26,763	47,204	18,963	28,165
Maintenance costs	11,601	13,954	19,903	5,577	5,350
Taxes and other levies	10,677	4,987	6,846	3,130	3,062
Utilities	10,075	13,623	17,531	8,018	10,411
Cost of consumables	4,721	5,542	8,123	3,849	3,362
Depreciation and amortisation charges	3,865	5,355	5,494	2,654	4,926
Office expenses	2,328	2,020	2,871	869	1,190
Vehicle expenses	2,273	2,468	5,699	2,048	1,770
Professional service fee	2,078	1,123	6,962	272	2,862
Employee uniform expenses	2,054	5,619	3,687	1,089	1,585
Travelling and entertainment expenses	1,965	2,449	2,396	1,105	1,075
Net impairment losses on financial assets	1,455	1,356	–	–	–
Canteen expenses	1,383	1,617	3,281	1,167	1,224
Operating lease payments	559	1,525	2,738	1,074	1,540
Bank charges	544	818	1,396	503	767
Others	2,378	2,879	5,752	2,771	2,017
Total cost of sales and administrative expenses	372,890	430,381	542,768	241,460	288,719

9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December			Six months ended 30 June	
	2016	2018	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Wages, salaries and bonuses	237,993	278,428	332,094	156,604	180,504
Social insurance expenses (Note (a))	25,153	30,244	37,441	17,036	20,687
Housing benefits	10,246	8,943	9,844	4,728	5,492
Other employee benefits *(Note (b))*	17,840	20,668	23,506	10,003	12,730
	291,232	338,283	402,885	188,371	219,413

(a) Employees in the Target Business's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrator and operated by the local municipal government. The Target Business's PRC subsidiaries contribute funds which are calculated on certain percentage of the average employee salary as agreed by local municipal government to fund the retirement benefits of the employees.

(b) Other employee benefits

Other employee benefits mainly include meal, welfare expense and trade union funds.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Target Business included 1 director of HFPM for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019, whose emoluments are reflected in the analysis shown in Note 29. The emoluments payable to the remaining 4 individuals of HFPM during the Track Record Period are as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Wages, salaries and bonuses	2,542	2,981	3,258	1,798	1,813
Pension costs, housing funds, medical insurance and other social insurances	186	179	190	95	99
Others	27	33	33	17	19
	2,755	3,193	3,481	1,910	1,931

The emoluments fell within the following bands:

	Number of individuals				
	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
				(Unaudited)	
Emolument bands (in HK dollar)					
Nil - HK$1,000,000	4	4	4	4	4

10 FINANCE INCOME AND COSTS

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Finance income					
– Interest income from Zhuhai Huafa and fellow subsidiaries *(Note 16(d), Note 28(a))*	56,672	53,072	53,951	22,648	440
– Interest income from bank deposits	548	468	700	348	331
	57,220	53,540	54,651	22,996	771
Finance costs					
– ABS *(Note 21(a))*	(64,907)	(59,304)	(67,870)	(26,117)	–
– Others	–	–	–	–	(42)
Net finance costs	(7,687)	(5,764)	(13,219)	(3,121)	729

11 INCOME TAX EXPENSES

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Current income tax					
– PRC corporate income tax	8,682	12,670	20,274	11,825	15,168
Deferred income tax *(Note 23)*	(2,543)	(2,814)	(1,064)	(261)	(615)
	6,139	9,856	19,210	11,564	14,553

The tax on the Target Business's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Target Business entities as follows:

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit before income tax	26,184	48,441	76,481	46,380	57,800
Tax charge at effective rate applicable to profits in the respective group entities	6,546	12,110	19,120	11,595	14,450
Tax effects of:					
– Expenses not deductible for tax purposes	87	252	277	63	199
– Income not subject to income tax	(551)	(2,548)	(187)	(94)	(96)
– Tax losses and deductible temporary differences for which no deferred income tax assets was recognised	57	42	–	–	–
PRC corporate income tax	6,139	9,856	19,210	11,564	14,553

PRC corporate income tax

Income tax provision of the Target Business in respect of operations in the PRC has been calculated at the applicable tax rate of 25% on the estimated assessable profits for the year.

12 EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results for each of the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019 on a combined basis as disclosed in Note 1.3 above.

13 PROPERTY, PLANT AND EQUIPMENT

	Vehicles	Office equipment	Machinery	Leasehold improvements	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2016					
Cost	10,307	5,091	9,592	155	25,145
Accumulated depreciation	(4,604)	(2,538)	(4,797)	(53)	(11,992)
Net book amount	5,703	2,553	4,795	102	13,153
Year ended 31 December 2016					
Opening net book amount	5,703	2,553	4,795	102	13,153
Additions	5,074	1,662	713	496	7,945
Disposals	(10)	–	(2)	–	(12)
Depreciation charge	(1,570)	(901)	(1,257)	(91)	(3,819)
Closing net book amount	9,197	3,314	4,249	507	17,267
As at 31 December 2016					
Cost	15,238	6,753	10,301	651	32,943
Accumulated depreciation	(6,041)	(3,439)	(6,052)	(144)	(15,676)
Net book amount	9,197	3,314	4,249	507	17,267
Year ended 31 December 2017					
Opening net book amount	9,197	3,314	4,249	507	17,267
Additions	593	1,181	1,049	–	2,823
Disposals	(838)	(2)	(6)	–	(846)
Depreciation charge	(2,298)	(1,333)	(1,430)	(245)	(5,306)
Closing net book amount	6,654	3,160	3,862	262	13,938
As at 31 December 2017					
Cost	14,338	7,659	11,242	651	33,890
Accumulated depreciation	(7,684)	(4,499)	(7,380)	(389)	(19,952)
Net book amount	6,654	3,160	3,862	262	13,938
Year ended 31 December 2018					
Opening net book amount	6,654	3,160	3,862	262	13,938
Additions	11,915	1,464	1,665	16	15,060
Disposals	(479)	(63)	(75)	–	(617)
Depreciation charge	(2,858)	(1,130)	(1,318)	(138)	(5,444)
Closing net book amount	15,232	3,431	4,134	140	22,937
As at 31 December 2018					
Cost	24,974	8,366	12,404	667	46,411
Accumulated depreciation	(9,742)	(4,935)	(8,270)	(527)	(23,474)
Net book amount	15,232	3,431	4,134	140	22,937

	Vehicles *RMB'000*	Office equipment *RMB'000*	Machinery *RMB'000*	Leasehold improvements *RMB'000*	Total *RMB'000*
Period ended 30 June 2019					
Opening net book amount	15,232	3,431	4,134	140	22,937
Additions	1,119	225	169	–	1,513
Disposals	(990)	(30)	(14)	–	(1,034)
Depreciation charge	(2,008)	(824)	(699)	(59)	(3,590)
Closing net book amount	13,353	2,802	3,590	81	19,826
As at 30 June 2019					
Cost	24,234	8,229	12,297	651	45,411
Accumulated depreciation	(10,881)	(5,428)	(8,706)	(570)	(25,585)
Net book amount	13,353	2,801	3,591	81	19,826
Period ended 30 June 2018					
Opening net book amount	6,654	3,160	3,862	262	13,938
Additions	373	368	124	16	881
Disposals	(8)	(38)	(18)	–	(64)
Depreciation charge	(1,302)	(585)	(682)	(60)	(2,629)
Closing net book amount	5,717	2,905	3,286	218	12,126
As at 30 June 2018					
Cost	14,703	7,989	11,348	667	34,707
Accumulated depreciation	(8,986)	(5,084)	(8,062)	(449)	(22,581)
Net book amount	5,717	2,905	3,286	218	12,126

Depreciation expenses were charged to the following categories in the combined statements of comprehensive income:

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Cost of sales	2,993	4,146	4,612	2,316	3,021
Administrative expenses	826	1,160	832	313	569
	3,819	5,306	5,444	2,629	3,590

14 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loans and receivables/financial assets at amortised cost				
Trade receivables and other receivables (excluding prepayments) *(Note 16)*	1,100,199	988,491	145,113	151,385
Time deposits	1,030	30	30	30
Cash and cash equivalents *(Note 18)*	149,362	148,891	261,786	203,914
	1,250,591	1,137,412	406,929	355,329
Available-for-sale financial asset *(Note 17)*	76,876	153,367	–	–
	1,327,467	1,290,779	406,929	355,329
Financial liabilities at amortised costs				
Borrowing *(Note 21)*	939,291	830,252	–	–
Trade and other payables (excluding advance proceeds received from customer, accrued payroll and other taxes payables *(Note 22)*	137,121	120,082	144,167	125,780
	1,076,412	950,334	144,167	125,780
Lease liabilities *(Note 24)*	–	–	–	1,720
	1,076,412	950,334	144,167	127,500

15 FAIR VALUE ESTIMATION

Financial assets and liabilities

The Target Business's financial instruments recognised in the combined balance sheets are mainly trade receivables and other receivables, financial assets at fair value through other comprehensive income, available-for-sale financial asset and financial liabilities carried at amortised cost. The carrying value less impairment provision of trade receivables and other receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Target Business for similar financial instruments.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Target Business uses estimated discounted cash flows to make assumptions.

The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Target Business's financial asset at fair values are the equity instrument of Zhuhai Huafa Industrial Co.,Ltd. on the Shanghai Stock Exchange, fair value of which are the quoted prices (unadjusted) in active markets (level 1) for the year ended 31 December 2016, 2017 and 2018.

16 TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables *(Note (a))*				
– Related parties *(Note 28(c))*	56,653	51,957	60,382	33,648
– Third parties	71,710	77,818	93,021	130,907
	128,363	129,775	153,403	164,555
Less: allowance for impairment of trade receivables	(19,083)	(20,513)	(18,984)	(22,496)
	109,280	109,262	134,419	142,059
Other receivables				
– Related parties *(Note (c), Note 28(c))*	985,801	872,958	615	85
– Third parties	5,876	6,955	10,526	9,817
	991,677	879,913	11,141	9,902
Less: allowance for impairment of other receivables	(758)	(684)	(447)	(576)
	990,919	879,229	10,694	9,326
Prepayments to suppliers				
– Related parties *(Note 28(c))*	–	418	–	–
– Third parties	1,649	1,466	2,338	3,408
	1,649	1,884	2,338	3,408
Prepaid rental expenses *(Note 24(a)(i))*	19,166	18,167	17,167	–
Prepaid tax	500	411	993	564
Total trade and other receivables and prepayment	1,121,514	1,008,953	165,611	155,357
Less: other receivables				
– non-current portion	(864,960)	(720,041)	–	–
prepaid rental expenses				
– non-current portion	(18,166)	(17,167)	(16,167)	–
	(883,126)	(737,208)	(16,167)	–
Trade and other receivables and prepayment – current portion	238,388	271,745	149,444	155,357

(a) Trade receivables mainly arise from property management services income under lump sum basis and commission basis and value-added services to property owners and non-property owners.

(b) As at 31 December 2016, 2017 and 2018 and 30 June 2019, the ageing analysis of the trade receivables based on invoice date were as follows:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	82,285	73,112	118,356	118,464
1 to 2 years	20,815	24,643	12,543	22,456
2 to 3 years	10,807	13,035	7,557	8,014
3 to 4 years	4,165	8,094	5,080	5,001
Over 4 years	10,291	10,891	9,867	10,620
	128,363	129,775	153,403	164,555

As at 31 December 2016, 2017 and 2018 and 30 June 2019, a provision of RMB19,083,000, RMB20,513,000, RMB18,984,000 and RMB22,496,000 was made against the gross amounts of trade receivables (Note 3.1.3).

(c) As at 31 December 2016 and 2017, the balance of other receivables mainly represented the loan to a related party of RMB974,000,000 and RMB856,000,000 respectively, which was unsecured, interest bearing and with the maturities dates from 2018 to 2022. The loan had been early settled in full in 2018. The effective interest rate is 5.73% –6.42% per annum.

(d) Other than those disclosed in Note 16(c), trade and other receivables are unsecured and interest-free.

17 AVAILABLE-FOR-SALE FINANCIAL ASSET/FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Movement in the available-for-sale financial asset:

	Year ended 31 December	
	2016	**2017**
	RMB'000	*RMB'000*
An equity investment in a related party		
Opening net book value	99,324	76,876
Revaluation (losses)/gains recognised in other comprehensive income	(22,448)	76,491
Closing net book value	76,876	153,367

Movement in the financial asset at fair value through other comprehensive income:

	Year ended 31 December 2018
	RMB'000
An equity investment in a related party	
Opening net book value	–
Reclassification from available-for-sale financial asset upon adoption of HKFRS 9	153,367
Revaluation gains recognised in other comprehensive income	17,161
Disposal *(Note (b))*	(170,528)
Closing net book value	–

(a) The balance as at 31 December, 2016 and 2017 represented investment in listed shares of Zhuhai Huafa Industrial Co., Ltd., a subsidiary of Zhuhai Huafa.

(b) In March 2018, the Target Business disposed the equity investment in the related party to its intermediate holding company with no consideration which is treated as a deem distribution. As a result, the equity investment in a related party with a fair value of RMB170,528,000 was debited to equity to reduce the reserve and retained earnings of RMB140,401,000 and reversal of deferred tax liability of RMB30,127,000 (Note 19).

18 CASH AND CASH EQUIVALENTS

	As at 31 December			**As at 30 June**
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and on hand	149,362	148,891	261,786	203,914

As at 31 December 2016, cash and cash equivalents did not include housing maintenance funds of RMB17,259,000 which were owned by the property owners but were deposited in the bank accounts in the name of the Target Business. Such deposits can be paid by the Target Business on behalf of property owners for the purpose of public maintenance expenditures upon the approval from the relevant government authorities.

19 COMBINED CAPITAL

	Combined capital
	RMB'000
As at 31 December 2016, 2017 and 2018	6,250
As at 30 June 2019	54,763
Balance at 1 January 2019	6,250
Capital contribution from owners *(Note (a))*	45,000
Reorganisation *(Note (b))*	3,513
Balance at 30 June 2019	54,763

(a) The combined capital mainly represents the contribution by Zhuhai Huafa to the Target Business.

(b) The Target Business received capital contribution amounting to RMB45,000,000 in cash from Zhuhai Huafa Modern Service Investment Holding Co., Ltd. (珠海華發現代服務投資控股有限公司).

(c) As mentioned in Note 1.3, this addition in combined capital represents the net equity (equivalent to cash and cash equivalents) in Concord Bright and Beijing Jiujun which were contributed by Zhuhai Huafa to the Target Business in the Reorganisation.

20 RESERVES

	Available-for-sale financial asset RMB'000	Financial asset at FVOCI RMB'000	Statutory reserves RMB'000	Total other reserves RMB'000	Retained earnings RMB'000	Total reserves RMB'000
Balance at 1 January 2016	36,976	–	8,379	45,355	109,287	154,642
Profit for the year	–	–	–	–	20,045	20,045
Change in fair value of available-for-sale financial asset, net of tax	(16,835)	–	–	(16,835)	–	(16,835)
Appropriation of statutory reserves *(Note (a))*	–	–	1,510	1,510	(1,510)	–
Balance at 31 December 2016	20,141	–	9,889	30,030	127,822	157,852
Balance at 1 January 2017	20,141	–	9,889	30,030	127,822	157,852
Profit for the year	–	–	–	–	38,585	38,585
Dividend declared *(Note 25)*	–	–	–	–	(50,000)	(50,000)
Change in fair value of available-for-sale financial asset, net of tax	57,366	–	–	57,366	–	57,366
Appropriation of statutory reserves *(Note (a))*	–	–	3,454	3,454	(3,454)	–
Balance at 31 December 2017	77,507	–	13,343	90,850	112,953	203,803
Reclassification on adoption of HKFRS 9	(77,507)	77,507	–	–	–	–
Balance at 1 January 2018	–	77,507	13,343	90,850	112,953	203,803
Profit for the year	–	–	–	–	57,271	57,271
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	–	12,871	–	12,871	–	12,871
Disposal of financial assets at fair value through other comprehensive income *(Note 17(b))*	–	(90,378)	(13,343)	(103,721)	(36,680)	(140,401)
Appropriation of statutory reserves *(Note (a))*	–	–	13,475	13,475	(13,475)	–
Balance at 31 December 2018	–	–	13,475	13,475	120,069	133,544

	Statutory reserves	Total other reserves	Retained earnings	Total reserves
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2019	13,475	13,475	120,069	133,544
Profit for the period	–	–	43,247	43,247
Dividend declared (Note 25)	–	–	(68,000)	(68,000)
Balance at 30 June 2019	13,475	13,475	95,316	108,791

(a) In accordance with relevant rules and regulations in the PRC, the PRC group entities are required to transfer 10% of their profit after taxation calculated under PRC accounting rules and regulations to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, to offset losses carried forward from previous years or to increase capital of the respective group entities.

21 BORROWINGS

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Borrowings included in non-current liabilities:				
ABS *(Note (a))*	939,291	830,252	–	–
Less: current portion of ABS	(109,039)	(135,960)	–	–
	830,252	694,292	–	–
Borrowings included in current liabilities:				
Current portion of ABS	109,039	135,960	–	–
Total borrowings	939,291	830,252	–	–

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Target Business's borrowings were repayable as follows:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	109,039	135,960	–	–
Between 1 and 2 years	144,000	160,000	–	–
Between 2 and 5 years	491,252	534,292	–	–
Over 5 years	195,000	–	–	–
	939,291	830,252	–	–

(a) The Target Business entered into ABS arrangement with an assets management company by pledging of the future 7 years' right of receiving management fee for certain properties under its management. On 4 December 2015, the ABS was formally established with an aggregate nominal value of RMB1,120,000,000, amongst which RMB50,000,000 was subordinate securities purchased by the Target Business as original equity holder. The ABS will be repaid from 2016 to 2022. The interest rate is 4.6%- 4.75% per annum. The net proceeds from the ABS, after deducting the issuance costs and the subordinate securities purchased by the Target Business, amounted to approximately RMB1,025,000,000.

According to the agreement of ABS, the Target Business as the issuer is eligible to exercise the right to redeem at redemption start date corresponding to each of the expected mature date, and the redemption is irrevocable once started.

The repayment of the ABS was secured by Zhuhai Huafa (Note 28(d)).

On 5 December 2018 (the "Redemption Date"), the Target Business redeemed the remaining ABS in full at a redemption price equalling to 100.1% of the principal amount of the ABS and the accrued and unpaid interests as at the Redemption Date.

22 TRADE AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables *(Note (a))*				
– Related parties *(Note 28(c))*	–	439	156	37
– Third parties	9,012	16,761	24,278	31,003
	9,012	17,200	24,434	31,040
Other payables				
– Related parties *(Note 28(c))*	91,858	49,041	47,253	21,236
– Third parties	32,854	50,850	72,480	73,504
	124,712	99,891	119,733	94,740
Advance proceeds received from customer				
– Related parties *(Note 28(c))*	2,254	1,064	–	–
– Third parties	22,506	24,366	–	–
	24,760	25,430	–	–
Accrued payroll	57,965	74,043	88,142	68,669
Other tax payables	11,528	13,897	19,797	9,163
Interest payables	3,397	2,991	–	–
	231,374	233,452	252,106	203,612

(a) As at 31 December 2016, 2017 and 2018 and 30 June 2019, the carrying amounts of trade and other payables approximated its fair values.

(b) trade and other payables are unsecured and interest-free.

(c) As at 31 December 2016, 2017 and 2018 and 30 June 2019, the ageing analysis of the trade payables based on invoice date were are follows:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Up to 1 year	8,542	14,732	17,172	27,856
1 to 2 years	268	2,215	5,515	2,050
2 to 3 years	122	135	1,494	573
Over 3 years	80	118	253	561
	9,012	17,200	24,434	31,040

23 DEFERRED INCOME TAX ASSETS/(LIABILITIES)

The analysis of deferred tax assets/(liabilities) is as follows:

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred income tax assets to be recovered after more than 12 months	2,179	4,654	6,048	5,749
Deferred income tax assets to be recovered within 12 months	4,959	5,298	4,968	5,882
Set-off of deferred tax assets/(liabilities) pursuant to set-off provisions	(6,712)	(9,620)	–	–
	426	332	11,016	11,631
Deferred income tax liabilities to be settled after more than 12 months	(6,712)	(25,837)	–	–
Set-off of deferred tax assets/(liabilities) pursuant to set-off provisions	6,712	9,620	–	–
	–	(16,217)	–	–
Deferred income tax assets/(liabilities), net	426	(15,885)	11,016	11,631

The movement in deferred income tax assets/(liabilities) during the year ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(i) Deferred tax assets

	Allowance on doubtful debts *RMB'000*	**Accrued expenses** *RMB'000*	**Total**
As at 1 January 2016	4,595	–	4,595
Credited to profit or loss	364	2,179	2,543
At 31 December 2016	4,959	2,179	7,138
As at 1 January 2017	4,959	2,179	7,138
Credited to profit or loss	339	2,475	2,814
At 31 December 2017	5,298	4,654	9,952
As at 1 January 2018	5,298	4,654	9,952
(Charged)/credited to profit or loss	(330)	1,394	1,064
At 31 December 2018	4,968	6,048	11,016
As at 1 January 2019	4,968	6,048	11,016
Credited/ (charged) to profit or loss	914	(299)	615
At 30 June 2019	5,882	5,749	11,631

(ii) Deferred tax liabilities

	Change in the fair value of financial asset
	RMB'000
As at 1 January 2016	(12,325)
Credited to other comprehensive income	5,613
At 31 December 2016	(6,712)
As at 1 January 2017	(6,712)
Credited to other comprehensive income	(19,125)
At 31 December 2017	(25,837)
As at 1 January 2018	(25,837)
Credited to other comprehensive income	(4,290)
Disposal of financial asset at fair value through other comprehensive income	30,127
At 31 December 2018 and 30 June 2019	–

As at 31 December 2016, 2017 and 2018 and 30 June 2019, the Target Business has not recognised deferred tax assets in respect of cumulative tax losses of RMB228,000, RMB396,000, RMB396,000 and RMB396,000, as it is not probable that future taxable profits against which the losses can be utilized will be available in the relevant tax jurisdiction and entity. The tax losses shall expire in five years from year of occurrence under current tax legislation.

Expiry year	**Unused tax losses for which no deferred tax asset was recognised**			
	As at 31 December			**As at 30 June**
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2021	228	228	228	228
2022	–	168	168	168
	228	396	396	396

24 LEASES

(a) Amounts recognised in the balance sheet

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Right-of-use assets *(Note i)*	–	–	–	18,373
Leased liabilities				
Current	–	–	–	969
Non-current	–	–	–	751
	–	–	–	1,720

(i) As at 30 June 2019, the right-of-uses assets mainly represents the prepaid rental expenses amounted to RMB16,667,000.

(b) Amounts recognised in the combined statements of comprehensive income

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Depreciation charge of right-of-use assets	–	–	–	–	1,311
Interest expenses (included in finance cost)	–	–	–	–	42
Expenses relating to short-term leases (included in cost of sales and administrative expense) *(Note 8)*	–	–	–	–	1,540

25 DIVIDENDS

	Year ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Dividends	–	50,000	–	–	68,000

During the year ended 31 December 2017, HFPM declared dividends of RMB50,000,000 to Zhuhai Huafa Modern Service Investment Holding Co., Ltd.

During the six months ended 30 June 2019, HFPM declared dividends of RMB68,000,000 to Zhuhai Huafa Modern Service Investment Holding Co., Ltd.

26 CASH GENERATED FROM/(USED IN) OPERATIONS

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit before income tax	26,184	48,441	76,481	46,380	57,800
Adjustments for:					
– Depreciation of property, plant and equipment *(Note 13)*	3,819	5,306	5,444	2,629	3,590
– Depreciation of right-of-use assets	–	–	–	–	1,311
– Amortisation of intangible assets	46	49	50	25	25
– Allowance/(reversal) for impairment of trade and other receivables	1,455	1,356	(1,320)	561	3,641
– Losses from disposal of property, plant and equipment	6	4	70	64	39
– Finance income	(57,220)	(53,540)	(54,651)	(22,996)	(771)
– Finance cost	64,907	59,304	67,870	26,117	42
	39,197	60,920	93,944	52,780	65,677
Changes in working capital:					
– Inventories	17	(512)	443	691	315
– Trade receivables and other receivables	(63,355)	(2,636)	(28,681)	(70,520)	(11,084)
– Prepayment	(7,485)	999	1,000	884	–
– Contract liabilities	–	–	30,347	25,698	2,203
– Trade payables and other payables	59,491	45,301	23,433	(16,616)	(22,477)
	27,865	104,072	120,486	(7,083)	34,634

(a) The reconciliation of liabilities arising from financial activities is as follow:

	Borrowings	Other payables-interest payable	Lease liabilities	Cash advance from related parties	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2016	1,025,715	3,724	–	69,934	1,099,373
Cash flows	(96,000)	(55,658)	–	(21,924)	(129,734)
Non-cash changes	9,576	55,331	–	–	64,907
As at 31 December 2016	939,291	3,397	–	91,858	1,034,546
Cash flows	(118,000)	(50,749)	–	(42,817)	(211,566)
Non-cash changes	8,961	50,343	–	–	59,304
As at 31 December 2017	830,252	2,991	–	49,041	882,284
Cash flows	(856,000)	(45,113)	–	(1,788)	(902,901)
Non-cash changes	25,748	42,122	–	–	67,870
As at 31 December 2018	–	–	–	47,253	47,253
Cash flows	–	–	(839)	(26,017)	(26,856)
Non-cash changes	–	–	2,559	–	2,559
As at 30 June 2019	–	–	1,720	21,236	22,956

27 COMMITMENTS

Operating lease commitments – as lessee

The Target Business leases staff dormitories, machinery and office equipment under non-cancellable lease agreements with lease term less than 12 months.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Up to 1 year	618	1,367	1,274	1,706
1 to 3 years	783	1,014	372	–
	1,401	2,381	1,646	1,706

28 RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control or joint control the other party or exercise significant influence in making financial and operating decisions of the other party. Parties are also considered to be related if they are subject to common control. The Target Business is subject to the control of the PRC Government.

In addition to the related party information shown elsewhere in the combined financial information, the following is a summary of significant related party transactions and balances between the Target Business and its related parties, during the Track Record Period.

These transactions were conducted in accordance with normal commercial terms agreed between the Target Business and its related parties.

(a) Transactions with related parties

Continuing transactions with related parties

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Provision of services					
– Zhuhai Huafa and fellow subsidiaries	137,600	162,021	240,078	109,349	119,332
Purchase of goods and services					
– Zhuhai Huafa and fellow subsidiaries	3,978	2,257	15,997	2,088	526
Rental expenses					
– Zhuhai Huafa and fellow subsidiaries	–	529	1,216	504	–
Rental income					
– Zhuhai Huafa and fellow subsidiaries	400	587	580	260	707
Interest income					
– Zhuhai Huafa and fellow subsidiaries	56,672	53,072	53,951	22,648	440

(b) Key management compensation

Key management including directors, supervisors and senior managements. The emoluments of directors and supervisors of HFPM are disclosed in Note 29. The compensations for the remaining key management of Target Business is set out below.

	Year ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Salaries and other short-term employee benefits	2,755	3,193	3,481	1,798	1,813

(c) Balances with related parties

	As at 31 December			As at 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents				
– Zhuhai Huafa and fellow subsidiaries *(Note (i))*	72,178	24,242	51,120	32,090
Trade receivables				
– Zhuhai Huafa and fellow subsidiaries	56,653	51,957	60,382	33,648
Other receivables				
– Zhuhai Huafa and fellow subsidiaries *(Note 16(d))*	985,801	872,958	615	85
Prepayments				
– Zhuhai Huafa and fellow subsidiaries	–	418	–	–
Trade payables				
– Zhuhai Huafa and fellow subsidiaries	–	439	156	37
Other payables				
– Zhuhai Huafa and fellow subsidiaries *(Note (i))*	91,858	49,041	47,253	21,236
Advance proceeds received from customers				
– Zhuhai Huafa and fellow subsidiaries	2,254	1,064	–	–
Contract liabilities				
– Zhuhai Huafa and fellow subsidiaries	–	–	7	715

(i) The cash and cash equivalents represent the balance deposited in a financial institution, a fellow subsidiary of HFPM.

(ii) Except for the cash and cash equivalents and other receivable disclosed in Note 16(d), other balances are unsecured and interest-free. The balances are repayable on demand.

(d) Pledges and guarantees provided by related parties

As at 31 December 2016 and 2017, the repayment of the Target Business's ABS of RMB939,291,000 and RMB830,252,000 was guaranteed by Zhuhai Huafa, as mentioned in Note 21(a).

(e) Transactions and balances with other state-owned enterprises in the PRC

In accordance with HKAS 24 "Related Party Disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC Government ("state-owned enterprises") are regarded as related parties of the Target Business.

The Target Business operates in an economic environment predominated by state-owned enterprises. During the Track Record Period, the Target Business had transactions with state-owned enterprises including, but not limited to, providing property management services and value added services.

For the purpose of related party transactions disclosure, the Target Business has in place procedures to assist the identification of the immediate ownership structure of its customers and suppliers as to whether they are state-owned enterprises. However, many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs.

Nevertheless, the directors of HFPM consider that transactions with other state-owned enterprises are activities in the ordinary course of the Target Business's business, and that the dealings of the Target Business have not been significantly or unduly affected by the fact that the Target Business and other state-owned enterprises are ultimately controlled or owned by the PRC Government. The Target Business has also established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are state-owned enterprises. Having due regard to the substance of the relationships, the directors of HFPM are of the opinion that none of these transactions are material related party transactions that require separate disclosure except for the transactions with state-owned financial institutions as disclosed below.

(i) Balances with state-owned financial institutions

As at 31 December 2016, 2017 and 2018 and 30 June 2019, majority part of the Target Business's bank balances and borrowings were deposited in or financed from various state-owned financial institutions. The Directors are of opinion that such transactions were conducted in the ordinary course of business and in accordance with normal commercial terms.

29 DIRECTORS' AND SUPERVISORS' BENEFITS AND INTERESTS

(a) Directors' and supervisors' emoluments

The directors and supervisors of HFPM received emoluments from the Target Business for the year ended 31 December 2016,2017 and 2018 and the six months ended 30 June 2019 as follows:

	Year ended 31 December			Six months ended 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Salaries	1,363	1,570	1,567	415
Housing allowance and Contributions to a retirement benefit scheme	61	46	50	13
Other allowance and benefits in kind	9	11	11	4
	1,433	1,627	1,628	432

30 STATEMENT OF FINANCIAL POSITION OF CONCORD BRIGHT

	As at 30 June 2019
	RMB'000
ASSETS	
Non-current asset	
Investment in a subsidiary	80,582
Current asset	
Cash and cash equivalents	2,065
Total assets	82,647
EQUITY	
Share capital	81,764
Reverses	883
Total equity	82,647

31 EVENTS AFTER THE BALANCE SHEET DATE

Save as disclosed elsewhere in this report, there is no subsequent event.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Business or any of the companies now comprising the Target Business in respect of any period subsequent to 30 June 2019 and up to the date of this report. Save as disclosed in Note 25 of Section II, no dividend or distribution has been declared or made by the Target Business in respect of any period subsequent to 30 June 2019.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative and unaudited pro forma financial information of the Enlarged Group (the "Unaudited Pro Forma Financial Information"), comprising the unaudited pro forma consolidated statement of financial position as at 30 June 2019, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2018 of the Enlarged Group, which have been prepared on the basis of the notes set out below and in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effects of the proposed acquisition of the Target Business through the acquisition of 100% of the equity interest in Concord Bright Holdings Limited (the "Proposed Acquisition") on the Group, assuming that the Proposed Acquisition had been completed as at the dates indicated below.

The Unaudited Pro Forma Financial Information has been prepared using accounting policies consistent with those of the Group as set out in the published annual report of the Group for the year ended 31 December 2018.

The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the financial position, results of operation and cash flows of the Enlarged Group had the Proposed Acquisition been completed as at 30 June 2019 for the unaudited pro forma consolidated statement of financial position of the Enlarged Group and 1 January 2018 for the unaudited pro forma consolidated statement of comprehensive income and consolidated statement of cash flows of the Enlarged Group.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group and the financial information of the Target Business set out in Appendix II and Appendix III to this circular, respectively.

(I) A. The Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group as at 30 June 2019

	The Group	Target Business	Pro forma adjustments		The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	
Non-current assets					
Property, plant and equipment	5,014	22,550	–	–	27,564
Right-of-use assets	33,456	20,898	–	–	54,354
Intangible assets	11,628	287	–	–	11,915
Deferred tax assets	1,822	13,229	–	–	15,051
Interests in associates	39,069	–	–	–	39,069
Financial asset at fair value through profit or loss	14,748	–	–	–	14,748
Deposits and other receivable	11,233	–	–	–	11,233
	116,970	56,964	–	–	173,934
Current assets					
Inventories	–	290	–	–	290
Contract assets	9,913	–	–	–	9,913
Trade receivables and margin loans receivable	115,200	161,579	–	–	276,779
Other receivables, deposits and prepayments	12,270	15,125	–	–	27,395
Client trust bank balances	34,205	–	–	–	34,205
Time deposits	–	34	–	–	34
Cash and cash equivalents	152,767	231,934	250,382	–	635,083
	324,355	408,962	250,382	–	983,699
Total assets	**441,325**	**465,926**	**250,382**	**–**	**1,157,633**

	The Group	Target Business	Pro forma adjustments		The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	
Equity					
Share capital	2,515	62,288	(62,288)	–	2,515
Reserves	189,641	123,740	(772,320)	(13,491)	(472,430)
	192,156	186,028	(834,608)	(13,491)	(469,915)
Non-controlling interests	11,882	–	–	–	11,882
Total equity/(deficit)	**204,038**	**186,028**	**(834,608)**	**(13,491)**	**(458,033)**
Non-current liabilities					
Amount due to a related party	–	–	584,226	–	584,226
Lease liabilities	17,237	854	–	–	18,091
Bank borrowings	–	–	94,382	–	94,382
Deferred tax liabilities	74	–	–	–	74
	17,311	854	678,608	–	696,773
Current liabilities					
Trade payables	87,112	35,305	–	–	122,417
Contract liabilities	17,784	37,023	–	–	54,807
Amount due to a related party	–	–	250,382	–	250,382
Other payables and accruals	20,861	196,285	–	13,491	230,637
Lease liabilities	16,670	1,102	–	–	17,772
Bank borrowings	75,500	–	156,000	–	231,500
Income tax payable	2,049	9,329	–	–	11,378
	219,976	279,044	406,382	13,491	918,893
Total liabilities	**237,287**	**279,898**	**1,084,990**	**13,491**	**1,615,666**
Total equity/(deficit) and liabilities	**441,325**	**465,926**	**250,382**	**–**	**1,157,633**

(I) B. The Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Enlarged Group for the year ended 31 December 2018

	The Group	Target Business	Pro forma adjustments		The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 4*	*Note 5*	
Revenue	247,278	713,624	–	–	960,902
Cost of sales	(134,517)	(566,148)	–	–	(700,665)
Gross profit	112,761	147,476	–	–	260,237
Other income and other gains, net	9,966	1,167	–	–	11,133
Selling and distribution expenses	(13,540)	–	–	–	(13,540)
Administrative expenses	(102,115)	(48,550)	(13,491)	–	(164,156)
Net impairment reversal on financial assets	–	1,495	–	–	1,495
Operating profit	7,072	101,588	(13,491)	–	95,169
Finance expenses, net	(2,520)	(14,971)	–	(37,933)	(55,424)
Share of results of associates	(512)	–	–	–	(512)
Profit before income tax	4,040	86,617	(13,491)	(37,933)	39,233
Income tax expense	(1,786)	(21,756)	–	–	(23,542)
Profit for the year	2,254	64,861	(13,491)	(37,933)	15,691
Profit attributable to:					
Owners of the Company	36	64,861	(13,491)	(37,933)	13,473
Non-controlling interests	2,218	–	–	–	2,218
Profit for the year	2,254	64,861	(13,491)	(37,933)	15,691

	The Group	Target Business	Pro forma adjustments		The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 4*	*Note 5*	
Other comprehensive income					
Item that will not be reclassified subsequently to profit or loss					
Changes in value on financial asset at fair value through other comprehensive income	(208)	14,577	–	–	14,369
Item that may be reclassified to profit or loss					
Exchange differences on translation of foreign operations	90	429	–	–	519
Other comprehensive income for the year, net of tax	(118)	15,006	–	–	14,888
Total comprehensive income for the year	2,136	79,867	(13,491)	(37,933)	30,579
Total comprehensive income/(loss) for the year attributable to:					
Owners of the Company	(82)	79,867	(13,491)	(37,933)	28,361
Non-controlling interests	2,218	–	–	–	2,218
	2,136	79,867	(13,491)	(37,933)	30,579

(I) C. The Unaudited Pro Forma Consolidated Statement of cash flows of the Enlarged Group for the year ended 31 December 2018

	The Group	Target Business	Pro forma adjustments			The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
Cash flows from operating activities						
Cash generated from operating activities	93	136,455	–	(13,491)	–	123,057
Income tax refund/(paid)	2,588	(19,447)	–	–	–	(16,859)
Net cash generated from operating activities	2,681	117,008	–	(13,491)	–	106,198
Cash flows from investing activities						
Interest received	603	1,564	–	–	–	2,167
Proceeds from disposal of property, plant and equipment	9	619	–	–	–	628
Purchase of property, plant and equipment	(1,560)	(17,056)	–	–	–	(18,616)
Proceed from disposal of financial asset at fair value through other comprehensive income	15,010	–	–	–	–	15,010
Receipt of repayment of loan advanced to a related party and underlying interests	–	1,041,991	–	–	–	1,041,991
Receipts of cash advances to related parties	–	6,914	–	–	–	6,914
Cash advances to related parties	–	(625)	–	–	–	(625)
Payment for common control business combinations	–	–	(250,382)	–	–	(250,382)
Net cash generated from investing activities	14,062	1,033,407	(250,382)	–	–	797,087

	The Group	Target Business	Pro forma adjustments			The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
Cash flows from financing activities						
Interest paid	(3,217)	(51,092)	–	–	(37,933)	(92,242)
Repayment to loan from a related party	(35,500)	–	–	–	–	(35,500)
Proceeds from bank borrowings	117,000	–	250,382	–	–	367,382
Repayments of bank borrowings	(62,000)	(969,441)	–	–	–	(1,031,441)
Proceeds from disposal of certain equity interests in subsidiaries to non-controlling interest	12,000	–	–	–	–	12,000
Interest in restricted bank balances	(15,000)	–	–	–	–	(15,000)
Cash advance from related parties	–	5,582	–	–	–	5,582
Repayments of cash advances from related parties	–	(7,608)	–	–	–	(7,608)
Net cash generated from/(used in) financing activities	13,283	(1,022,559)	250,382	–	(37,933)	(796,827)
Net increase in cash and cash equivalents	30,026	127,856	–	(13,491)	(37,933)	106,458
Cash and cash equivalents at beginning of the year	99,846	168,623	–	–	–	268,469
Effect of foreign exchange rate changes, net	65	1,604	–	–	–	1,669
Cash and cash equivalents at end of the year	**129,937**	**298,083**	**–**	**(13,491)**	**(37,933)**	**376,596**

(I) Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. The amounts have been extracted from the unaudited interim condensed consolidated statement of financial position as at 30 June 2019 included in the published interim report of the Company for the period ended 30 June 2019 and the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2018 included in the published annual report of the Company for the year ended 31 December 2018.

2. The amounts have been extracted from the audited combined statement of financial position of the Target Business as at 30 June 2019, and the audited combined statement of comprehensive income and the audited combined statement of cash flows of the Target Business for the year ended 31 December 2018 in Appendix III to this circular.

   Certain amounts extracted are reclassified to conform to the presentation of the audited consolidated financial statements of the Group. Such classification is just for the purpose of the illustration of Unaudited Pro Forma Financial Information.

   The functional currency and the presentation currency of the Target Business are Renminbi ("RMB"). For illustrative purpose, the assets, liabilities and equity of the Target Business as at 30 June 2019 are translated into HK$, the presentation currency of the Group, at the exchange rate of RMB1 to HK$1.13741. The combined statement of comprehensive income and combined statement of cash flows of the Target Business for the year ended 31 December 2018 are translated into HK$ at the exchange rate of RMB1 to HK$1.13253.

3. Pursuant to the Asset Transfer Agreement and the Sale and Purchase Agreement dated 20 December 2019, the Group will acquire the entire issued share capital of the Target Company at a total consideration of RMB734 million (equivalent to approximately HK$835 million). The consideration will be paid in the following manner:

   (a) 30% of the Consideration, or RMB220 million (equivalent to approximately HK$250 million), will be settled by cash within 5 Business days after the Effective Date through external bank borrowings; and

   (b) 70% of the Consideration, or RMB514 million (equivalent to approximately HK$585 million) will be settled by cash within one year from the First Payment Date through the Group's internal resources available then and/or external bank borrowings.

The Company is required to pay interest for the Remaining Transaction Payment in accordance to the interest rate of the People's Bank of China for the period until full payment of the Consideration. As at the Latest Practicable Date, it is not expected the Company will pay the Remaining Transaction Payment and interest prior to the Final Payment Date.

The Proposed Acquisition is considered as a business combination under common control as the Group and the Target Business are under the common control of Zhuhai Huafa Group Company Limited before and after the Proposed Acquisition. Accordingly, the Proposed Acquisition is accounted for using the principles of merger accounting in accordance with Accounting Guideline 5 ''Merger Accounting for Common Control Combinations'' issued by the Hong Kong Institute of Certified Public Accountants. The difference between the consideration and share capital of the Targeted Business would be debited to merger reserve of equity.

4. The adjustment represents the estimated professional fees and transaction costs of approximately HK$13,491,000 payable by the Company in connection with the Proposed Acquisition, which are assumed to be due upon Completion. This pro forma adjustment is not expected to have a continuing effect on the unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows.

5. The adjustment represents the estimated interest expenses of approximately HK$12,519,000 and HK$25,414,000 relating to the external bank borrowings and the related party arising from the deferred consideration for the Proposed Acquisition as mentioned in Note 3 above which bear interest rate of 5% per annum and 4.35% per annum respectively. This pro forma adjustment is expected to have a continuing effect on the unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows until the settlement of these external bank borrowings and amount due to a related party.

6. Apart from the above, no other adjustment has been made to the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group to reflect any trading results or other transactions of the Group and Target Business entered or proposed to enter into subsequent to 30 June 2019 and 1 January 2018 respectively.

羅兵咸永道

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

To the Directors of HJ Capital (International) Holdings Company Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of HJ Capital (International) Holdings Company Limited (the "Company") and its subsidiaries (collectively the "Group"), and Concord Bright Holdings Company Limited and its subsidiaries (the "Target Business") (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 financial position as at 30 June 2019, the unaudited pro forma consolidated statement of comprehensive income for the year ended 31 December 2018, the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2018, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages IV-1 to IV-9 of the Company's circular dated 27 December 2019, in connection with the proposed acquisition of the Target Business (the "Transaction") by the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages IV-1 to IV-9.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Transaction on the Group's financial position as at 30 June 2019 and the Group's financial performance and cash flows for the year ended 31 December 2018 as if the Transaction had taken place at 30 June 2019 and 1 January 2018 respectively. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2019, on which no audit or review report has been published while information about the Group's financial performance and cash flows has been extracted by the directors from the Group's financial statements for the year ended 31 December 2018, on which an audit report has been published.

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").

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 Transaction at 30 June 2019 or 1 January 2018 would have been as presented.

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

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

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's 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, 27 December 2019

STRICTLY CONFIDENTIAL Ref. No: J19-0304

The Board of Directors
HJ Capital (International) Holdings Company Limited
Room 3605, 36/F.,
Cheung Kong Center,
2 Queen's Road,
Central, Hong Kong

27 December 2019

Dear Sirs / Madams,

Re: Valuation of 100% Equity Interest of Concord Bright Holdings Limited

In accordance with your instructions, AVISTA Valuation Advisory Limited ("**AVISTA**" or "**we**") has conducted a business valuation in connection with the fair value of 100% equity interest of **Concord Bright Holdings Limited** (和輝集團有限公司) (Company Registration No. 0706986) ("**Concord Bright**" or the "**Target**") as of 30 June 2019 (the "**Valuation Date**"). We understand that HJ Capital (International) Holdings Company Limited (華金國際資本控股有限公司) (SEHK:982) (the "**Company**", "**HJ Capital**" or "**you**") intends to acquire the entire shareholdings of the Target (the "**Potential Acquisition**").

It is our understanding that this appraisal will be used as reference to you in determining the purchase price of the Target and, where relevant, for disclosure purpose under the requirement of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange Limited (the "**Listing Rules**"). This report (the "**Report**") does not constitute an opinion on the commercial merits and structure of the Potential Acquisition. We are not responsible for unauthorized use of the Report.

We accept no responsibility for the realisation and completeness of any estimated data, or estimates furnished by or sourced from any third parties which we have used in connection with preparing this Report. We assumed that financial and other information provided to us are accurate and complete.

This Report presents the summary of the business appraised, describes the basis of analysis and assumptions, explains the analysis methodology adopted in this appraisal process to calculate the fair value, also the additional supporting documentation has been retained as a part of our work papers.

BASIS OF ANALYSIS

We have appraised the fair value of 100% equity interest of the Target.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

COMPANY BACKGROUND

HJ Capital and its subsidiaries (collectively, the "**Group**") is principally engaged in the provision of (i) financial services, including financial advisory, securities underwriting and consultancy, securities and futures brokerage, asset management, equity research and money lending services in Hong Kong; (ii) hotel management and advisory services, and consultancy services in relation to conventions, exhibitions, conferences and event planning and organisation in the PRC; and (iii) financial printing services in Hong Kong.

The Target is an investment holding company and is the immediate holding company of Beijing Jiujun Real Estate Development Co., Ltd.* (北京九郡房地產開發有限公司) ("**Beijing Jiujun**"), whereas Zhuhai Huafa Property Management Service Co., Ltd.* (珠海華發物業管理服務有限公司) ("**Zhuhai Huafa Property**") is the wholly-owned subsidiary of Beijing Jiujun (together with the Target and its subsidiaries, the "**Target Group**"). Zhuhai Huafa Property was established in 1985 and is a major player in Zhuhai's real estate property management industry. Zhuhai Huafa Property mainly manages high-end residential properties and office buildings and has become one of Zhuhai's top property managers over the years.

We understand from management of the Company (the "**Management**") that the Company intends to acquire entire shareholdings of the Target. As such, the Company would like to assess the fair value of the 100% equity interest of the Target as of the Valuation Date.

SCOPE OF WORK

In conducting this valuation exercise, we have

- Co-ordinated with the Company's representatives to obtain the required information and documents for our valuation;
- Gathered the relevant information of the Target Group, including legal documents, financial statements, etc. made available to us;

* *for identification purpose only*

- Discussed with management of the Company and the Target Group to understand the history, business model, operations, customer base, business development plan, etc. of the Target Group for valuation purpose;

- Carried out researches in the sector concerned and collected relevant market data from reliable sources for analysis;

- Investigated into the information of the Target Group made available to us and considered the basis and assumptions of our conclusion of value;

- Designed an appropriate valuation model to analyze the market data and derived the estimated fair value of the 100% equity interest of the Target; and

- Compiled a report on the valuation, which outlines our findings, valuation methodologies and assumptions, and conclusion of the fair value.

When performing our valuation, all relevant information, documents, and other pertinent data concerning the assets, liabilities and contingent liabilities should have been provided to us. We relied on such data, records and documents in arriving at our opinion of the fair value and had no reason to doubt the truth and accuracy of the information provided to us by the Company, the Target Group and their authorized representatives.

ECONOMY OVERVIEW

Macroeconomic overview of China

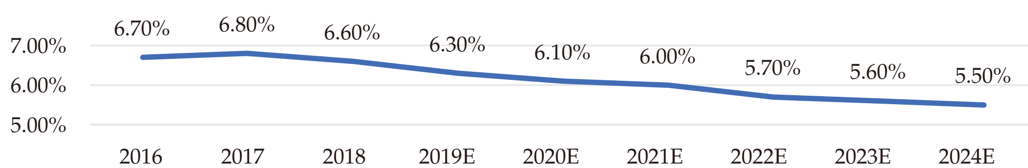
China's gross domestic product ("**GDP**") growth has been slowing down for many years. According to Statista, a leading online statistics portal, China's year-on-year real GDP growth reached 6.6% in 2018, decreased from 6.8% in 2017, which reflects the slowest growth pace since 1990.

GDP growth has moderated, but China's economy remains resilient. GDP Growth slowed to 6.4% year-on-year in the fourth quarter from 6.5% in the third quarter of 2018. This moderation has been mainly due to weaker growth in investment and exports, while consumption growth increased. Investment growth again decelerated in 2018 as the economy continues to rebalance. Robust domestic demand supported imports, while slower global trade growth weighed on exports, resulting in a negative GDP growth contribution from net exports.

The current account recorded a small deficit in the first three quarters of 2018, driven by stronger imports. Growth in China's exports to the United States of America (the "**US**") subject to a 25-percent tariffs slowed down significantly but that subject to a 10-percent tariffs have so far remained robust. This likely reflects strong US economic activity, Renminbi ("**RMB**") depreciation against the US Dollar ("**USD**"), and some front-loading of exports ahead of the new tariffs. In contrast, China's imports from the US have declined in recent months.

After two quarters of net capital inflows, rising trade tensions and uncertainty contributed to USD19 billion of net outflows in the third quarter of 2018. Foreign investors reduced purchase of bond and stock which lowered foreign direct investment ("**FDI**"). While US investment into China remains stable, China's FDI into the US has declined significantly. This decrease was partly due to stricter implementation of China's capital controls in 2016-17, but it has also coincided with a rise in China's investment in other advanced countries and could be linked to concerns over potential investment restrictions.

China real GDP growth rate, 2016-2024E



Source: Statista

INDUSTRY OVERVIEW

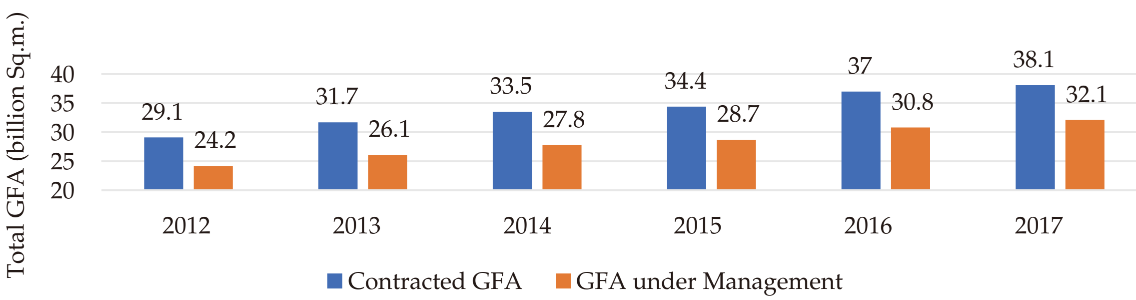
Overview of Property Management Services Industry in China

In 2003, the State Council, National Reform and Development Commission, and Ministry of Housing and Urban-Rural Development published the "*Property Management Regulations and Measures for the Management of Property Service Charges*", which promulgated a legal framework for the property management services industry. The government introduced more regulations prompting the development of a more regulated industry and establishing an open and fair market system for the property management services industry. The industry now provides a wide range of services to different types of properties, including residential properties, office buildings, industrial parks, shopping centers, schools and hospitals. According to China Index Academy ("**CIA**"), a property research organization in China, there were approximately 118,000 property management service providers in China in 2017.

According to Frost & Sullivan, a consulting company founded in New York, the total contracted gross floor area ("**GFA**") and total GFA under management by property management service companies in China had a significant increase from 2012 to 2017. Contracted GFA refers to the aggregate GFA under operating property management services contracts. From 2012 to 2017, the total contracted GFA increased from 29.1 billion sq.m. in 2012 to 38.1 billion sq.m. in 2017, with a compound annual growth rate ("**CAGR**") of 5.5%. GFA under management refers to the aggregate GFA of individual units privately owned by property owners and GFA of common areas. From 2012 to 2017, the total GFA under management had increased from 24.2 billion sq.m. in 2012 to 32.1 billion sq.m. in 2017, with a CAGR of 5.8%.

With rapid urbanization and increasing per capita disposable income, as well as the development of real estate market, the property management services market kept fast growth in recent years. From 2012 to 2017, the total revenue of property management services market has increased from RMB174.9 billion to RMB268.5 billion, with a CAGR of 9.0%. According to Frost & Sullivan, the property management services market is expected to develop continuously.

Total Contracted GFA and Total GFA Under Management by Property Management Services Companies in China, 2012-2017



Source: Frost & Sullivan

LIMITATIONS OF THE REPORT

The Report serves as reference to you in determining the purchase price of the Target and, where relevant, for a basis for disclosure purpose under the requirement of the Listing Rules. We will not be liable for any unauthorized use of the Report. Accordingly, the Report may not be used nor relied upon in any other connection by, and are not intended to confer any benefit on, any person (including without limitation the respective shareholders of the Company and the Target).

The Report does not constitute an opinion on the commercial merits and structure of the Potential Acquisition. The Report does not purport to contain all the information that may be necessary or desirable to fully evaluate the Potential Acquisition. We are not required to and have not conducted a comprehensive review of the business, technical, operational, strategic or other commercial risks and merits of the Potential Acquisition and such remain the sole responsibility of the directors of the Company (the "**Directors**") and the Management.

We have assumed and relied upon, and have not independently verified the accuracy, completeness and adequacy of the information provided or otherwise made available to us or relied upon by us in the Report, whether written or verbal, and no representation or warrant, expressed or implied, is made and no responsibility is accepted by us concerning the accuracy, completeness or adequacy of all such information.

VALUATION ASSUMPTIONS OF BUSINESS ENTERPRISE VALUE ANALYSIS

In arriving at our opinion of the fair value, we have considered the following principal factors:

- the economic outlook for the region operated by the Target Group and specific competitive environments affecting the industry;
- the business risks of the Target Group;
- the price multiples of comparable transactions that involved target companies engaging in business operations similar to the Target Group;
- the experience of the management team of the Target Group and support from its shareholders; and
- the legal and regulatory issues of the industry in general.

A number of general assumptions have to be made in arriving at our value conclusion. The key assumptions adopted in this valuation include:

- There will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target Group;
- The public and statistical information we have been obtained from sources are deemed to be reputable, accurate and reliable;
- The information provided and the estimations/representations made by the Directors with regard to our valuations are complete, accurate and reliable; and
- We have assumed that there are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

VALUATION APPROACH

General Valuation Approaches

There are three generally accepted approaches to appraise the fair value of the equity value of the Target, namely Income Approach, Cost Approach and Market Approach. All three of them have been considered regarding the valuation of the Target:

Income Approach	The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset. The fundamental method for income approach is the discounted cash flow ("**DCF**") method. Under the DCF method, the value depends on the present value of future economic benefits to be derived from ownership of the enterprise. Thus, an indication of the equity value is calculated as the present value of the future free cash flow of a company less outstanding interest-bearing debt, if any. The future cash flow is discounted at the market-derived rate of return appropriate for the risks and hazards of investing in a similar business.
Cost Approach	The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence (physical, functional or economical) present, taking into consideration past and present maintenance policy and rebuilding history.
Market Approach	The market approach provides an indication of value by comparing the subject asset to similar assets that have been sold in the market, with appropriate adjustments for the differences between the subject asset and the assets that are considered to be comparable to the subject asset.

Under the market approach, the comparable company method computes a price multiple for publicly listed companies that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset. The comparable transaction method computes a price multiple using recent sales and purchase transactions of assets that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset.

Selected Valuation Approach

Each of the abovementioned approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature. In this appraisal regarding the fair value of the equity value of the Target, we applied the Market Approach due to the following reasons:

- Cost Approach is not appropriate in the current appraisal as it fails to consider the economic benefits of ownership of the business. We considered the consolidated net book value of the Target as of the Valuation Date may not truly reflect the value of its equity interest, as part of value will be attributed to future benefit of the Target, deriving from its services provided.

- Income Approach is also considered inappropriate as plenty of assumptions were involved in formulating the financial projection of the Target, and the assumptions might not be able to reflect the uncertainties in the future performance of the Target. Given that improper assumptions will impose significant impact on the fair value, Income Approach is not adopted in this valuation.

- Fair value arrived from Market Approach reflects the market expectations over the corresponding industry as the transaction price multiples were arrived from market prices paid by market participants for similar assets on the marketplace. Since there are sufficient transactions relating to companies in a similar nature and business to that of the Target, their transaction price multiples are good indicators of the industry. Therefore, Market Approach has been adopted in this valuation.

There are two methods commonly used in performing market approach, namely comparable transactions and comparable companies. The comparable transactions method is considered to be more appropriate since the stock price of public companies is usually easily affected by short-term market conditions and short-term market speculative activities, whereas the consideration prices of transactions are relatively more stable. In addition, public companies are usually of a larger market size, which make them less comparable to the Target Group. Therefore, the comparable transactions method is considered to be the preferred valuation method under the market approach.

By adopting comparable transactions method, we have to select the appropriate comparable transactions. The selection of the comparable transactions was based on the comparability of the overall industry sector of the target companies of these transactions. Although no two companies are ever exactly alike, behind the differences there are certain business universals such as required capital investment and overall perceived risks and uncertainties that guided the market in reaching the expected returns for companies with certain similar attributes.

The Target Group is principally engaged in the provision of property management services and related value-added services in China. As a result, we have conducted our review to cover transactions relating to acquisitions of companies with majority of revenue generated from real estate property management businesses in China.

The comparable transactions are selected with reference to the following selection criteria:

- The transactions have been announced within two years prior to the Valuation Date;
- The target companies are engaged in the provision of property management services;
- The target companies are principally operated in China; and
- The financial information of the transaction is available to the public.

The list of comparable transactions based on the selection criteria is considered to be exhaustive. Details of the comparable transactions are illustrated as follows:

Comparable Transaction 1

Announcement date:	18 June 2019
Acquirer:	Ever Sunshine Lifestyle Services Group Limited (SEHK:1995)
Target name:	Qingdao Yayuan Property Management Company Limited
Description of the Business:	Qingdao Yayuan Property Management Company Limited offers property management and rental services. The company is based in China.

Comparable Transaction 2

Announcement date:	12 April 2019
Acquirer:	Kaisa Property Management (Shenzhen) Co., Ltd.
Target name:	Jiaxing Dashu Property Management Company Limited
Description of the Business:	Jiaxing Dashu Property Management Company Limited provides property management services. The company is based in Jiaxing, China.

Comparable Transaction 3

Announcement date:	28 March 2019
Acquirer:	Tianjin Lexianghui Community Services Co., Ltd.
Target name:	Guangzhou Yuehua Property Co., Ltd.
Description of the Business:	Guangzhou Yuehua Property Co., Ltd. offers real estate management services. The company was founded in 1994 and is based in Guangzhou, China.

Comparable Transaction 4

Announcement date:	19 March 2019
Acquirer:	Guangdong Country Garden Property Services Co., Ltd.
Target name:	Beijing Shengshi Property Services Co., Ltd.
Description of the Business:	Beijing Shengshi Property Services Co., Ltd. provides property management services. The company was founded in 1999 and is based in Beijing, China.

Comparable Transaction 5

Announcement date:	23 January 2019 and 26 February 2019
Acquirer:	A-Living Services Co., Ltd.
Target name:	Harbin Jingyang Property Management Co., Ltd.
Description of the Business:	Harbin Jingyang Property Management Co., Ltd. provides property management services for mid-to high-end residential properties, commercial properties, office buildings, and other projects in Heilongjiang Province. The company was founded in 1999 and is based in China.

Comparable Transaction 6

Announcement date:	23 January 2019 and 21 February 2019
Acquirer:	A-Living Services Co., Ltd.
Target name:	Qingdao Huaren Property Co.,Ltd
Description of the Business:	Qingdao Huaren Property Co.,Ltd offers property management services. Qingdao Huaren Property Co.,Ltd was formerly known as Qingdao Huaren Property Management Co., Ltd. and changed its name to Qingdao Huaren Property Co.,Ltd in October 2014. The company was founded in 1994 and is headquartered in Qingdao, China.

Comparable Transaction 7

Announcement date:	20 September 2018 and 24 December 2018
Acquirer:	Jiayuan International Group Limited
Target name:	Chuangyuan Holdings Limited
Description of the Business:	The target group is principally engaged in the property management business, which primarily include (a) post-delivery property management services such as security, repair and maintenance, cleaning and garden landscape maintenance provided to property owners, residents and tenants of residential communities and commercial properties; and (b) pre-delivery property management services including on-site security, cleaning, greening and gardening as well as customer service and other ancillary services provided to property developers prior to the establishment of an owners' committee.

Comparable Transaction 8

Announcement date:	11 July 2018
Acquirer:	A-Living Services Co., Ltd.
Target name:	Lanzhou Chengguan Property Services Group Co., Ltd.
Description of the Business:	Lanzhou Chengguan Property Services Group Co., Ltd. offers property management services to residential, commercial, and other institutional properties in Gansu, Qinghai, Shanxi, and Ningxia provinces in China. The company was founded in 1999 and is headquartered in Lanzhou, China.

Comparable Transaction 9

Announcement date:	9 April 2018
Acquirer:	A-Living Services Co., Ltd.
Target name:	Nanjing ZiZhu Property Management Co., Ltd.
Description of the Business:	Nanjing ZiZhu Property Management Co., Ltd. Principally engaged in the provision of professional property management services for residential properties, commercial properties and other institutional properties in China.

Comparable Transaction 10

Announcement date:	12 June 2018
Acquirer:	Nacity Property Service Group Co., Ltd.
Target name:	Jiangsu Jinfeng Property Services Co., Ltd.
Description of the Business:	Jiangsu Jinfeng Property Services Co., Ltd. offers property management services. The company was incorporated in 1997 and is based in Changshu City, China

Comparable Transaction 11

Announcement date:	17 November 2017 and 8 December 2017
Acquirer:	Shanghai Shangshi Property Management Company Limited
Target name:	Shanghai Shenda Property Company Limited
Description of the Business:	Shanghai Shenda Property Company Limited provides property management services. The company was founded in 1992 and is based in Shanghai, China.

Comparable Transaction 12

Announcement date:	17 November 2017 and 8 December 2017
Acquirer:	Shanghai New Century Real Estate Services Company Limited
Target name:	Shanghai Urban Development Commercial Property Development Company Limited
Description of the Business:	Shanghai Urban Development Commercial Property Development Company Limited provides property management services. The company is based in Shanghai, China.

After selecting the abovementioned comparable transactions, we have to determine the appropriate valuation multiples for the valuation of the Target, in which we have considered price-to-book ("**P/B**"), price-to-sales ("**P/S**"), enterprise value/earnings before interests, taxes, depreciation and amortization ("**EV/EBITDA**") and price-to-earnings ("**P/E**") multiples.

The P/B multiple is considered not appropriate for this valuation because book value captures only the tangible assets of a company which, if a company creates any added market value (as reflected by a P/B multiple of larger than one), should have its own intangible competencies and advantages. These intangible company-specific competencies and advantages are not captured in the P/B multiple and so in general, the equity's book value has little bearing with its fair value. Thus, the P/B multiple is not a good measurement of the fair value of a company.

The P/S multiple is commonly used in the valuation of start-up enterprises. However, it ignores the cost structure of a company and hence the profitability of a company, which is critical in reflecting the fair value. Hence, we are of the view that it is not appropriate to adopt the P/S multiple to assess the fair value of a company.

The EV/EBITDA multiple uses the market capitalization of a company as the starting point, considering of the value of debt, minority interest, preferred shares and excludes excess cash and cash equivalents to represent enterprise value, which is then divided by EBITDA amount. Enterprise value generally requires normalized adjustments on debts and/or non-operating assets/liabilities on the target which may be subjective. In addition, there is no sufficient publicly available information for deriving the EV/EBITDA multiple of most of these comparable transactions. As a result, the EV/EBITDA multiple is also not adopted.

The P/E multiple is considered to be the most appropriate indicator as it is the most relevant and the most commonly used valuation multiple for profit-making business and earnings is one of the most direct drivers of equity value.

The calculation of the P/E multiples of each comparable transaction is as follows:

No.	Currency	Total Consideration[(1)]	% Sought[(1)]	Implied 100% Equity Value	Financial Reporting Date	LTM Net Profits[(1)]	Implied P/E	Applied Control Premium[(2)]	Adjusted Implied P/E
1	RMB'000	462,000	55.0%	840,000	12/31/2018	33,397	25.2	0.0%	25.2
2	RMB'000	36,580	60.0%	60,967	12/31/2018	5,445	11.2	0.0%	11.2
3	RMB'000	195,345	51.0%	383,029	12/31/2018	38,463	10.0	0.0%	10.0
4	RMB'000	90,000	30.0%	300,000	12/31/2018	38,468	7.8	22.1%	9.5
5	RMB'000	113,882	60.0%	189,803	12/31/2018	18,076	10.5	0.0%	10.5
6	RMB'000	133,581	89.7%	148,979	12/31/2017	12,473	11.9	0.0%	11.9
7	HKD'000	688,974	100.0%	688,974	6/30/2018	51,874	13.3	0.0%	13.3
8	RMB'000	147,900	51.0%	290,000	12/31/2017	22,120	13.1	0.0%	13.1
9	RMB'000	204,812	51.0%	401,593	12/31/2017	33,748	11.9	0.0%	11.9
10	RMB'000	100,800	70.0%	144,000	12/31/2017	16,289	8.8	0.0%	8.8
11	RMB'000	70,000	100.0%	70,000	12/31/2016	257	272.5	0.0%	N/A[(3)]
12	RMB'000	17,000	100.0%	17,000	12/31/2016	622	27.3	0.0%	27.3
	Maximum								27.3
	Minimum								8.8
	Average[(4)]								13.9
	Median[(4)]								11.9

Notes:

(1) Data sourced from S&P Capital IQ database and announcement of the transactions. Net profits data are based on the trailing 12-month ("**LTM**") financial data of the target companies available as of the announcement dates.

(2) Control premium is the amount that a buyer is willing to pay over the minority equity value of the company in order to acquire a controlling interest in that company. For transaction 4, the acquiring company acquired less than 50% equity interest of the target company. Market value calculated using such P/E multiple, therefore represents the minority interest. Thus, control premium was adopted to adjust such minority interest market value to controlling interest market value.

Adjustment for control is made by the application of a control premium to the value of the target company's shares. Given that there is limited or no study conducted towards the transactions over the property management industry, reference has been made to the paper "*Control Premium Study*" by Mergerstat, which suggested that the overall median of control premium is 22.1%.

(3) The implied P/E multiple of the transaction is 272.5x and is considered to be an outlier. Hence, it is not adopted in this analysis.

(4) Median and mean share the same role in understanding the central tendency of a sets of numbers. The median is less affected by outliers and skewed data, and is usually the preferred measure of central tendency when the distribution is not symmetrical. Since the P/E multiples of the comparable transactions show right-skewed distributions, median is adopted in this analysis.

Valuation Result

(in RMB'000 unless otherwise specified)

FY2018 Adjusted Net Profits attributable to the Target[(1)]	67,710
Adopted P/E multiple	11.9
Estimated 100% Equity Value of the Target[(2)]	**805,727**

Notes:

(1) As understood from the Management, the Target and Beijing Jiujun are investment holding companies with no operation. Thus, we have adopted the net profits of Zhuhai Huafa Property for this appraisal purpose. The data is based on the audited financial statements of Zhuhai Huafa Property for the year ended 31 December 2018. Items that are non-recurring in nature have been excluded in the calculation of net profits.

(2) The amount does not equal to the multiple of net profits of the Target and the adopted multiple illustrated above due to rounding.

CONCLUSION OF VALUE

Based on our investigation and analysis method employed, it is our opinion that the fair value of the 100% equity interest of the Target on a private controlling basis as of the Valuation Date is RMB805,727,000.

The conclusion of the fair value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the Company, the Target Group nor the value reported. We are independent of and has no conflict of interest as regards the Company, the vendor and the Target Group and their respective connected persons, and has no personal interest in the success of the Potential Acquisition.

Yours faithfully,
For and on behalf of
AVISTA Valuation Advisory Limited

Vincent C B Pang
CFA, FCPA(HK), FCPA (Aus.), MRICS
Managing Director

Analysed and Reported by:

Mandy Cheung
CPA(HK)
Manager

Man Ting Chiang
CPA(HK)
Senior Analyst

Note: Mr. Vincent Pang is a member of CFA Institute, a fellow member of Hong Kong Institute of Certified Public Accountants and CPA Australia and a member of Royal Institution of Chartered Surveyors. Vincent has over 20-year experience in financial valuation and business consulting in Hong Kong and China.

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 Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. INTERESTS OF DIRECTORS

2.1 Interests in shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, none of the Directors and chief executive of the Company has any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and to 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 been taken under such provisions of the SFO), or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

2.2 Interests in assets, contracts or arrangements of the Enlarged Group

None of the Directors had any, direct or indirect, interest in any assets which had been acquired or disposed of by or leased to any member of the Enlarged Group, or had been proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2018 (being the date to which the latest published audited consolidated financial results of the Company were made up) and up to the Latest Practicable Date.

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

2.3 Competing Businesses

So far as the Directors are aware, as at the Latest Practicable Date, none of the Directors and their respective associates had an interest in any business which competes, or are likely to compete, either directly or indirectly, with the business of the Enlarged Group which would require disclosure under the Listing Rules.

3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

Long Position in Shares

Name	Capacity/nature of interests	Number of Shares	Approximate percentage of the issued share capital of the Company
Zhuhai Huafa *(Note 1)*	Interest in controlled corporations	3,710,750,000	36.88%
Ho Chi Sing *(Note 2)*	Interest in controlled corporations	860,920,000	8.56%
IDG Light Solutions Limited *(Note 2)*	Beneficial owner	860,920,000	8.56%

Notes:

1. Zhuhai Huafa holds 100% of the issued share capital of HK Huafa, which in turn holds 100% of the issued share capital of Huajin Investment. Since Huajin Investment holds 3,710,750,000 Shares, Zhuhai Huafa is deemed to be interested in 3,710,750,000 Shares by virtue of its shareholding in Huajin Investment.

2. Mr. Ho Chi Sing directly holds 100% of the issued share capital of IDG Light Solutions Limited (incorporated in the British Virgin Islands), which holds 860,920,000 Shares. Therefore, Mr. Ho Chi Sing is deemed to be interested in a total of 860,920,000 Shares by virtue of his shareholding in IDG Light Solutions Limited.

So far as to the Directors are aware, as at the Latest Practicable Date, save as disclosed above, no other persons had any interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or the directors of the Target Group had entered, or proposed to enter, into any service contract with any member of the Enlarged Group which is not expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Enlarged Group within two years immediately preceding the date of this circular and are or might be material:

(a) a share transfer agreement dated 28 February 2019 entered into between Zhuhai Huafa Modern Service and Beijing Jiujun in relation to the transfer of 100% equity interest of Huafa Property Management;

(b) a share transfer agreement dated 26 June 2019 entered into between Zhuhai Huafa Modern Service and Huafa Property Management in relation to the transfer of 25% equity interest of Huafa Elevator;

(c) a capital commitment letter dated 11 October 2019 entered into between HK Huafa and the Company, pursuant to which HK Huafa shall provide to the Company no more than the Consideration amount for the Acquisition;

(d) an office sharing agreement dated 10 July 2018 entered into between HK Huafa and the Company;

(e) the Sale and Purchase Agreement dated 20 December 2019;

(f) the Asset Transfer Agreement dated 20 December 2019;

(g) the Property Management Services Cooperation Framework Agreement dated 20 December 2019;

(h) the Procurement Cooperation Framework Agreement dated 20 December 2019;

(i) the Trademark Licensing Agreement dated 31 August 2018 and the relevant confirmation letter dated 25 September 2019; and

(j) the Property Lease Agreement.

6. LITIGATION

As at the Latest Practicable Date, the Enlarged Group was not engaged in any litigation or claims of material importance and there was no litigation or claims of material importance known to the Directors to be pending or threatened by or against the Enlarged Group.

7. EXPERTS AND CONSENTS

The following is the name and qualification of the experts who have provided advice which is contained or referred to in this circular:

Name	Qualification
Anglo Chinese Corporate Finance, Limited	a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
Avista Valuation Advisory Limited	Independent valuer
CIA	Independent market research consultant
GFE Law Office	Legal adviser to the Company as to PRC Law
PricewaterhouseCoopers	Certified public accountants
Somerley	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

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

As at the Latest Practicable Date, none of the above experts had any shareholding, directly or indirectly, in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Enlarged Group.

In addition, as at the Latest Practicable Date, none of the above expert had any interest, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2018 (being the date to which the latest published audited consolidated financial statements of the Company were made up).

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there had been no material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial results of the Company were made up.

9. MISCELLANEOUS

a) The company secretary of the Company is Ms. Chan Sau Ling, a Chartered Secretary, a Chartered Governance Professional and Fellow of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and principal place of business of the Company is at Room 3605, 36/F, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong.

c) The share registrar and transfer office of the Company in Bermuda is MUFG Fund Services (Bermuda) Limited at The Belvedere Building, 69 Pitts Bay Road, Pembroke HM 08, Bermuda.

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

e) The English text of this circular and the enclosed proxy form shall prevail over the Chinese text.

f) The business address of Anglo Chinese is 40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.

g) The registered office of Somerley is 20th Floor, China Building, 29 Queen's Road Central, Hong Kong.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 6:00 p.m. on Monday to Friday, except for public holidays, at the head office and principal place of business of the Company in Hong Kong at Room 3605, 36/F, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong from the date of this circular up to and including the date of SGM:

a) the Memorandum of Association and Bye-laws of the Company;

b) the letter from the Board, the text of which is set out on pages 7 to 39 of this circular;

c) the letter from the Independent Board Committee, the text of which is set out on pages 40 to 41 of this circular;

d) the letter from the Independent Financial Adviser, the text of which is set out on pages 42 to 80 of this circular;

e) the annual reports and interim report of the Company for each of FY2016, FY2017, FY2018 and 1H2019;

f) the accountants' report on the Target Business prepared by PricewaterhouseCoopers, the text of which is set out in Appendix III to this circular;

g) the accountants' report on the compilation of unaudited pro forma financial information of the Enlarged Group issued by PricewaterhouseCoopers, the text of which is set out in Appendix IV to this circular;

h) the valuation report issued by Avista Valuation Advisory Limited;

i) a copy of each of the material contracts as set out in the section headed "Material Contracts" in this appendix;

j) the legal opinion issued by GFE Law Office;

k) the industry report prepared by CIA;

l) the written consents referred to in the section headed "Experts and Consents" in this Appendix; and

m) this circular.

HJ Capital (International) Holdings Company Limited
華金國際資本控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 982)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the "**SGM**") of the shareholders of HJ Capital (International) Holdings Company Limited (the "**Company**") will be held at 11:00 a.m. on Tuesday, 14 January 2020 at Unit 3605, 36/F, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions as an ordinary resolutions of the Company. Words and expressions that are not expressly defined in this notice of special general meeting shall bear the same meanings as defined in the circular of the Company dated 27 December 2019 (the "**Circular**").

ORDINARY RESOLUTIONS

1. To consider and, if thought fit, to approve:

   "**THAT**

   (a) the entering into the Asset Transfer Agreement is supplemented by the Sale and Purchase Agreement both dated 20 December 2019, a copy of which has been produced to the SGM and marked "A" and initialled by the chairman of the SGM for identification purpose, and the transactions contemplated thereunder and the implementation thereof be and are hereby confirmed, approved, authorised and ratified;

   (b) any one director or duly authorised signatory of the Company or any two directors or duly authorised signatories of the Company, if the affixing of the common seal of the Company is necessary, be and is/are hereby authorised for and on behalf of the Company to execute (and, if necessary, affix the common seal of the Company to) any such documents, instruments and agreements and to do any such acts or things as may be deemed by him/her/them in his/her/their absolute discretion to be incidental to, ancillary to or in connection with the matters contemplated in the Asset Transfer Agreement and the Sale and Purchase Agreement, and the implementation thereof."

* *For identification purpose only*

2. To consider and, if thought fit, to approve:

“**THAT**

(a) the entering into of the Property Management Services Cooperation Framework Agreement and the transactions contemplated thereunder, a copy of which has been produced to the SGM and marked “B” and initialled by the chairman of the SGM for identification purpose, and the transactions contemplated thereunder and the implementation thereof be and are hereby confirmed, approved, authorised and ratified.

(b) any one director or duly authorised signatory of the Company or any two directors or duly authorised signatories of the Company, if the affixing of the common seal of the Company is necessary, be and is/are hereby authorised for and on behalf of the Company to execute (and, if necessary, affix the common seal of the Company to) any such documents, instruments and agreements and to do any such acts or things as may be deemed by him/her/them in his/her/their absolute discretion to be incidental to, ancillary to or in connection with the matters contemplated in the Property Management Services Cooperation Framework Agreement and the transactions contemplated thereunder, and the implementation thereof.”

Yours faithfully,
By order of the Board
HJ Capital (International) Holdings Company Limited
Mr. Li Guangning
Chairman

Hong Kong, 27 December 2019

Notes:

1. **Eligibility for Attending the SGM**

In order to be eligible to attend and vote at the SGM, unregistered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 13 January 2020.

2. Proxy

(1) Shareholders entitled to attend and vote at the SGM may appoint a proxy, or if a Shareholder who is the holder of two or more Shares may appoint more than one proxy to attend and vote instead of him. A proxy need not be a Shareholder. If more than one proxy is appointed, the number of Shares in respect of which each such proxy so appointed must be specified in the relevant form of proxy.

(2) A proxy shall be appointed by a Shareholder by a written instrument signed by the appointor or his attorney duly authorised in writing. In case of a corporation, the same must be either under its common seal or under hand of its director(s) or duly authorised attorney(s). If the written instrument is signed by an attorney of the appointor, the power of attorney or other documents of authorisation of such attorney shall be notarised.

(3) To be valid, the notarised power of attorney or other document(s) of authorisation (if any) and the form of proxy shall be delivered to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours (i.e. Sunday, 12 January 2020 at 11:00 a.m.) before the time appointed for the holding of the SGM or any adjournment thereof. Delivery of the form of proxy shall not preclude a Shareholder from attending and voting in person at the SGM and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

3. Registration Procedures for Attending the SGM

A Shareholder or his proxy shall produce his identification document when attending the SGM. Where a Shareholder is a legal person, the legal representative of that Shareholder or that person authorised by its board of directors or other governing body shall produce a copy of the resolutions of the board of directors or other governing body of such Shareholder appointing such person to attend the SGM.

4. Method of Voting at the SGM

The resolution at the SGM will be taken by poll (except where the chairman decides to allow a resolution relating to a procedural or administrative matter to be voted on by a show of hands) pursuant to the Listing Rules. The results of the poll will be published on the websites of the Stock Exchange and the Company in accordance with the Listing Rules.

6. Miscellaneous

(1) The SGM is expected to be held at Unit 3605, 36/F, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong on Tuesday, 14 January 2020 at 11:00 a.m.. Shareholders attending the SGM shall be responsible for their own travelling and accommodation expenses.

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

(3) The registered office, principal place of business in Hong Kong and the contact details of the Company are:

Registered office:	Clarendon House 2 Church Street Hamilton HM11 Bermuda
Principal place of business in Hong Kong:	Room 3605, 36/F, Cheung Kong Center 2 Queen's Road Central, Central Hong Kong
Contact details:	Telephone: (+852) 3465 5300 Fax: (+852) 3465 5333

If tropical cyclone warning signal no. 8 or above is hoisted or a black rainstorm warning signal is in force at 7:00 a.m. on 14 January 2020, the meeting will be postponed and further announcement for details of alternative meeting arrangements will be made. The meeting will be held as scheduled even when tropical cyclone warning signal no. 3 or below is hoisted, or an amber or red rainstorm warning signal is in force. You should make your own decision as to whether you would attend the meeting under bad weather conditions and if you should choose to do so, you are advised to exercise care and caution.

As at the date of this announcement, the Board comprises Mr. Li Guangning (Executive Director and Chairman), Mr. Xie Wei (Executive Director and Chief Executive Officer), Ms. Guo Jin (Executive Director) and Mr. Tze Kan Fat (Executive Director); Ms. Zhang Kuihong and Mr. Shong Hugo (all being Non-executive Directors); Dr. Chen Jieping, Dr. Sun Mingchun and Mr. Tse Yung Hoi (all being Independent Non-executive Directors).