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

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

VERY SUBSTANTIAL DISPOSAL: DISPOSAL OF ENTIRE ISSUED SHARE CAPITAL OF A SUBSIDIARY

On 25 April 2022 (after trading hours), the Vendor entered into the Sale and Purchase Agreement with the Purchaser pursuant to which the Vendor agreed to sell and the Purchaser agreed to acquire the Sale Shares for a total consideration of HK\$840,000,000. Upon Completion, the Target Company will cease to be a subsidiary of the Company and the financial results of the Target Group will no longer be consolidated into the financial statements of the Group.

As the relevant percentage ratio(s) exceed 75%, the Disposal and the transactions contemplated thereunder constitute a very substantial disposal on the part of the Company under Chapter 14 of the Listing Rules and are subject to the announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

THE DISPOSAL

On 25 April 2022 (after trading hours), the Vendor entered into the Sale and Purchase Agreement with the Purchaser pursuant to which the Vendor agreed to sell and the Purchaser agreed to acquire the Sale Shares for a total cash consideration of HK\$840,000,000.

Sale and Purchase Agreement

Date: 25 April 2022 (after trading hours)

Parties: (1) Vendor

(2) Purchaser

The Purchaser is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holdings. As at the date of the Sale and Purchase Agreement, the Purchaser is the holder of the Convertible Bonds and the Promissory Note.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the ultimate beneficial owner of the Purchaser is Mr. Yang Zhixiong and the Purchaser and its ultimate beneficial owner are Independent Third Parties.

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

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, there is, and in the past twelve months, (except for the Convertible Bonds and the Promissory Note), there has been, no material loan arrangement between (a) the Purchaser, any of its directors and legal representatives and/or any ultimate beneficial owner(s) of the Purchaser who can exert influence on the transaction; and (b) the Company, any connected person at the Company's level and/or any connected person of the Company's subsidiaries involved in the transaction.

Assets to be disposed

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

Consideration

The total consideration for the Disposal is HK\$840,000,000, which shall be payable by the Purchaser to the Vendor in the following manner (or in such other manner as may be agreed by the parties):

- (1) as to HK\$431,500,000 shall be paid by way of set off against the Convertible Bonds in the principal amount of HK\$431,500,000 held by the Purchaser on a dollar-to-dollar basis;
- (2) as to HK\$53,500,000 shall be paid by way of set off against the Promissory Note in the principal amount of HK\$53,500,000 held by the Purchaser on a dollar-to-dollar basis;
- (3) as to HK\$255,000,000 shall be paid by the Purchaser within 60 days from the date of passing the relevant resolution at the EGM by way of cashier order (or in such other manner as the parties thereto may agree);
- (4) as to HK\$100,000,000 shall be paid by the Purchaser by way of issue of the Purchaser Promissory Note in the principal amount of HK\$100,000,000 in favour of the Vendor.

The Purchaser undertakes that it will not enforce any terms of the Convertible Bonds and/or the Promissory Note before Completion, including but not limited to any conversion of the Convertible Bonds.

The consideration for the Disposal was determined with reference to the valuation of the Property and the financial position of the Target Company and arrived at after arm's length negotiations between the parties to the Sale and Purchase Agreement. The Directors (including the independent non-executive Directors) consider the terms of the Disposal (including but not limited to the consideration) to be fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

The valuation of Property was arrived at with the adoption of market approach performed by an independent valuer, AP Appraisal Limited, based on the comparable transactions method. The comparable transactions method is based on prices realised in actual transactions and/or asking prices of comparable properties. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of value. According to the valuation, the fair value of the Property as at 31 December 2021 was approximately HKD956,097,000, which is also the book value of the Property.

Whilst part of the Consideration will be settled by the Purchaser Promissory Note upon Completion, it is noted that the Purchaser would have settled substantial part of the Consideration at that time. Taking into consideration that the Purchaser will hold the Target Group upon Completion and the net asset value of the Target Group is much more than the principal amount of the Purchaser Promissory Note, the Company considers that the credit risk for the Purchaser failing to perform under the Purchaser Promissory Note will be relatively low and the settlement method is fair and reasonable to the Company and the Shareholders as a whole.

Principal Terms of the Purchaser Promissory Note

Issuer:	The Purchaser
Principal amount:	HK\$100,000,000
Maturity Date:	The third anniversary of the date of issue of the Purchaser Promissory Note
Redemption:	The Purchaser may at any time before the maturity date by written notices to relevant holder(s) of the Promissory Note, redeem the Purchaser Promissory Note (in whole or in part) at 100% to the principal amount of the part of the Promissory Note to be redeemed.

Any amount of the Purchaser Promissory Note which remains outstanding on the maturity date shall be redeemed at 100% of its then outstanding principal amount.

- Interest: The Purchaser Promissory Note shall bear interest at the rate of 3% per annum payable upon redemption or maturity.
- Transferability: The Purchaser Promissory Note may be transferrable to any transferee subject to prior written notice to the Purchaser.
- Listing: The Purchaser Promissory Note will not be listed on the Stock Exchange or any other stock exchange.

Conditions precedent

The Disposal is conditional upon the satisfaction of the following:

- (1) the passing of necessary resolution(s) by the Shareholders at the EGM approving the Sale and Purchase Agreement and the transactions contemplated thereunder;
- (2) all necessary consents and approvals to be obtained by the Vendor and the Company having been obtained;
- (3) all necessary consents and approvals to be obtained by the Purchaser having been obtained.

If the conditions are not fulfilled on or before 31 August 2022 (or such later date as the parties may agree), the Sale and Purchase Agreement shall cease and terminate and thereafter neither party to the Sale and Purchase Agreement shall have any obligations and liabilities towards each other hereunder save for any antecedent breaches of the terms hereof.

Completion

Completion is expected to take place within three Business Day after the fulfillment (or waiver) of the conditions (or such later date as the parties to the Sale and Purchase Agreement may agree) mentioned above.

Upon Completion, the Target Company will cease to be a subsidiary of the Company and the Company will cease to have interests in the Target Company and the financial results of the Target Group will no longer be consolidated into the financial statements of the Group.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. The Target Company is the legal and beneficial owner of the entire equity interests of the Hong Kong Subsidiary, which in turn holds the entire equity interests of the PRC Subsidiary. The PRC Subsidiary is the legal and beneficial owner of the Property. Upon Completion, the Target Company will cease to be a subsidiary of the Company and the financial results of the Target Group will no longer be consolidated into the financial statements of the Group.

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

The audited consolidated financial information of the Target Group for the year ended 31 December 2020 and unaudited consolidated financial information of the Target Group for the year ended 31 December 2021 and prepared in accordance with the accounting principles generally accepted in Hong Kong are as follows:

	For the year ended 31 December 2020 <i>HK\$'000</i> <i>(audited)</i>	For the year ended 31 December 2021 <i>HK\$'000</i> <i>(unaudited)</i>
Turnover	12,921	12,834
Net loss before taxation	(155,906)	(20,307)
Net loss after taxation	(112,366)	(15,488)
Net asset value	849,384	833,896

The net asset value of the Target Group was approximately HK\$535 million as at 31 December 2018. The fair value of the consideration for the acquisition as disclosed in the circular of the Company dated 21 June 2019 was approximately HK\$788 million. The increases in the net asset value of the Target Group from the two years were primarily due to the goodwill arising in the acquisition and also the changes in the fair value of investment property.

REASONS FOR THE DISPOSAL

The Group is principally engaged in the property development and investment business, hotel business, property management business and infrastructure business.

Reference is made to the circular of the Company dated 21 June 2019 in relation to the acquisition of the Target Company by the Group. As disclosed in the circular, the Group had intention to redevelop the Property under redevelopment plan. However, the COVID-19 pandemic outbreak in the year of 2020 has inevitably delayed the approval process by the relevant authority. The disruption also caused delay in the implementation of the redevelopment plan and there is uncertainty in the future PRC property market. As such, the Company considers that it would be in the interests for the Group to realize its investments in the Target Group to focus on its other existing businesses.

Based on the net asset position of management accounts of the Target Group as at 31 December 2021, it is estimated that upon Completion, the Group will record a gain of approximately HK\$6,104,000 on the Disposal. The actual gain or loss as a result of the Disposal to be recorded by the Group is subject to final audit to be performed by the Company's auditors. After deducting the expenses relating to the Disposal (including the professional fee and administrative fees) and the set off against the Convertible Bonds and the Promissory Note, it is expected that there will be a net of proceed of approximately HK\$254 million (excluding the repayment sums from the Purchaser Promissory Notes) attributable to the Disposal. The Company intends to use approximately HK\$230 million of the net proceeds for repayment of debts and approximately HK\$24 million for general working capital of the Group. The repayment sums from the Purchaser Promissory Note of approximately HK\$100,000,000 in aggregate will be applied towards the general working capital and business development of the Group.

The Board is of the view that the Disposal provides a good opportunity for the Group to realize its investment in the Target Company and focus its resources to develop its other existing businesses with prospects.

Furthermore, since the Convertible Bonds and the Promissory Notes would be due in the year of 2022, the Disposal and the set off arrangement against the Convertible Bonds and the Promissory Notes will also allow the reduction of the overall gearing of the Group without incurring substantial cash outflow. The Disposal could help to reduce the Group 's debt and reduce the finance cost, which will in turn improve the cashflow of the Group.

The business activity of the Target Group is classified under the property investment business segment because of the rental income generated by the Target Group. The remaining businesses of the Group upon the completion of the Disposal are property development business, property investment business, hotel business and property management business. These businesses except the property development business (which would depend upon the market circumstances as explained below) have provided stable income streams to the Company.

According to the unaudited consolidated financial results of the Company for the year ended 31 December 2021, the revenue of the Group and the revenue of property investment business segment were approximately HK\$74,877,000 and approximately HK\$39,450,000 for the year ended 31 December 2021 respectively. The unaudited revenue for the year ended 31 December 2021 of the Target Group was approximately HK\$12,834,000 which was approximately 17.1% of the total revenue of the Group and 32.5% of the revenue of the property investment business segment.

Upon the completion of the Disposal, the Group will continue to hold Future City Shopping Centre ("Future City") located in Wuhan in relation to the property investment business segment. The total leasable area of Future City is approximately 55,029 sq. m. and contributes approximately HK\$26,616,000 rental incomes to the Group for the year ended 31 December 2021.

In respect of the property development business of the Group, the Company will keep looking for appropriate potential property development project(s) which will benefit to the Company and Shareholders as a whole. However, due to uncertainty of the global economy, the resources of the Company and also the impact of the COVID-19 epidemic, the Company will consider carefully for any investment in the property development business which requires a significant amount of financial supporting, capital expenditure and time for completion.

Taking into consideration of the aforesaid, the Directors (including the independent non-executive Directors) consider that the terms of the Disposal are fair and reasonable and are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATION

As the relevant percentage ratio(s) exceed 75%, the Disposal and the transactions contemplated thereunder constitute a very substantial disposal on the part of the Company under Chapter 14 of the Listing Rules and are subject to the announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

An EGM will be convened and held for the Shareholders to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. To the best knowledge, information and belief of the Directors and having made reasonable enquiries, no Shareholder is involved in or interested in the Sale and Purchase Agreement and the transactions contemplated thereunder which requires him/her/it to abstain from voting on the proposed resolution(s) to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM. To the best knowledge, information and belief of the Directors and having made reasonable enquiries, the Purchaser and/or its associates do not hold any Shares as at the date of this announcement.

A circular containing, among others, (1) details of the Disposal and the transactions contemplated thereunder; and (2) a notice of the EGM will be despatched to the Shareholders on or before 30 May 2022 so as to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

DEFINITIONS

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

“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	board of the Directors
“Company”	China City Infrastructure Group Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares are listed on Main Board of the Stock Exchange
“Completion”	completion of the Disposal in accordance with the terms of the Sale and Purchase Agreement

“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Convertible Bonds”	the convertible bonds with outstanding principal amount of HK\$431,500,000 issued by the Company to the Purchaser
“Director(s)”	director(s) of the Company from time to time
“Disposal”	the disposal of the Sale Shares as contemplated under the Sale and Purchase Agreement
“EGM”	the extraordinary general meeting of the Company to be held and convened for the Shareholders to approve the Sale and Purchase Agreement and the transactions contemplated thereunder
“Group”	the Company together with its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Subsidiary”	鳳珍企業有限公司 Mimiro Industrial Co. Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Target Company
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are not core connected persons of the Company and are third parties independent of the Company and its core connected persons in accordance with the Listing Rules
“PRC”	the People’s Republic of China, which for the purpose of this announcement only excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

“PRC Subsidiary”	鳳珍實業發展(深圳)有限公司 (Fengzhen Industrial Development (Shenzhen) Co. Limited)*, a company established in the PRC and a wholly owned subsidiary of the Hong Kong Subsidiary
“Property”	the property owned by the Target Group in Shenzhen, the PRC
“Promissory Note”	the promissory note with outstanding principal amount of HK\$53,500,000 issued by the Company to the Purchaser
“Purchaser”	Sky Climber Development Limited, a company incorporated in the British Virgin Islands with limited liabilities
“Purchaser Promissory Note”	the 3-year promissory note in an aggregate principal amount of HK\$100,000,000 to be issued by the Purchaser to the Vendor (or as it may direct) to settle part of the consideration payable by the Purchaser under the Sale and Purchase Agreement
“Sale and Purchase Agreement”	the conditional sale and purchase Agreement dated 25 April 2022 and entered into between the Purchaser and the Vendor in respect of the Disposal
“Sale Shares”	the entire issued share capital of the Target Company
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Precious Palace Enterprises Limited, a company incorporated in the British Virgin Islands with limited liabilities
“Target Group”	the Target Company and its subsidiaries

“Vendor”	Green City Development Limited, being a wholly owned subsidiary of the Company
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

By order of the Board
China City Infrastructure Group Limited
Li Chao Bo
Chairman

Hong Kong, 25 April 2022

* *The English translation of Chinese names or words in this announcement, where indicated, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

As at the date of this announcement, the Board comprises Mr. Li Chao Bo (Chairman), Mr. Ji Jiaming and Mr. Ye Tianfang (Chief Executive Officer) as executive Directors; Mr. Zhang Guiqing as non-executive Director; and Mr. Ng Chi Ho, Dennis, Mr. Kwok Kin Wa and Ms. Kwong Mei Wan, Cally as independent non-executive Directors.