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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 stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in South China Assets Holdings Limited, you should at once hand this circular and the accompanying proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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SOUTH CHINA ASSETS HOLDINGS LIMITED

南華資產控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 08155)

DISCLOSEABLE AND CONNECTED TRANSACTION AND NOTICE OF EGM

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



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

A letter from the SCAH Board is set out on pages 5 to 14 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 15 to 16 of this circular. A letter from the Independent Financial Adviser containing its recommendation and advice to the Independent Board Committee and the Independent Shareholders is set out on pages 17 to 35 of this circular.

A notice convening the EGM to be held at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Tuesday, 14 July 2020 at 10:00 a.m. or any adjournment thereof is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit it with Union Registrars Limited, the branch share registrar of SCAH in Hong Kong, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting if you so wish.

This circular will remain on the "Latest Listed Company Information" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the website of SCAH at www.scassets.com.

PRECAUTIONARY MEASURES FOR THE EGM

To safeguard the health and safety of the Shareholders and to prevent the spreading of the COVID-19 pandemic, the following precautionary measures will be implemented at the EGM:

- (1) Compulsory temperature screening/checks
- (2) Wearing of surgical face mask
- (3) No provision of refreshments or drinks or souvenir

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the EGM venue. SCAH encourages attendees to wear surgical face masks and reminds Shareholders that they may appoint the chairman of the EGM as their proxy to vote on the relevant resolution(s) at the EGM as an alternative to attending the EGM in person.

26 June 2020

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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DEFINITIONS

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

“Acquisition”	the acquisition by the Purchaser from the Vendor of the Sale Share as contemplated under the Sale and Purchase Agreement
“associates”	has the meaning ascribed to it under the Listing Rules or the GEM Listing Rules, where applicable
“Business Day”	a day (other than Saturday, Sunday, public holiday and days 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 9:00 a.m. and 5:00 p.m.) on which banks are open in Hong Kong for general banking business, and “Business Days” shall mean more than one Business Day
“Circular”	this circular and the appendices hereto
“Completion”	completion of the Acquisition in accordance with the Sale and Purchase Agreement
“Completion Date”	means the date of Completion, which shall be a date falling within five (5) Business Days after the fulfilment of all conditions precedent in accordance with the Sale and Purchase Agreement, or such other date as the Vendor and the Purchaser may further agree in writing
“Consideration”	the consideration of the Sale Share, being HK\$17,500,000
“Directors”	the directors of SCAH
“EGM”	extraordinary general meeting of SCAH, to be convened and held at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Tuesday, 14 July 2020 at 10:00 a.m. to consider and, if thought fit, approve the EGM Matters, or where the context so admits, any adjournment of such extraordinary general meeting
“EGM Matters”	the Sale and Purchase Agreement and the transactions contemplated thereunder
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee established by the SCAH Board, comprising all the independent non-executive directors of SCAH, namely Mr. Cheng Hong Kei, Ms. Pong Scarlett Oi Lan, BBS, J.P. and Mr. Yeung Chi Hang, to advise the Independent Shareholders with respect to the EGM Matters
“Independent Financial Adviser”	First Shanghai Capital Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders with regard to the EGM Matters
“Independent Shareholders”	the Shareholders, other than Mr. Ng and his associate(s), who are required to abstain from voting at the EGM pursuant to the GEM Listing Rules
“Joint Venture Agreement”	a joint venture agreement dated 9 April 2020 entered into between SCAH and a wholly-owned subsidiary of SCHC in respect of formation of a joint venture in which SCAH and the wholly-owned subsidiary of SCHC hold 60% and 40% equity interest in the joint venture which directly or indirectly carry out production and sales of medical face masks and related products
“Latest Practicable Date”	22 June 2020, 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
“Long Stop Date”	15 July 2020 or such other date as the Vendor and the Purchaser may further agree in writing
“Mr. Ng”	Mr. Ng Hung Sang, chairman and executive director of each of the SCAH Board and SCHC Board, an ultimate controlling shareholder of each of SCAH and SCHC
“Mr. Paul Ng”	Mr. Ng Yuk Yeung Paul, son of Mr. Ng
“PRC”	the People’s Republic of China but excluding Hong Kong, Taiwan and Macau Special Administrative Region of the People’s Republic of China for the purpose of this Circular

DEFINITIONS

“Purchaser”	Proper Mark International Limited, an indirect wholly-owned subsidiary of SCAH
“Restructuring”	internal restructuring of the Target Group upon which two (2) indirect subsidiaries of the Target Company namely 世豐(天津)物業管理有限公司 (Shifeng (Tianjin) Property Management Limited*) and 南京世豐物業管理有限公司 (Nanjing Shifeng Property Management Limited*) shall be detached from the Target Group
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 21 May 2020 entered into between the Vendor and the Purchaser in respect of the Acquisition
“Sale Share”	one (1) share of US\$1.00 in the share capital of the Target Company, representing 100% of its entire issued share capital, to be bought and sold pursuant to the Sale and Purchase Agreement
“SCAH”	South China Assets Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, and its ordinary shares are being listed and traded on GEM (stock code: 08155)
“SCAH Board”	the board of Directors of SCAH
“SCAH Group”	SCAH and its subsidiaries
“SCHC”	South China Holdings Company Limited, an exempted company incorporated in the Cayman Islands with limited liability, and its ordinary shares are being listed and traded on the main board of the Stock Exchange (stock code: 00413)
“SCHC Board”	board of directors of SCHC
“SCHC Group”	SCHC and its subsidiaries
“SFO”	Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong
“Share(s)”	share(s) of SCAH
“Shareholder(s)”	holder(s) of the issued Share(s)

DEFINITIONS

“Site”	the development site at Xiazhuzhuang Street, Wuqing District, Tianjin City* (天津市武清區下朱莊街), having a total area of approximately 53,333.8 square meters
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Silver Giant Limited, a company incorporated in the British Virgin Islands, which is a direct wholly-owned subsidiary of the Vendor as at the Latest Practicable Date
“Target Group”	the Target Company and its subsidiaries upon completion of the Restructuring
“Tianjin South China”	Tianjin South China Footwear Co., Ltd.* (天津南華鞋業有限公司), a company incorporated in the PRC, which is an indirect wholly-owned subsidiary of the Target Company which directly holds the Site
“US\$”	United States dollars, the lawful currency of the United States of America
“Vendor”	South China Industries (China) Limited, an indirect wholly-owned subsidiary of SCHC
“World Success”	World Success (Tianjin) International Trade Co., Ltd.* 世豐(天津)國際貿易有限公司, a company incorporated in the PRC, which is an indirect wholly-owned subsidiary of the Target Company
“%”	per cent.

* *Denotes English translation of Chinese company name(s) or address and is provided for identification purpose only.*



SOUTH CHINA ASSETS HOLDINGS LIMITED

南華資產控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 08155)

Executive Directors:

Mr. Ng Hung Sang (*Chairman*)
Ms. Cheung Choi Ngor
Mr. Richard Howard Gorges
Ms. Ng Yuk Mui Jessica (*Executive Vice Chairman*)

Non-executive Director:

Mr. Ng Yuk Yeung Paul

Independent non-executive Directors:

Mr. Cheng Hong Kei
Ms. Pong Scarlett Oi Lan, BBS, J.P.
Mr. Yeung Chi Hang

Registered office:

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Grand Pavilion
Hibiscus Way
802 West Bay Road
Grand Cayman KY1-1205
Cayman Islands

**Head Office and Principal Place of
Business in Hong Kong:**

28th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

26 June 2020

To the Shareholders

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION
AND
NOTICE OF EGM**

INTRODUCTION

On 21 May 2020, SCAH Board and SCHC Board jointly announced that on 21 May 2020 (after trading hours), the Purchaser (an indirect wholly-owned subsidiary of SCAH) and the Vendor (an indirect wholly-owned subsidiary of SCHC) entered into the Sale and Purchase Agreement pursuant to which the Vendor conditionally agreed to dispose of and the Purchaser conditionally agreed to purchase the Sale Share, representing 100% of the entire issued share capital of the Target Company, at a total consideration of HK\$17,500,000.

The purpose of this Circular is to provide you, among other things, (i) further details of the Sale and Purchase Agreement and the Acquisition; (ii) the letter of recommendation from the Independent Board Committee to approve the EGM Matters; (iii) the letter from the

LETTER FROM THE SCAH BOARD

Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder; and (iv) the notice of EGM.

MAJOR TERMS OF THE SALE AND PURCHASE AGREEMENT

Date 21 May 2020 (after trading hours)

Parties (1) Vendor as vendor
(2) Purchaser as purchaser

Acquisition

Pursuant to the Sale and Purchase Agreement, the Vendor conditionally agreed to dispose of and the Purchaser conditionally agreed to purchase the Sale Share, representing 100% of the entire issued share capital of the Target Company. Upon Completion, the Target Company will cease to become an indirect wholly-owned subsidiary of SCHC but will become an indirect wholly-owned subsidiary of SCAH.

Consideration

The Consideration for the Acquisition is HK\$17,500,000, which is payable by the Purchaser to the Vendor in cash as follows:

- (a) HK\$7,400,000 (equivalent to approximately RMB6,700,000, being the original acquisition cost paid for the indirect wholly-owned subsidiary of the Target Company which directly holds the Site) to be paid within five (5) Business Days following the Completion Date; and
- (b) HK\$10,100,000 to be paid within five (5) Business Days upon commencement of the main construction works to be carried out in the Site, which shall not be later than twenty-four (24) months from the date of the Sale and Purchase Agreement or such other date to be mutually agreed by the parties thereto.

The Consideration was determined after arm's length negotiations between the Vendor and the Purchaser after taking into account (1) the net book value of the Target Group as at 30 April 2020; and (2) the valuation of approximately RMB15.8 million (equivalent to approximately HK\$17.5 million) prepared by BMI Appraisals Limited, an independent professional valuer, in relation to the fair value of the Target Group as at 30 April 2020.

For the valuation of the Target Group and the Site, the Company has engaged BMI Appraisals Limited for such the valuations. Based on the best knowledge and the information available to the SCAH Board, BMI Appraisals Limited (i) is independent to SCAH; and (ii) has been engaged by more than 1,000 clients and completed numerous property valuation works covering different industries in the PRC and Hong Kong. Based on the review on the qualification and experience of BMI Appraisals Limited, the SCAH Board is of the view that BMI Appraisals Limited is qualified to conduct such the valuations.

LETTER FROM THE SCAH BOARD

Reference is made to the property valuation report in Appendix II, the total land premium for the Site was RMB 13.5 million (total of RMB2.6 million and RMB10.9 million). Based on the information available to the SCAH Board, for policy reasons by the Tianjin government, it was the intention of both parties, i.e. Tianjin South China Footwear Co. Ltd. (“**Tianjin South China**”) and the Tianjin government, that the actual payment of RMB 6.7 million made by Tianjin South China had fully settled the original land premium of the Site in which Tianjin South China obtained the Real Estate Title Certificate in April 2011. The said RMB 6.7 million was record and shown in the financial statements of World Success by “Land Use Rights” in the amount of RMB 5.9 million for amortization reasons (further details can refer to Appendix I). To the best knowledge of the SCAH Board, SCAH Board believed that the said RMB 6.7 million was the total acquisition cost of the Site as the Real Estate Title Certificate was properly granted by the relevant government authority in 2011. Moreover, the Vendor has provided full indemnity to the Purchaser against (i) the whole sum of RMB6.8 million and any other charges and fees in the event that any government authority demands for the said sum being the difference between the contractual land premium (i.e. RMB13.5 million) and the actual land premium paid by Tianjin South China (i.e. RMB6.7 million); and (ii) all penalties, charges and fees in the event that any government authority penalizes any sum resulting from the situation of idle land during the period of twenty-four (24) months from the date of the Sale and Purchase Agreement.

The valuation of the fair value of the Target Group was approximately RMB15.8 million (equivalent to approximately HK\$17.5 million), comprising: (a) the unaudited net liabilities of the Target Group of approximately RMB1.35 million (equivalent to approximately HK\$1.5 million); and (b) the Site appreciation of RMB17.15 million (equivalent to approximately HK\$19 million). As the Site is the only core asset of the Target Group and the Consideration is the fair price of the Site in open market (which has been taken into account of the net liabilities position of the Target Group) given that (i) there is no other operation in the Target Group and (ii) the Target Company is only an investment holding company, the SCAH Board considered that the Consideration is fair and reasonable and in the interests of SCAH and the Shareholders as a whole. The SCAH Group intends to finance the Consideration as to (i) HK\$7,400,000 by internal resources; and (ii) HK\$10,100,000 by internal resources and/or bank borrowings and/or shareholder’s loan.

It is a commercial decision subsequent to negotiations with SCHC that the first tranche of payment amounted to HK\$7,400,000 (equivalent to approximately RMB6,700,000) payable within five (5) Business Days following the Completion Date is for the purpose of recovering the payment of the original acquisition cost paid by the Target Group for the Site; and the second tranche of payment amounted to HK\$10,100,000 to be paid within five (5) Business Days upon commencement of the main construction works to be carried out in the Site, which shall not be later than twenty-four (24) months from the date of the Sale and Purchase Agreement, is for the purpose of providing flexibility to SCAH in respect of its liquidity demand, the SCAH Board is of the view that the settlement arrangements in the Consideration by two tranches are fair and reasonable and in the interests of SCAH and the Shareholders as a whole.

LETTER FROM THE SCAH BOARD

It is expected that the construction work of phase one of the Site would be commenced in the second half of 2021 and the construction work for the whole project is expected to be completed by the end of 2028.

In relation to the valuation of the fair value of the Target Group as mentioned above, the valuation was conducted under asset-based approach. The methodology of, and the bases and assumptions adopted for, the valuation of the equity interests in the Target Group are summarized in the business valuation report set out in Appendix I to this Circular. BMI Appraisals Limited, having extensive experience in a lot of valuation works in both the PRC and Hong Kong. Asset-based approach in the valuation was adopted as the valuer considered that the asset-based approach should be the most appropriate method for the valuation in view of sole asset held by the Target Group. The SCAH Board has reviewed the methodology of, and the bases and assumptions adopted for, the valuation of the equity interests in the Target Group and considered that (i) the income approach was not adopted as the Target Group did not generate any income as of 30 April 2020; (ii) the market approach was not adopted as the Target Group had no operation as of 30 April and the only core asset of the Target Group is the Site; (iii) the cost approach was not adopted as the Site had yet been developed as of 30 April 2020; and (iv) the asset-based approach was considered as more appropriate as the Target Group had minimal assets and liabilities with no operations other than holding the Site, and such approach can reflect the current market value of the Site together with the book value of other assets and liabilities, which are relatively minimal to the value of the Site. Based on the review on the business valuation as set out in Appendix I to this Circular, the SCAH Board considered that the methodology of, and the bases and assumptions adopted for, the valuation of the equity interests in the Target Group are fair and reasonable.

In relation to the valuation of the Site, such valuation was conducted under comparison approach by BMI Appraisals Limited. The methodology of, and the bases and assumptions adopted for, the valuation of the Site are summarized in the property valuation report set out in Appendix II to this Circular. The SCAH Board has reviewed the methodology of, and the bases and assumptions adopted for, the valuation of the Site and considered that the comparison approach was a common approach in both the PRC and Hong Kong to value properties. Based on the review on the property valuation as set out in Appendix II to this Circular, the SCAH Board considered that the methodology of, and the bases and assumptions adopted for, the valuation of the Site are fair and reasonable.

Conditions precedent

Completion is conditional upon the following conditions precedent having been satisfied:

- (a) having obtained the approval from the Independent Shareholders at the EGM in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder;
- (b) the Purchaser having completed its due diligence investigation on the Target Group and the Site, and the Purchaser being satisfied with the results of the due diligence investigation;
- (c) completion of the Restructuring;

LETTER FROM THE SCAH BOARD

- (d) there having been no breach of the Vendor's warranties from the date of the Sale and Purchase Agreement up to and inclusive of the Completion Date; and
- (e) no material adverse change on the operation of the Target Group from the date of the Sale and Purchase Agreement till the Completion Date.

None of the conditions set out above can be waived by either party. If any of the conditions set out above has not been satisfied by 5:00 p.m. on the Long Stop Date, the Sale and Purchase Agreement shall lapse automatically, and thereupon the Sale and Purchase Agreement and everything therein contained shall be null and void and of no further effect (for the avoidance of doubt, each party thereto shall have no further claim of whatsoever nature against any other party).

As at the Latest Practicable Date, condition (c) has been fulfilled.

Completion

Subject to the fulfilment of the conditions set out above, the Completion shall take place on the Completion Date.

REASONS FOR THE ACQUISITION

The SCAH Group has been engaging in small-scale property development and as at the Latest Practicable Date, SCAH Group has two property projects in Tianjin. It is SCAH's strategy to seek investments from time to time to broaden the SCAH Group's investment portfolio. Based on the information available to the SCAH Board, the Target Group has acquired the Site since 13 April 2011, but the Site has yet been developed as at 21 May 2020 as the SCHC Group's business strategies are focusing its resources on large-scale property development, toys manufacturing and agriculture and forestry industries (as the Site was classified as a small-scale property development, the SCHC Group had identified it as a lowest priority in development for the purpose of maximization of allocation and utilization of resources). The Acquisition represents a good opportunity for the SCAH Group to expand its investment portfolio in small-scale property development. The advantages of small-scale property development are (i) investment amount is relatively smaller; and (ii) the lead time from development to completion is relatively shorter (usually within 12 to 30 months from planning to completion) which in turn will generate faster cash flow and give less financial burden to the developer.

The SCAH Board is of the view that the Acquisition (1) will provide opportunities for the SCAH Group to expand its property portfolio, enhancing its ability for sustainable development; and (2) will create synergy with other two property projects in Tianjin such as the sharing of management office and back office functions (e.g. sales and marketing, administration and accounting functions) due to the close distance among the Site and the two projects in Tianjin. The total site area of the Site is approximately 53,333.8 sq.m. and estimated gross floor area ("GFA") of industrial complexes and ancillary offices are approximately 120,000 sq. m.. Following the Acquisition, SCAH plans to develop the Site in two development phases. The construction work of phase one (with GFA of approximately 12,000 sq.m.) is expected to be commenced in the second half of 2021 and would take

LETTER FROM THE SCAH BOARD

approximately 24 months for completion. Revenue can be generated either by leasing or by the sale of the whole block upon completion of the construction. The expected development cost for the phase one is approximately RMB40 million (including preliminary development, design and survey, and development expenses). The above are subject to (i) the actual arrangements of construction (including the possible changes in construction and material costs); and (ii) possible adjustments under actual markets conditions in the future. The future capital commitment for the development of phase one will be financed by (i) internal resources; and/or (ii) bank borrowings; and/or (iii) shareholder's loans. As at the Latest Practicable Date, to the best knowledge of the SCAH Board, no material contracts have been signed with the main contractors. It is expect that the development of the Site will contribute revenue and positive cash flow to the SCAH Group.

The SCAH Board (including its Independent non-executive Directors) is of the view that the Acquisition is on normal commercial terms, and that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of SCAH and the Shareholders as a whole.

APPROVAL OF THE SCAH BOARD

Mr. Ng, Ms. Cheung Choi Ngor, Mr. Richard Howard Gorges, Ms. Ng Yuk Mui Jessica and Mr. Ng Yuk Yeung Paul are directors of both SCAH and SCHC, they all abstained from voting on the board resolutions of SCAH in relation to approving the Acquisition.

INFORMATION ON SCAH GROUP, SCHC GROUP, VENDOR, PURCHASER AND TARGET GROUP

SCAH Group

SCAH Group is principally engaged in (i) property development in the PRC; (ii) financial services (subsidiaries of SCAH are holding licences for types 1, 2, 4 and 9 regulated activities under the SFO, and providing money lending services under Money Lenders Ordinance, Chapter 163 of the Laws of Hong Kong) in Hong Kong; and (iii) the manufacture and sale of medical face masks and related products.

SCHC GROUP

SCHC Group is principally engaged in the manufacturing and trading of toys, electronic toys, shoes and leather products, property investment and development, and agriculture and forestry businesses.

The Vendor

The Vendor is an investment holding company which is an indirect wholly-owned subsidiary of SCHC.

LETTER FROM THE SCAH BOARD

The Purchaser

The Purchaser is an investment holding company which is an indirect wholly-owned subsidiary of SCAH.

The Target Group

As at Latest Practicable Date, the Target Company is a direct wholly-owned subsidiary of the Vendor, which is an investment holding company. The Target Company, through its indirect wholly-owned subsidiary, holds the Site in which industrial complexes and ancillary offices can be developed for lease and sale. Other than the Site to be developed, the Target Group has no other operation and income derived from independent third party.

Set out below are summaries of certain financial information of the Target Group for the years ended 31 December, 2018 and 2019.

	For the financial year ended	
	31 December	
	2018	2019
	(HK\$'000)	(HK\$'000)
	(unaudited)	(unaudited)
(Loss)/profit before tax ^(Note)	(280)	341
(Loss)/profit after tax ^(Note)	(280)	341

The adjusted unaudited consolidated net liabilities of the Target Group as at 30 April 2020 was approximately HK\$1,522,000 ^(Note).

Based on the information provided by the Vendor, the original acquisition cost paid for the indirect wholly-owned subsidiary of the Target Company which directly holds the Site was approximately RMB6,700,000 (equivalent to approximately HK\$7,400,000).

Note:

The Target Company was acquired by the Vendor in April 2020 and one of the subsidiaries of the Target Company (which is an investment holding company) was acquired by the Target Company in May 2020 (of which constitutes an internal restructuring for the sole purpose of disposal of the Target Group). The financial information of the Target Group for the years ended 31 December, 2018 and 2019 (1) represent such amount attributable to the Target Group for the corresponding period and (2) are adjusted for the effect of the Restructuring as if the Restructuring had been completed in the corresponding period.

GEM LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Mr. Ng and his associates hold approximately 64.92% of the total issued share capital of SCAH and approximately 61.22% of the total issued share capital of SCHC. Therefore, each of SCAH and SCHC is an associate of Mr. Ng. Given the Acquisition is a transaction with an associate of a connected person for each of SCAH and SCHC, the Acquisition constitutes a connected transaction for each of SCAH and SCHC under Chapter 20 of the GEM Listing Rules and Chapter 14A of the Listing Rules respectively.

LETTER FROM THE SCAH BOARD

As one or more of the applicable percentage ratios (as defined under Rule 19.07 of the GEM Listing Rules) in respect of the Acquisition are more than 5% but less than 25% for SCAH, the Acquisition constitutes a discloseable transaction under Rule 19.08 of the GEM Listing Rules. Given the Acquisition constitutes a connected transaction, SCAH is subject to reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

EGM

EGM will be held to consider and, if thought fit, approve the EGM Matters. The resolution in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM will be voted on by the Independent Shareholders by way of poll.

Mr. Ng and his associates, namely Fung Shing Group Limited, Parkfield Holdings Limited, Ronastar Investments Limited, Earntrade Investments Limited, Bannock Investment Limited, Green Orient Investments Limited, Ms. Ng Lai King Pamela and Mr. Paul Ng, holding approximately 64.94% of the total number of issued Shares in aggregate as at the Latest Practicable Date, shall abstain from voting at the EGM to be convened to consider and, if thought fit, to approve the EGM Matters.

A notice of the EGM is set out on pages EGM-1 to EGM-3 of this Circular.

In accordance with the GEM Listing Rules, any Shareholder and his/her/its associates with material interests in the EGM Matters must abstain from voting on the resolution approving the EGM Matters at the EGM.

A proxy form for use at the EGM is enclosed with this Circular. Whether or not you are able to attend the EGM or any adjourned meeting in person, you are requested to complete the proxy form in accordance with the instructions printed thereon and return it to Union Registrars Limited, the branch share registrar of SCAH in Hong Kong, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjournment thereof if you so wish.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the list of shareholders who are entitled to attend and vote at the EGM, the register of members of SCAH will be closed from Wednesday, 8 July to Tuesday, 14 July 2020 (both dates inclusive). No transfer of Shares will be registered during these days. In order to qualify to attend and vote at the EGM, all instruments of transfer together with the relevant share certificate(s) must be lodged with Union Registrars Limited, the branch share registrar of SCAH in Hong Kong, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Tuesday, 7 July 2020.

LETTER FROM THE SCAH BOARD

VOTING BY POLL

According to Rule 17.47(4) of the GEM Listing Rules, any vote of the Shareholders at a general meeting must be taken by poll except where the chairman of such general meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, the resolution put to the vote at the EGM will be taken by way of poll, and SCAH will announce the results of the poll in the manner prescribed under Rule 17.47(5) of the GEM Listing Rules.

RECOMMENDATION

The Independent Board Committee (comprising Mr. Cheng Hong Kei, Ms. Pong Scarlett Oi Lan, BBS, J.P. and Mr. Yeung Chi Hang) has been formed to advise and provide recommendation to the Independent Shareholders in respect of the EGM Matters after taking into account the advice from the Independent Financial Adviser.

First Shanghai Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the EGM Matters, and whether they are in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of SCAH and the Shareholders as a whole and to advise the Independent Shareholders on how to vote.

Your attention is drawn to (i) the letter from the Independent Board Committee which contains the recommendation from the Independent Board Committee to the Independent Shareholders regarding the resolution to approve the EGM Matters; and (ii) the letter from the Independent Financial Adviser which contains its advice to the Independent Board Committee and the Independent Shareholders regarding the EGM Matters.

The SCAH Board including the Independent Board Committee after having considered the advice of the Independent Financial Adviser considers that the EGM Matters are on normal commercial terms, fair and reasonable and in the interests of SCAH and the Shareholders as a whole, and recommends the Independent Shareholders to vote in favour of the resolution relating to the EGM Matters.

ADDITIONAL INFORMATION

Your attention is drawn to the property valuation report of the Site and the general information which are set out in Appendix I, Appendix II and Appendix III to this Circular respectively.

Warnings: The Acquisition is subject to the fulfilment of a number of conditions, including but not limited to approval of the Sale and Purchase Agreement and the transaction contemplated thereunder by the Independent Shareholders at the EGM. As such, the transaction contemplated under the Sale and Purchase Agreement may or may not proceed.

LETTER FROM THE SCAH BOARD

Shareholders and potential investors of SCAH are advised to exercise caution when dealing in the shares of SCAH, and are recommended to consult their professional advisers if they are in any doubt about their position and as to actions that they should take.

Yours faithfully
For and on behalf of the board of
South China Assets Holdings Limited
Ng Yuk Mui Jessica
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder, for the purpose of inclusion in this circular.



SOUTH CHINA ASSETS HOLDINGS LIMITED

南華資產控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 08155)

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

We refer to the circular issued by SCAH dated 26 June 2020 (the “Circular”) to the Shareholders of which this letter forms part. Unless otherwise specified, terms defined in the Circular shall have the same meanings in this letter.

We have been appointed by the SCAH Board as members to constitute the Independent Board Committee and to advise the Independent Shareholders in respect of the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, details of which are set out in the “Letter from the SCAH Board” contained in the Circular.

First Shanghai Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on, among other things, whether the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, are on normal commercial terms, fair and reasonable and in the interests of SCAH and the Independent Shareholders as a whole.

Details of the advice and the principal factors and reasons from the Independent Financial Adviser that have been taken into consideration in giving such advice, are set out in the “Letter from the Independent Financial Adviser” in the Circular. Your attention is also drawn to the “Letter from the SCAH Board” in the Circular and the additional information as set out in the appendices thereto.

After taking the advice of the Independent Financial Adviser as set out in the “Letter from the Independent Financial Adviser” in the Circular, we consider that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, are on normal commercial terms or better, fair and reasonable in the ordinary and usual course of business of the SCAH Group so far as the Independent Shareholders are concerned, and are in the interests of SCAH and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We, therefore, recommend that you vote in favour of the resolution relating to the Sale and Purchase Agreement and the transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully,
For and on behalf of

Independent Board Committee

Cheng Hong Kei

*Independent non-executive
Director*

**Pong Scarlett Oi Lan,
BBS, J.P.**

*Independent non-executive
Director*

Yeung Chi Hang

*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from the Independent Financial Adviser setting out their opinion regarding the proposed acquisition of the Sale Share by the Purchaser from the Vendor pursuant to the Sale and Purchase Agreement (the “Acquisition”) for the purpose of inclusion in this circular.



19th Floor
Wing On House
71 Des Voeux Road Central
Hong Kong

26 June 2020

*To the Independent Board Committee and
the Independent Shareholders*

South China Assets Holdings Limited
28th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition from the Vendor pursuant to the Sale and Purchase Agreement, details of which are set out in a circular dated 26 June 2020 (the “Circular”) to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 21 May 2020, the Purchaser (an indirect wholly-owned subsidiary of SCAH) and the Vendor (an indirect wholly-owned subsidiary of SCHC) entered into the Sale and Purchase Agreement pursuant to which the Vendor conditionally agreed to dispose of and the Purchaser conditionally agreed to purchase the Sale Share, representing 100% of the entire issued share capital of the Target Company, at a total consideration of HK\$17,500,000.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

IMPLICATIONS UNDER THE GEM LISTING RULES

As at the Latest Practicable Date, Mr. Ng and his associates hold approximately 64.92% of the total issued share capital of SCAH, and approximately 61.22% of the total issued share capital of SCHC. Therefore, each of SCAH and SCHC is an associate of Mr. Ng. Given the Acquisition is a transaction with an associate of a connected person for SCAH, the Acquisition constitutes a connected transaction for SCAH under Chapter 20 of the GEM Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 19.07 of the GEM Listing Rules) in respect of the Acquisition are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction under Rule 19.08 of the GEM Listing Rules. Given the Acquisition constitutes a connected transaction, SCAH is subject to reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

An EGM is going to be convened and held to consider, and if thought fit, pass the resolution to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. As Mr. Ng and his associates, namely Fung Shing Group Limited, Parkfield Holdings Limited, Ronastar Investments Limited, Earntrade Investments Limited, Bannock Investment Limited, Green Orient Investments Limited, Ms. Ng Lai King Pamela, and Mr. Paul Ng, hold approximately 64.94% of the total issued share capital of SCAH as at the Latest Practicable Date, they are required to abstain from voting on the relevant resolution to approve the Acquisition at the EGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising the three independent non-executive directors of SCAH, namely Mr. Cheng Hong Kei, Ms. Pong Scarlett Oi Lan, *BBS, J.P.* and Mr. Yeung Chi Hang, has been established to consider the Acquisition and the transactions contemplated under the Sale and Purchase Agreement, and to advise the Independent Shareholders on the fairness and reasonableness in relation to the terms of the Acquisition and the transactions contemplated thereunder.

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the transactions contemplated under the Acquisition are conducted in the ordinary and usual course of business of the SCAH Group; (ii) whether the terms of the Sale and Purchase Agreement are on normal commercial terms, in the interests of SCAH and the Shareholders as a whole, and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in relation to the ordinary resolution to be proposed at the EGM for approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship or interests with SCAH that could reasonably be regarded as relevant to our independence. Apart from normal professional fees payable to us in connection with this engagement, no arrangements exist whereby we had received any fees or benefits from SCAH or any other party to the transaction. Therefore, we consider that such relationship would not affect our independence.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, facts, opinions and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the SCAH Directors, SCAH and its management (the “**Management**”). We have assumed that all statements, information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete and continue to be so as at the date of the Circular.

We consider that we have (i) obtained all information and documents of SCAH relevant to an assessment of the fairness and reasonableness of the terms of the Acquisition; (ii) researched the relevant market and other conditions and trends relevant to the pricing of the Acquisition; (iii) reviewed the fairness, reasonableness and completeness of any assumptions relevant to the Acquisition; and (iv) reviewed the opinions and valuations relevant to the Acquisition provided by the expert who is an independent professional valuer, namely BMI Appraisals Limited (the “**Independent Valuer**”), including reviewing the terms of engagement (having particular regard to the scope of work, whether the scope of work is appropriate to the opinion required to be given and any limitations on the scope of work which might adversely impact on the degree of assurance given by the expert’s business valuation report and property valuation report (collectively the “**Valuation Reports**”) as set out in the respective Appendix I (the “**Business Valuation**”) and Appendix II (the “**Property Valuation**”) to the Circular, opinions or statements). Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Acquisition, as referred to in the GEM Listing Rules.

We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have no reason to doubt the truth, accuracy and completeness of the statements, information, facts, opinions and representations provided to us by the SCAH Directors, SCAH and the Management. The SCAH Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed and we have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular, or the reasonableness of the opinions and representations provided to us by SCAH. All the SCAH Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that, to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and that there are no other facts not contained in the Circular, while the omission

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

of which would make any statement in the Circular misleading. We have relied on such information and opinions and have not however, conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the SCAH Group, SCHC Group and the Vendor.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in relation to the Acquisition pursuant to the Sale and Purchase Agreement, we have considered the following principal factors and reasons:

1. Background of the SCAH Group

SCAH acts as an investment holding company. SCAH Group is principally engaged in (i) property development in the PRC; (ii) financial services (subsidiaries of SCAH are holding licences for types 1, 2, 4 and 9 regulated activities under the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, and providing money lending services under Money Lenders Ordinance, Chapter 163 of the Laws of Hong Kong) in Hong Kong; and (iii) the manufacture and sale of medical face masks and related products.

In terms of segment revenue, the SCAH Group's revenue generated from property development and financial services had accounted for approximately 88.9% and 11.1% of its total revenue, respectively, for the financial year ended 31 December ("FY(s)") 2019. In terms of segment assets, the SCAH Group's assets attributable to its business segments of property development and financial services had accounted for approximately 83.4% and 16.6% of its total segment assets, respectively, as at 31 December 2019. Based on such information, we consider that the property development business has formed a very substantial part of the ordinary and usual course of business of the SCAH Group.

2. Financial information of the SCAH Group

Overview

The SCAH Group has limited scale of operation in terms of revenue, while its operating results had been fluctuating very largely over the past five FYs from 2015 to 2019 between a net profit of approximately HK\$48.1 million for the FY 2015 and a huge loss of approximately HK\$292.6 million for the FY 2016, mainly due to the loss on derecognition of available-for-sale financial assets upon distribution of redeemable convertible preference shares incurred in the FY 2016. The SCAH Group's operation has been relying on its controlling Shareholder's continuing financial support in recent FYs instead of operating cash inflow from its ordinary and usual course of business operation, so it had very high gearing positions at the year end dates up to 31 December 2019. Despite of the SCAH Group's persistent loss-making performance, the SCAH Group had marginally healthy working capital positions at the recent year end dates up to 31 December 2019.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Review of operating performance

Set out below is a summary of the audited consolidated financial information of the SCAH Group for the three FYs from 2018 to 2019 as extracted from the annual reports of SCAH for the two FYs 2018 and 2019 (the “**Annual Report(s)**”):

	For the FY		
	2017	2018	2019
	(Audited)	(Audited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	1,736	1,121	19,022
Operating profit/(loss)	33,757	(9,589)	(3,768)
Profit/(loss) before income tax	7,385	(30,635)	(18,725)
(Loss) attributable to equity holders of SCAH	(14,819)	(7,851)	(18,888)

For the FY 2019 versus FY 2018

As disclosed in the Annual Report, the SCAH Group recorded revenue of approximately HK\$19.0 million during the FY 2019 (FY 2018: approximately HK\$1.1 million). The increase in revenue by approximately HK\$17.9 million during the FY 2019 was mainly derived from the property development project located in Cangzhou Bohai New District Zhongjie Industrial Park District, Tianjin Municipality, the PRC.

During the FY 2019, the SCAH Group recorded a loss attributable to its owners of approximately HK\$18.9 million (FY 2018: approximately HK\$7.9 million).

Review of financial and cash flow positions

Set out below is the summary of the consolidated financial positions of the SCAH Group as at 31 December 2017, 2018 and 2019 as extracted from the Annual Reports:

	As at 31 December		
	2017	2018	2019
	(Audited)	(Audited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	358,146	219,996	235,204
Current assets	512,403	357,468	180,333
Total assets	870,549	577,464	415,537
Non-current liabilities	(465,290)	(364,020)	(245,500)
Current liabilities	(229,792)	(176,185)	(133,678)
Total liabilities	(695,082)	(540,205)	(379,178)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 31 December		
	2017	2018	2019
	(Audited)	(Audited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity attributable to equity holders of SCAH (also known as net asset value (“NAV”) of the SCAH Group)	175,467	37,259	36,359
Cash and bank balances	190,577	177,393	21,917
Net current assets	282,611	181,283	46,655
Current ratios	2.2 times	2.0 times	1.3 times
Interest-bearing borrowings (i.e. being the aggregate of bank borrowing and loans from shareholders)	469,290	368,020	248,500
Gearing ratio (i.e. being calculated as the aggregate interest-bearing borrowings to be divided by the NAV of the SCAH Group)	267.5%	987.7%	683.5%
	For the FY		
	2017	2018	2019
	(Audited)	(Audited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating cash inflow/(outflow) before working capital changes	51,134	(17,920)	(3,929)
Net cash generated from/(used in) operating activities	230,926	98,459	(2,779)
Net cash generated from investing activities	11,519	17,790	10,196
Net cash used in financing activities	(85,957)	(129,232)	(162,843)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 31 December 2019 versus 31 December 2018

As at 31 December 2019, the SCAH Group had current assets of approximately HK\$180.3 million (2018: approximately HK\$357.5 million), and current liabilities of approximately HK\$133.7 million (2018: approximately HK\$176.2 million), representing net current assets and current ratio of approximately HK\$46.7 million (2018: approximately HK\$181.3 million) and 1.3 times (2018: approximately 2.0 times), respectively. The SCAH Group's current ratios were slightly above 1.0 times as at 31 December 2018 and 2019, indicating that the SCAH Group's liquidity positions were marginally healthy. As at 31 December 2019, the SCAH Group had cash and bank balances of approximately HK\$21.9 million (2018: approximately HK\$177.4 million). The SCAH Group had repaid approximately HK\$118.5 million to its controlling Shareholders during the FY 2019, resulting in an obvious deterioration of current ratio and drastic decrease in cash and bank balances as at 31 December 2019.

The SCAH Group's aggregate interest-bearing borrowings amounted to approximately HK\$248.5 million as at 31 December 2019 (2018: approximately HK\$368.0 million) comprised bank borrowings of HK\$3.0 million (2018: HK\$4.0 million) and loans from shareholders of approximately HK\$364.0 million (2018: approximately HK\$245.5 million), representing a very high gearing ratio of approximately 683.5% (2018: approximately 987.7%). The SCAH Group had repaid HK\$118.5 million to the controlling Shareholders during the FY 2019, resulting in an obvious improvement in the gearing position as at 31 December 2019, but still at a relatively higher level.

Prospects and latest development

As disclosed in the Annual Report, the SCAH Group is coming across a very challenging year in 2020 given the dynamic changes in macroeconomic environment under the outbreak of the novel coronavirus pandemic. The Management believes that it is in the best interests of the SCAH Group to continue carrying on, but being highly cautious in the financial services business, which is able to produce steady income stream. Meanwhile, the Phase I Project in Huanghua New City, Cangzhou City, Hebei Province, the PRC (the "**Huanghua Phase I Project**") under the property development segment has resumed its planning in late 2019, but the main construction work has been temporarily upheld and delayed to second quarter in 2021. However, the SCAH Group's Phase II Project in Cangzhou Zhongjie Industrial Park District, Cangzhou City, Hebei Province, the PRC (the "**Zhongjie Phase II Project**") has been scheduled to be commenced in the second quarter of 2020.

We consider that the Acquisition and its subsequent completion of the ancillary development projects can substantially enhance the SCAH Group's scale of operation in terms of revenue, profits and asset value in the coming years. The controlling Shareholder has committed to provide financial support to SCAH Group, if its internal resources and/or external bank borrowings could not be available/sufficient for implementation of the development project(s) under the Acquisition. Based on

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

our independent review on the Annual Reports, the controlling Shareholder has been providing persistent financial support to the SCAH Group by way of shareholder loans over the years, which can be foreseen to be continuing in the near future as if the SCAH Group may have such funding needs. The SCAH Group believes that even the SCAH Group's higher gearing position in the coming years when the construction works at the Site are to be commenced, which would ultimately be improved when the development projects on the Site will be completed so as generate meaningful revenue and profit thereafter. In addition, the controlling Shareholder would very unlikely bring legal action against the SCAH Group for immediate repayment of shareholder loans before completion of the development projects at the Site so that the currently anticipated higher gearing position would not be actually detrimental to the financial stability of the SCAH Group. Based on such understanding, we consider that the Acquisition is fair and reasonable, and in the interests of SCAH Group and the Shareholders as a whole.

Conclusion

Having considered that (i) the SCAH Group has been incurring persistent net losses for at least the last four FYs from 2016 to 2019; (ii) the SCAH Group's business operation has been limited in terms of revenue and relying on its controlling Shareholder's continuing financial support in recent FYs instead of operating cash inflow from its ordinary and usual course of business operations so as resulting in very high gearing positions as at 31 December 2018 and 2019; and (iii) the SCAH Group had marginally healthy current ratios as at 31 December 2018 and 2019, we may conclude that the SCAH Group's business operations have not yet been stable and promising, and therefore it is justifiable for the SCAH Group to explore new opportunities so as to implement business expansion for enhancing its ability for sustainable development in the near future, but the financing requirement for which has yet to be resolved, in particular in the current very volatile global financial markets and adverse economic environment.

3. Background of the Vendor and the Purchaser

The Vendor

The Vendor is an investment holding company which is an indirect wholly-owned subsidiary of SCHC.

The Purchaser

The Purchaser is an investment holding company which is an indirect wholly-owned subsidiary of SCAH.

4. Background of the Target Group

As at the Latest Practicable Date, the Target Company is a direct wholly-owned subsidiary of the Vendor, which is an investment holding company. The Target Company, through its indirect wholly-owned subsidiary, holds the Site in which industrial complexes

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

and ancillary offices can be developed for lease and sale. Other than the Site to be developed, the Target Group has no other operation and income derived from independent third party.

The Target Group had recorded net loss before and after tax of approximately HK\$280,000 for the FY 2018, and net profit before and after tax of approximately HK\$341,000 for the FY 2019. The adjusted unaudited consolidated net liabilities of the Target Group as at 30 April 2020 was approximately HK\$1,522,000.

Note: The Target Company was acquired by the Vendor in April 2020, and one of the subsidiaries of the Target Company (which is an investment holding company) was acquired by the Target Company in May 2020 (of which constitutes an internal restructuring for the sole purpose of disposal of the Target Group). The financial information of the Target Group for the FYs 2018 and 2019 (1) represents such amount attributable to the Target Group for the corresponding period; and (2) is adjusted for the effect of the Restructuring as if the Restructuring had been completed in the corresponding period.

Based on the information provided by the Vendor, the original acquisition cost paid for the indirect wholly-owned subsidiary of the Target Company which directly holds the Site was approximately RMB6,700,000 (equivalent to approximately HK\$7,400,000). According to the above information, the Vendor had actually acquired the Site by payment of RMB6.7 million in April 2011 instead of April 2020, which had been over nine years between the dates of the previous acquisition and this Acquisition.

5. Reasons for and benefits of the Acquisition

As mentioned in the “Letter from the SCAH Board” of the Circular, the SCAH Group has been engaging in small-scale property development and as at the Latest Practicable Date, SCAH has two property projects in Tianjin Municipality, the PRC. It is SCAH’s strategy to seek investments from time to time to broaden the SCAH Group’s investment portfolio. Based on the information available to the SCAH Board, the Target Group has acquired the Site since 13 April 2011, but the Site has yet been developed as at the Latest Practicable Date as the SCHC Group’s business strategies are focusing its resources on large-scale property development, toys manufacturing and agriculture and forestry industries (as the Site was classified as a small-scale property development, the SCHC Group had identified it as a lowest priority in development for the purpose of maximization of allocation and utilization of resources).

The Acquisition represents a good opportunity for the SCAH Group to expand its investment portfolio in small-scale property development. The advantages of small-scale property development are that (i) investment amount is relatively smaller; and (ii) the lead time from development to completion is relatively shorter (usually within 12 to 30 months from planning to completion) which in turn will generate faster cash flow and give less financial burden to the developer. The SCAH Board is of the view that the Acquisition (1) will provide opportunities for the SCAH Group to expand its property portfolio, so as enhancing its ability for sustainable development; and (2) will create synergy with its other two property projects in Tianjin Municipality, the PRC, such as the sharing of management office and back office functions (e.g. sales and marketing, administration and accounting functions) due to the close distance among the Site and the two existing

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projects in Tianjin Municipality, the PRC. The total site area of the Site is approximately 53,333.8 sq.m. and estimated gross floor area (“GFA”) of industrial complexes and ancillary offices are approximately 120,000 sq.m.. Following the Acquisition, SCAH plans to develop the Site in two development phases. The construction work of phase one (with GFA of approximately 12,000 sq.m.) is expected to be commenced in the second half of 2021 and would take approximately 24 months for completion. Based on the business forecast for the development projects under the Site, the SCAH Group currently anticipates the average selling price of similar properties for commercial and industrial usages in Tianjin Municipality, the PRC are approximately RMB9,000 per sq.m. and RMB3,000 per sq.m., respectively, which had been made reference to the open market pricing information in the area. Revenue can be generated either by leasing or by the sale of the whole block upon completion of the construction. The expected development cost for the phase one is approximately RMB40 million (including preliminary development, design and survey, and development expenses). The above are subject to (i) the actual arrangements of construction (including the possible changes in construction and material costs); and (ii) possible adjustments under actual markets conditions in the future. The future capital commitment for the development of phase one will be financed by (a) internal resources; and/or (b) bank borrowings; and/or (c) shareholder’s loans. As at the Latest Practicable Date, to the best knowledge of the SCAH Board, no material contracts have been signed with the main contractors. It is expected that the development of the Site will contribute revenue and positive cash flow to the SCAH Group.

The SCAH Board is of the view that the Acquisition is on normal commercial terms, and that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of SCAH and the Shareholders as a whole.

Based on our independent research from the official website of 中華人民共和國天津市統計局 (The Tianjin Municipal Bureau of Statistics of China), according to the statistical information as extracted therefrom, Tianjin Municipality had a population of approximately 15.6 million as at 31 December 2019 and had experienced a steady economic growth over the years. In 2019, the real gross domestic products (the “GDP”) growth rate of Tianjin Municipality rose by approximately 4.8% on a year-on-year basis to approximately RMB1,410.4 billion, which was slightly lower than the national average growth rate of 6.0%. The GDP growth was mainly contributed by investment and consumption sectors. In 2019, Tianjin Municipality’s fixed asset investment surged by approximately 13.9% on a year-on-year basis whilst its industrial and infrastructural investments considerably increased by approximately 17.9% and 13.6%, respectively.

Based on the above scenario, we concur with the SCAH Directors’ view that the Acquisition will (i) seize property development opportunities in Tianjin Municipality, the PRC so as enhancing its business expansion and ability for sustainable development, the PRC; and (ii) enable the SCAH Group to better implement its strategy and planning in respect of the property development in the PRC in the near future, and therefore potentially benefit and broaden the revenue source, cash inflow and earning base of the SCAH Group going forward. As such, the SCAH Board considers the Acquisition is in the interests of SCAH and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In view of the above, we are of the view that the Acquisition is in line with the business development strategy of the SCAH Group to activate its property development business segment, conducted in the ordinary and usual course of business of the SCAH Group for enhancing its long-term business development, and in the interests of SCAH and the Shareholders as a whole.

6. Principal terms and conditions of the Sale and Purchase Agreement

The Sale and Purchase Agreement

On 21 May 2020, the Purchaser (an indirect wholly-owned subsidiary of SCAH) and the Vendor (an indirect wholly-owned subsidiary of SCHC) entered into the Sale and Purchase Agreement pursuant to which the Vendor conditionally agreed to dispose of, and the Purchaser conditionally agreed to purchase the Sale Share, representing 100% of the entire issued share capital of the Target Company, at a total consideration of HK\$17,500,000.

Upon Completion, the Target Company will cease to become an indirect wholly-owned subsidiary of SCHC, but will become an indirect wholly-owned subsidiary of SCAH. The Target Company indirectly 100% holds the Site, in which industrial complexes and ancillary offices can be developed for lease and sale.

Basis for determination of the Consideration

The Consideration was determined after arm's length negotiations between the Vendor and the Purchaser after taking into account (1) the net book value of the Target Group as at 30 April 2020; and (2) the Business Valuation of approximately RMB15.8 million (equivalent to approximately HK\$17.5 million) prepared by an Independent Valuer in relation to the fair value of the Target Group as at 30 April 2020.

Reference is made to the property valuation report in Appendix II to the Circular, the total land premium for the Site was the RMB13.5 million (total of RMB2.6 million and RMB10.9 million). Based on the information available to the SCAH Board, for policy reasons by the Tianjin government, it was the intention of both parties, i.e. Tianjin South China and the Tianjin Municipal Government, that the actual payment of RMB6.7 million made by Tianjin South China had fully settled the original land premium of the Site in which Tianjin South China obtained the Real Estate Title Certificate in April 2011. The said RMB6.7 million was record and shown in the financial statements of World Success by "Land Use Rights" in the amount of RMB5.9 million for amortization reasons, further details of which are set out in Appendix I to the Circular. To the best knowledge of the SCAH Board, SCAH Board believed that the said RMB 6.7 million was the total acquisition cost of the Site as the Real Estate Title Certificate was properly granted by the relevant government authority in 2011. Moreover, the Vendor has provided full indemnity to the Purchaser against (i) the whole sum of RMB6.8 million and any other charges and fees in the event that any government authority demands for the said sum being the difference between the contractual land premium (i.e. RMB13.5 million) and the

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actual land premium paid by Tianjin South China (i.e. RMB6.7 million); and (ii) all penalties, charges and fees in the event that any government authority penalizes any sum resulting from the situation of idle land during the period of twenty-four (24) months from the date of the Sale and Purchase Agreement.

The valuation of the fair value of the Target Group was approximately RMB15.8 million (equivalent to approximately HK\$17.5 million), comprising: (a) the unaudited net liabilities of the Target Group of approximately RMB1.35 million (equivalent to approximately HK\$1.5 million); and (b) the Site appreciation of RMB17.15 million (equivalent to approximately HK\$19 million). As the Site is the only core asset of the Target Group and the Consideration is the fair price of the Site in open market (which has been taken into account of the net liabilities position of the Target Group) given that (i) there is no other operation in the Target Group; and (ii) the Target Company is only an investment holding company, the SCAH Board considered that the Consideration is fair and reasonable and in the interests of SCAH and the Shareholders as a whole. We concur with the SCAH Board's view in this regard.

The SCAH Group intends to finance the Consideration as to (i) HK\$7,400,000 by internal resources; and (ii) HK\$10,100,000 by internal resources, bank borrowings and/or shareholder's loan.

It is a commercial decision subsequent to negotiations with SCHC that the first tranche of payment amounted to HK\$7,400,000 (equivalent to approximately RMB6,700,000) payable within five (5) Business Days following the Completion Date is for the purpose of recovering the payment of the original acquisition cost paid by the Target Group for the Site in April 2011; and the second tranche of payment amounted to HK\$10,100,000 to be paid within five (5) Business Days upon commencement of the main construction works to be carried out in the Site, which shall not be later than twenty-four (24) months from the date of the Sale and Purchase Agreement, is for the purpose of providing flexibility to SCAH in respect of its liquidity demand, the SCAH Board is of the view that the settlement arrangements in the Consideration by two tranches are fair and reasonable and in the interests of SCAH and the Shareholders as a whole.

It is expected that the construction work of phase one of the Site would be commenced in the second half of 2021, and the construction work for the whole project is expected to be completed by the end of 2028.

Property Valuation of the Site

We have independently reviewed the Valuation Reports and enquired into the Independent Valuer on the methodology adopted and the bases and assumptions used in arriving at the Business Valuation and the Property Valuation as at 30 April 2020 as set out in the Appendices I and II, respectively, to the Circular. In the course of our enquiry, we understand that the Independent Valuer carried out a site inspection to the land site at Tianjin Municipality, the PRC in May 2020 to research into the necessary information to determine the market value of the Site under the

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Acquisition. The Independent Valuer has advised that it has adopted a comparison approach for the Property Valuation by making reference to comparable sales evidence as available in Wuqing District, the Tianjin Municipality, the PRC and also taken into account the accrued construction cost, preliminary expenses and professional fees of approximately RMB2.46 million relevant to the stage of construction as at 30 April 2020 and the remainder thereof at approximately RMB37.54 million expected to be incurred for completion the development thereunder, hence the estimated total construction cost would be approximately RMB40.0 million. We have reviewed the Independent Valuer's working schedule with supporting documents of arriving at the Property Valuation of RMB25.56 million, where the Independent Valuer has made reference to four comparable sales transactions that were transacted during the past two months from February to March 2020 and the average transacted unit sales prices thereof are now being used for calculating/determining the Site value under the Property Valuation, which we consider to be representative samples being referred to/relied on for reaching the present Property Valuation. As confirmed by the Independent Valuer, the comparison approach with comparable land price with accrued construction cost is commonly adopted for valuation of properties in Hong Kong and the PRC and is also consistent with the normal market practice.

Business Valuation of the Target Group

Based on our independent review on the Valuation Reports, the Independent Valuer has considered various general valuation approaches including the income approach, the market approach, the cost approach and the asset-based approach; but finally adopted the asset-based approach for evaluating the value of the Target Group in view of its business nature and asset-based in company value of the Target Group, on the grounds that the Target Group is mainly holding the Site without other operation and significant assets and liabilities as at the date of valuation, the market value of the Target Group is assumed to be substantially represented by the market value of the Site. In arriving at the Business Valuation, it is assumed that the market values of all assets and liabilities of the Target Company apart from the Site as at the valuation date are the same as the book values as at 30 April 2020, and the Target Group has no other material asset, liability, contingent asset or contingent liability as at the valuation date besides its interest in the Site. On such basis, we consider that the asset-based approach is an appropriate methodology used in the Business Valuation for evaluating the Target Group, and the Independent Valuer has the requisite experience and expertise to conduct the Business Valuation for the Target Group.

We have completed numerous independent financial advisory engagements, and come across similar precedent cases over the years, and are satisfied with the current (i) asset-based approach (i.e. the major assets of the Target Group under the valuation were the land use rights and construction-in-progress attributable to the Site, and there exist relevant data and information as a basis and reference in valuing the relevant assets); and (ii) comparison approach (i.e. there are comparable sales evidence as available in the relevant market and further taking account the accrued

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construction cost and professional fees relevant to the stage of construction as at the valuation date) to be adopted in the Valuation Reports to determine the value of the Target Group and the Site respectively, which are consistent with our past experience in the industry and those precedent cases completed by us over the years, where those professional valuers had also adopted similar valuation approaches and bases and assumptions for determining and concluding their valuation results. On such basis, we consider that valuation approaches and bases and assumptions adopted by the Independent Valuer are fair and reasonable.

As part of our due diligence concerning the competence of the Independent Valuer, we have conducted independent research from the websites of the Independent Valuer and the Stock Exchange regarding the professional qualifications, experience and expertise of the Independent Valuer, we understand that the Independent Valuer has been engaged by more than 1,000 clients and completed numerous property valuation works covering a wide range of different industries in the PRC and Hong Kong; and we have worked with the Independent Valuer in the past so that we believe that it has been well-qualified with extensive working experience in conducting similar valuation works to that of the Site under the Acquisition. In addition, we have also reviewed the terms of engagement for the Independent Valuer and are satisfied the terms of engagement and the scope of work of the Independent Valuer to be appropriate. Furthermore, we have enquired with the Independent Valuer as to its current and prior independence with the SCAH Group, and understood that the Independent Valuer is an independent third party from SCAH, the Vendor and their connected persons.

During the course of our review on the Valuation Reports and enquiry with the Independent Valuer, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the Property Valuation and the Business Valuation.

Assessment of the Consideration

In assessing the fairness and reasonableness of the Consideration, we further analysed the fair NAV of the Target Group by considering the amount of the Business Valuation of HK\$17.5 million as mentioned above in order to fairly reflect the NAV of the Target Group as at 30 April 2020. Based on the relevant financial information, the consolidated net liabilities attributable to the owner(s) of the Target Group were approximately HK\$1.5 million as at 30 April 2020. After taking into account the fair market value of the Site of approximately RMB23.1 million (equivalent to approximately HK\$25.6 million) and then resulting in an associated gain on fair value change of the Site of approximately RMB17.1 million (equivalent to approximately HK\$19.0 million), the NAV after adjusting the fair market value of the Site attributable to the entire interest in the Target Group would amount to approximately HK\$17.5 million (the “**Adjusted NAV**”), which is the benchmark value relied on by both of the Purchaser and the Vendor to determine the Consideration.

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Since the Target Company is an investment holding company indirectly holding the sole investment in the Site, whilst the subject matter of the Acquisition, in substance, is the Site itself and its future development potential. The Target Group has not yet commenced business operation since its establishment, and its historical operating performance has been very limited and fluctuating significantly in terms of net profit/(loss) over the past two FYs 2018 and 2019, we accordingly consider that direct comparison in terms of price-to-earnings ratio and/or price-to-book ratio with other property development/investment companies listed on the Stock Exchange with much larger full-scale of operation and property development/investment portfolio would not be meaningful/realistic/practicable, and even misleading on the grounds that the Target Group's operating scale is very limited with the Site located in only one single location at Wuqing District, Tianjin Municipality, the PRC, which we consider it not directly comparable with other sizeable listed property development companies with recurring development projects as well as widespread property portfolio across the nation and/or various locations. In addition, by excluding the gain on fair value change of the Site, the Target Group had recorded net (loss)/profit of approximately HK\$(280,000) and HK\$341,000 for each of the two FYs 2018 and 2019, respectively, which could not demonstrate/maintain a proven stable and meaningful profitability thereof. As the Target Group's assets substantially consist of the Site being held by it and remaining vacant over the years, we consider that it would be more meaningful for us to consider the Adjusted NAV rather than to make reference to the past financial and operating performance of the Target Group. As such, the Adjusted NAV by making reference to the Business Valuation as well as the Property Valuation is an appropriate valuation of the Target Group.

Since the Consideration is equivalent to the Adjusted NAV as at 30 April 2020 with reference to the Business Valuation and the Property Valuation as set out in the respective Valuation Reports in the Appendices I and II to the Circular, we consider that the basis for determining the Consideration is fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of SCAH and the Shareholders as a whole.

Payment of the Consideration

The Consideration for the Acquisition is HK\$17,500,000, which is payable by the Purchaser to the Vendor in cash as follows:

- (a) HK\$7,400,000 (equivalent to approximately RMB6,700,000, being the original acquisition cost paid for the indirect wholly-owned subsidiary of the Target Company which directly holds the Site) to be paid within five (5) Business Days following the Completion Date; and
- (b) HK\$10,100,000 to be paid within five (5) Business Days upon commencement of the main construction works to be carried out in the Site, which shall not be later than twenty-four (24) months from the date of the Sale and Purchase Agreement or such other date to be mutually agreed by the parties thereto.

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As shown in the above, after payment of the first instalment upon the Completion, the substantial remaining part (i.e. about 57.7%) of the Consideration of HK\$10.1 million will only be payable upon commencement of the main construction works to be carried out in the Site, which may be almost 24 months later, we are of the view that the payment schedule under the Sale and Purchase Agreement shall be favourable to the SCAH Group in view of its current tighter working capital position. On such basis, we are of the view that the Consideration for the Acquisition (including its payment terms) is fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of SCAH and the Shareholders as a whole.

Having considered the above factors, we are of the view that the entering into of the Sale and Purchase Agreement is for the benefit of the SCAH Group, in the interests of SCAH and the Shareholders as a whole, and is fair and reasonable so far as the Independent Shareholders are concerned.

Conditions precedent

Completion is conditional upon the fulfilment of the following conditions:

- (a) having obtained the approval from the Independent Shareholders at the EGM in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder;
- (b) the Purchaser having completed its due diligence investigation on the Target Group and the Site, and the Purchaser being satisfied with the results of the due diligence investigation;
- (c) completion of the Restructuring;
- (d) there having been no breach of the Vendor's warranties from the date of the Sale and Purchase Agreement up to and inclusive of the Completion Date; and
- (e) no material adverse change on the operation of the Target Group from the date of the Sale and Purchase Agreement till the Completion Date.

None of the conditions set out above can be waived by either party to the Sale and Purchase Agreement. If any of the conditions set out above has not been satisfied (where applicable) by 5:00 p.m. on the Long Stop Date, the Sale and Purchase Agreement shall lapse automatically, and thereupon the Sale and Purchase Agreement and everything therein contained shall be null and void and of no further effect (for the avoidance of doubt, each party thereto shall have no further claim of whatsoever nature against the other party).

As at the Latest Practicable Date, condition(s) numbered c above had been fulfilled.

Completion

Subject to the fulfilment of the conditions set out above, the Completion shall take place on the Completion Date.

7. Possible financial effects of the Acquisition on the SCAH Group

Earnings

Upon the Completion, there is no immediate material impact on earnings of the SCAH Group, while the SCAH Directors expect that the Acquisition will enhance the business development of the SCAH Group in the near future, and then further contribute to its earnings base in the long run, but the quantification of such impact will depend on the future operating performance of the SCAH Group following the Completion and further completion of the relevant development/construction works on the Site.

Working capital

Based on the Annual Report, the SCAH Group's working capital (i.e. total current assets of approximately HK\$180.3 million, less total current liabilities of approximately HK\$133.7 million) and cash and bank balances at 31 December 2019 amounted to approximately HK\$46.6 million and HK\$21.9 million respectively, representing a current ratio of approximately 1.35 times.

Pursuant to the Sale and Purchase Agreement, the first instalment of the Consideration of HK\$7.4 million shall be paid within five Business Days following the Completion Date; whilst the substantial remaining portion thereof in HK\$10.1 million will only be paid upon commencement of the main construction works to be carried out in the Site, which is currently expected to be in the second half of 2021 but shall not be 24 months later. The Consideration will be financed by the internal resources of the SCAH Group, bank borrowings and/or shareholder's loan, where necessary.

Based on our understanding from the Management, the Vendor has agreed to delay the settlement of the second instalment of the Consideration in HK\$10.1 million for almost two years in view of the SCAH Group's current tighter working capital position, so the SCAH Group shall have sufficient time to arrange the payment thereof. In addition, the controlling Shareholder has committed to provide financial support to the SCAH Group as if its internal resources and/or external bank borrowings could not be available/sufficient for payment of the second instalment thereof. On such basis, we concur with the SCAH Directors' view that there would not exert considerable pressure on the working capital of the SCAH Group.

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Net asset value (NAV)

According to the Annual Report, the SCAH Group's audited NAV was approximately HK\$36.4 million as at 31 December 2019. It is currently expected that there will not be any significant impact of the NAV of SCAH Group following the Acquisition, as the increase in non-current assets by the value of the Site attributable to the Acquisition will be offset by the decrease in cash and bank balances and increase in current/non-current liabilities of the SCAH Group. There will also be no material impact on the income statement and reserves of the SCAH Group.

Gearing position

As at 31 December 2019, the SCAH Group had interest-bearing borrowings and NAV of approximately HK\$248.5 million and HK\$36.4 million respectively, and hence a very high gearing ratio (which is calculated as total interest-bearing borrowings divided by the NAV of the SCAH Group) of approximately 683.5%. As the Consideration will be funded by the internal resources of the SCAH Group, bank borrowings and/or shareholder's loan, where necessary, its gearing position may be further uplifted following the Completion. However, the SCAH Group's financial stability shall not be adversely affected in material respect, as the increase in liabilities is expected to be mainly provided/supported by the controlling Shareholder instead of a third party creditor.

Conclusion

In light of the foregoing financial effects of the Acquisition on the earnings, working capital, NAV and gearing position of the SCAH Group, we are of the view that the Acquisition would have no significant adverse impact on the SCAH Group's financial position, save and except for the reduction in cash resources and/or increase in liabilities. Therefore, we are of the view that while the SCAH Group's cash resources would be reduced coupled with possible increase in liabilities, the Acquisition is an effective way of expanding the SCAH Group's business coverage by utilisation of lesser immediate cash resources which is aimed at positioning the SCAH Group for a better growth and sustainable development in the future which, in the long run, is expected to benefit the SCAH Group and the Shareholders as a whole.

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RECOMMENDATION

Having taken into account the above principal factors and reasons, in particular, (i) the benefits of the Acquisition to the SCAH Group; (ii) the basis for determination of the Consideration; and (iii) the possible financial effects of the Acquisition on the SCAH Group, we are of the view that the Acquisition is conducted in the ordinary and usual course of business of the SCAH Group for enhancing its ability for sustainable development, while the terms of the Sale and Purchase Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of SCAH and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolution to approve the Acquisition and the transactions contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited
Nicholas Cheng
Director

Note: Mr. Nicholas Cheng has been the Responsible Officer of Type 6 (advising on corporate finance) regulated activity under the SFO, and has extensive experience in the corporate finance industry. He has been participating in the provision of independent financial advisory services for, and completed, numerous connected transactions involving companies listed in Hong Kong.

The following is the text of a valuation report prepared for the purpose of incorporation in this Circular received from BMI Appraisals Limited, an independent valuer, in connection with the valuation of 100% equity interest of the Target Company as at 30 April 2020.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

Suite 01-08, 27th Floor, Shui On Centre, Nos. 6-8 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心27樓2701-2708室
Tel電話：(852) 2593 9678 Fax傳真：(852) 2802 0863
Email電郵：enquiry@bmintelligence.com Website網址：www.bmi-appraisals.com

26 June 2020

The Directors

South China Assets Holdings Limited

28th Floor

Bank of China Tower

1 Garden Road, Central

Hong Kong

Dear Sirs,

Re: Valuation of 100% equity interest in Silver Giant Limited

1. INSTRUCTIONS

We refer to the instructions from South China Assets Holdings Limited (referred to as the “Company”) for us to provide our independent opinion on the market value of 100% equity interest in Silver Giant Limited (referred to as the “Target Company”).

2. DATE OF VALUATION

The date of valuation is 30 April 2020.

3. BASIS OF VALUATION

Our valuation has been carried out on the basis of market value. Market value is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

4. BACKGROUND OF THE COMPANY AND THE TARGET COMPANY

Background of the Company

The Company is a publicly listed company with limited liability. It was incorporated in Cayman Islands and has been listed on the GEM of the Stock Exchange (stock code: 08155) since 2002. The Company and its subsidiaries is principally engaged in (i) property development in the PRC; (ii) financial services in Hong Kong; and (iii) the manufacture and sale of medical face masks and related products.

Background of the Target Company and its subsidiary

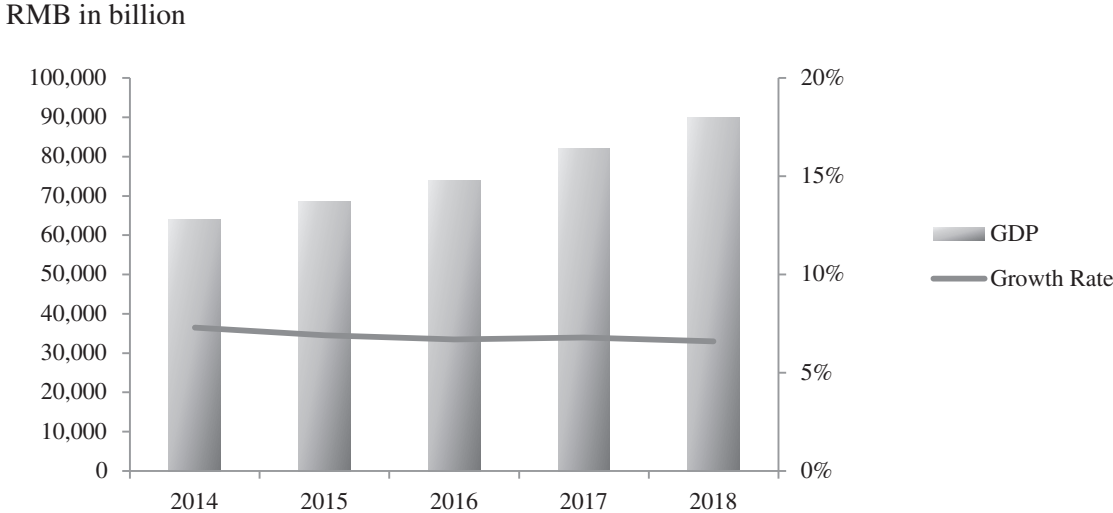
The Target Company is a private company with limited liability incorporated in British Virgin Islands. According to the senior management of the Company, the Target Company has no operation and other significant assets and liabilities except for its investment in 100% equity interest of Champion Year Global Limited (referred to as “Champion Year”) as at the valuation date. Champion Year is a private company with limited liability incorporated in British Virgin Islands. According to the senior management of the Company, Champion Year has no operation and other significant assets and liabilities except for its investment in 100% equity interest of World Success (Tianjin) International Trading Co., Ltd. (referred to as “World Success”) as at the valuation date. World Success is an investment holding company which indirectly holds the Site, being the development site at Xiazhuozhuang Street, Wuqing District, Tianjin City* (天津市武清區下朱莊街), having a total area of approximately 53,333.8 square meters, upon which industrial complexes and ancillary offices can be developed for lease and sale.

5. INDUSTRY OVERVIEW

The PRC Economy

The national economy of the PRC maintained a stable growth in 2018. As illustrated in Figure 1, the gross domestic product (GDP) in FY2018 reached RMB90,030.9 billion, up by 6.6% over the previous year. Of this total, the value added of the primary industry was RMB6,473.4 billion, up by 3.5%, that of the secondary industry was RMB36,600.1 billion, up by 5.8% and that of the tertiary industry was RMB46,957.5 billion, up by 7.6%. The value added of the primary, secondary and tertiary industries is accounted for 7.2%, 40.7% and 52.2% of the GDP respectively.

Figure 1: Gross Domestic Product, 2014–2018

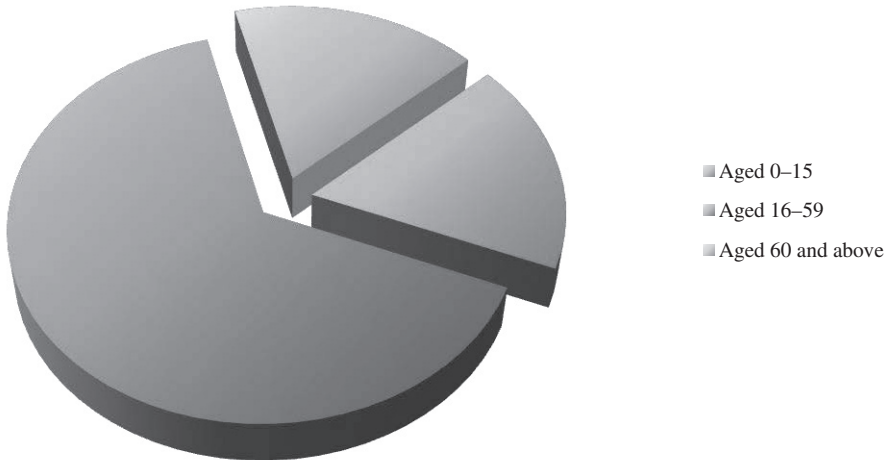


Source: National Bureau Statistics of China

The consumer prices increased slightly in 2018 and went up by 2.1% over the previous year. Of this total, the prices for food tobacco and liquor increased by 1.9%. The prices for investment in fixed assets increased by 5.4%. The producer prices and the purchasing prices for manufactured goods went up by 3.5% and 4.1% respectively. The producer prices for farm products decreased by 0.9%.

As illustrated in Figure 2, the total population of the PRC reached 1,395.38 million by the end of 2018, an increase of 5.30 million from the end of 2017. The number of urban permanent residents has increased by 1.06% to 831.37 million, accounted for 59.58% of the total population. In 2018, 15.23 million of births have recorded with a crude birth rate of 10.94 per thousand, and 9.93 million of deaths with a crude death rate of 7.13 per thousand. The natural growth rate was 3.81 per thousand. The number of population who lived in places other than their household registration area reached 286 million, of which 241 million were floating population.

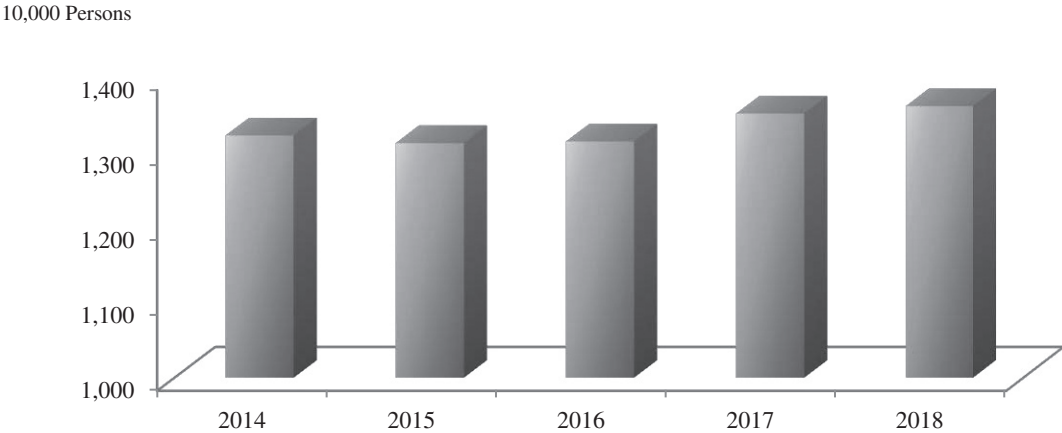
Figure 2: Population Age Composition, 2018



Source: National Bureau Statistics of China

At the end of 2018, the number of employed people in the PRC was 775.86 million, and that in urban areas was 434.19 million. As illustrated in Figure 3, the number of newly increased employed persons in urban areas was 13.61 million. The registered urban unemployment rate was 3.8% at the end of the year. The total number of migrant workers in 2018 was 288.36 million, an increase of 0.6% from 2017. Of which, the migrant workers who left hometown and worked in other places were 172.66 million, increased by 0.5%, and those who worked in their own localities reached 115.70 million or raised by 0.9%.

Figure 3: Newly Increased Employed Persons in Urban Areas, 2014-2018

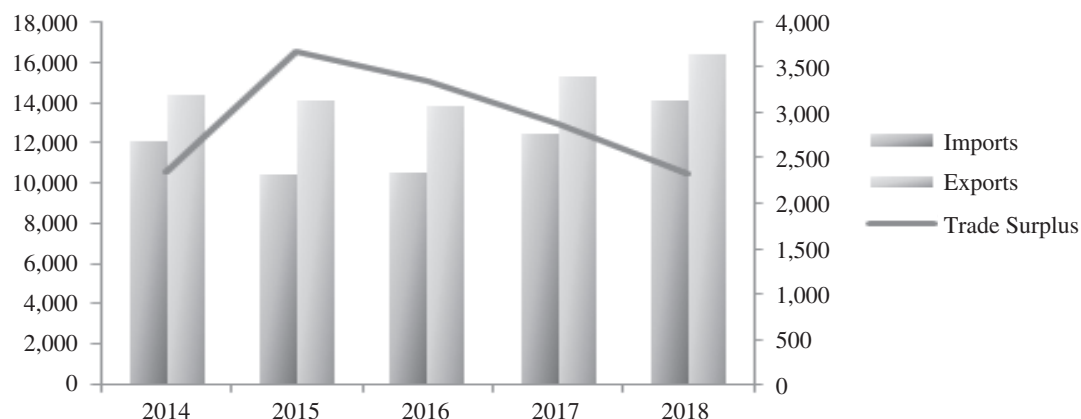


Source: National Bureau Statistics of China

The total value of imports and exports of goods in 2018 reached RMB30,505.0 billion, increased by 9.7 % of the previous year. According to Figure 4, the value of goods exported was RMB16,417.7 billion or went up by 7.1% and the value of goods imported was RMB14,087.4 billion or up by 12.9%. The net exports (exports minus imports) was RMB2,330.3 billion, a drop of RMB521.7 billion over the previous year.

Figure 4: Imports and Exports of Goods, 2014–2018

RMB in billion



Source: National Bureau Statistics of China

6. SOURCE OF INFORMATION

For the purpose of our valuation, we have been furnished with the financial and operational information in respect of the Target Company provided by the senior management of the Company.

We have no reason to doubt the truth and accuracy of the information provided to us, and we have been confirmed by the senior management of the Company that no material facts have been omitted from the information provided to us.

Apart from the information provided by the senior management of the Company, we also obtained market data, industry information and statistical figures from publicly available sources.

7. SCOPE OF WORKS

The following processes have been conducted by us in the course of our valuation:

- Interviewed with the senior management of the Company in respect of the core operation of the Target Company;
- Obtained relevant financial and operational information in respect of the Target Company from the senior management of the Company;

- Examined the basis and assumptions of the financial and operational information in respect of the Target Company provided by the senior management of the Company;
- Conducted appropriate research to obtain sufficient market data, industry information and statistical figures from publicly available sources; and
- Prepared the valuation and this report in accordance with generally accepted valuation procedures and practices.

8. VALUATION ASSUMPTIONS

Due to the changing economic and market conditions, a number of assumptions have to be adopted in our valuation. The major assumptions adopted in our valuation are as follows:

General Market Assumptions

- There will be no material change in the existing political, legal, fiscal, technological, economic and market conditions in the jurisdiction where the Target Company is currently or will be situated;
- There will be no material change in the taxation laws and regulations in the jurisdiction where the Target Company is currently or will be situated, that the tax rates will remain unchanged and that all applicable laws and regulations will be complied with;
- The market return, market risk, interest rates and exchange rates will not differ materially from those of present or expected;
- The supply and demand, both domestically and internationally, of the products and/or services of the Target Company or similar products and/or services will not differ materially from those of present or expected;
- The market prices and the relevant costs, both domestically and internationally, of the products and/or services of the Target Company or similar products and/or services will not differ materially from those of present or expected;
- The products and/or services of the Target Company or similar products and/or services are marketable and liquid, that there are active markets for the exchange of the products and/or services of the Target Company or similar products and/or services; and
- The market data, industry information and statistical figures obtained from publicly available sources are true and accurate.

Company-specific Assumptions

- All licenses, permits, certificates and consents issued by any local, provincial or national government or other authorized entity or organization that will affect the operation of the Target Company have been obtained or can be obtained upon request with an immaterial cost;
- The core operation of the Target Company will not differ materially from those of present or expected;
- The financial and operational information in respect of the Target Company have been prepared on a reasonable basis that have been arrived at after due and careful consideration by the senior management of the Company;
- The Target Company currently has, or will have, adequate human capital and capacity required for the production and/or provision of the products and/or services of the Target Company, and the required human capital and capacity will be acquired in a timely manner that will not affect the operation of the Target Company;
- The Target Company has acquired, or will acquire, adequate financial capital for the investments in projected capital expenditure and working capital from time to time, and any scheduled interest or repayment of loan and payable will be paid on time;
- The senior management of the Target Company will implement only those prospective financial and operational strategies that will maximize the efficiency of the operation of the Target Company;
- The senior management of the Target Company has sufficient knowledge and experience in respect of the operation of the Target Company, and the turnover of any director, management or key person will not affect the operation of the Target Company;
- The senior management of the Target Company has adopted reasonable and appropriate contingency measures against any human disruption such as fraud, corruption and strike, and the occurrence of any human disruption will not affect the operation of the Target Company; and
- The senior management of the Target Company has adopted reasonable and appropriate contingency measures against any natural disaster such as fire, flood and hurricane, and the occurrence of any natural disaster will not affect the operation of the Target Company.

9. VALUATION APPROACH

General Valuation Approaches

The following generally accepted valuation approaches have been considered in the course of our valuation: (1) the income approach; (2) the market approach; (3) the cost approach; and (4) the asset-based approach.

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 discounted cash flow (DCF) method is the most fundamental and prominent method of the income approach. In applying the DCF method, the free cash flows of the subject asset in future years were determined from the net income after tax plus non-cash expenses, such as depreciation and amortization expenses, and after-tax interest expense; the result was then less non-cash incomes, investment in capital expenditure and investment in net working capital.

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 guideline publicly-traded comparable 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 guideline transactions 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.

Cost Approach

The cost approach provides an indication of value based on the principle that an informed buyer would pay no more than the cost of producing the same or a substitute asset with equal utility as the subject asset.

Under the cost approach, the historical cost method measures the cost incurred throughout the development of the subject asset at the time it was developed. The replication cost method measures the amount of investment that would be required to develop an asset similar to the subject asset. The replacement cost method measures the amount of investment that would be required to develop the subject asset as it currently exists.

Asset-based Approach

The asset-based approach provides an indication of value based on the principle that the sum of each asset and liability component represents the overall value of an entity. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business enterprise and equals to the value of its invested capital (equity and long-term debt).

In other words, the value of the business enterprise is represented by the money that has been collected to purchase the business assets needed. This money comes from investors who buy the stocks of the business enterprise (equity) and investors who lend money to the business enterprise (debt). After collecting the total amount of money from equity and debt, and converted into various types of assets of the business enterprise for its operations, their sum equals the value of the business enterprise.

Selected Valuation Approach

The selection of a valuation approach is based on, among other criteria, the quantity and quality of the information provided, access to available data, supply of relevant market transactions, type and nature of the subject asset, purpose and objective of the valuation and professional judgment and technical expertise.

The income approach is mainly applicable to the companies for which relatively reasonable and reliable estimation of expected future profit can be made. Proper consideration should be taken over the applicability of income approach with reference to the historical operation, predictability of future profit and the availability of information used for valuation. The Target Company has no business operation except for the holding of a parcel of land in PRC. Therefore, the income approach was not adopted.

As there are insufficient recent equity transactions with similar nature of the Target Company such as operating business, product segment, geographic location and market capitalization, it was difficult to obtain sufficient comparable transactions that were relevant, reliable and accurate. Therefore, the market approach was not adopted.

The asset-based approach is generally applied to newly established companies or a company that is unable to conduct effective assessment by using income approach or market approach. Therefore, we have selected the asset-based approach. The major assets of the Target Company under valuation were the land use rights and construction-in-progress. In the course of applying the asset-based approach, there exist relevant data and information as a basis and reference for the selection of economical and technical reference variables involved in valuing the various assets.

10. VALUATION METHODOLOGY

As the Target Company and Champion Year are the investment holding companies without other operation and significant assets and liabilities except for equity interest in World Success as at the valuation date, the market value of the Target Company is assumed to be equal to the market value of World Success. Therefore, we have valued the market value of 100% equity interest of the Target Company by assessing the 100% equity value of World Success.

In our valuation, it is assumed that the market values of all assets and liabilities of World Success apart from the land use rights as at the valuation date are the same as the book values as at 30 April 2020, and World Success has no other asset, liability, contingent asset or contingent liability as at the valuation date besides its interest in the land use rights and the assets and liabilities stated in the below statement of financial position as at 30 April 2020.

According to the statement of financial position of World Success as at 30 April 2020, the net asset value of World Success are as follows:

World Success as at 30 April 2020	Book Value <i>(RMB'000)</i>	Market Value <i>(RMB'000)</i>
ASSETS		
Non-current Assets		
Goodwill	1,068	1,068
Fixed assets	1	1
Land Use Rights	5,914	23,100
Construction-in-progress	<u>2,462</u>	<u>2,460</u>
	<u>9,445</u>	<u>26,629</u>
Current Assets		
Other receivables	848	848
Cash at bank	<u>795</u>	<u>795</u>
	<u>1,643</u>	<u>1,643</u>
Total Assets	<u>11,088</u>	<u>28,272</u>

World Success as at 30 April 2020	Book Value <i>(RMB'000)</i>	Market Value <i>(RMB'000)</i>
LIABILITIES		
Current Liabilities		
Other payables	1,322	1,322
Amount due to group companies	<u>11,134</u>	<u>11,134</u>
	<u>12,456</u>	<u>12,456</u>
Total Liabilities	<u>12,456</u>	<u>12,456</u>
NET ASSETS/(LIABILITIES)	<u><u>(1,368)</u></u>	<u><u>15,816</u></u>

11. STATEMENT OF INDEPENDENCE

We hereby certify that we have neither present nor prospective interest in the Company, the Target Company or the result reported. In addition, our directors are neither directors nor officers of the Company or the Target Company.

In the course of our valuation, we are acting independently of all parties.

Our fees are agreed on a lump-sum basis and are not correlated with the result of our valuation.

12. REMARKS

For the purpose of our valuation, we have been furnished with information provided by the senior management of the Company. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made or liability assumed for the accuracy of any data, opinions or valuations identified as being furnished by others, which have been used in formulating our analysis.

13. CONCLUSION OF VALUE

Based on our analysis outlined in this report, it is our independent opinion that the market value of 100% equity interest in Silver Giant Limited (i.e. the Target Company) as at 30 April 2020 was **RMB15,816,000 (RENMINBI FIFTEEN MILLION EIGHT HUNDRED AND SIXTEEN THOUSAND ONLY)**.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Dr. Tony C. H. Cheng

*BSc(Bldg), MUD, MBA(Finance), MSc.(Eng), PhD(Econ),
FSOE, FIPlantE, CEnv, FIPA, FAIA, FRSM, CPA UK, SIFM, FCMA,
FRSS, MCI Arb, MASCE, MHKIE, MIEEE, MASME, MIEE, MASM, MIET
Managing Director*

Note:

Dr. Tony C. H. Cheng has various engineering and accounting & finance qualifications. He is a Fellow member of Royal Statistical Society, Fellow member of the Society of Operations Engineers, and the Institution of Plant Engineers, and a member of the Hong Kong Institution of Engineers and the American Society of Mechanical Engineers.

Besides, Dr. Cheng is a Fellow member of Association of International Accountants, Fellow member of the Institute of Public Accountants, and the Institute of Financial Accountants. He is also a Fellow member and Committee member of the Certified Management Accountants Australia. He has extensive experience in valuing similar assets in different industries in Hong Kong and the PRC.

The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 30 April 2020 of the real property held by Silver Giant Limited and/or its subsidiaries located in the People's Republic of China.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

Suite 01-08, 27th Floor, Shui On Centre, Nos. 6-8 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心27樓2701-2708室
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Email電郵：enquiry@bmintelligence.com Website網址：www.bmi-appraisals.com

26 June 2020

The Directors
South China Assets Holdings Limited
28th Floor
Bank of China Tower
1 Garden Road, Central
Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from South China Assets Holdings Limited (the “Company”) for us to value the real property held by Silver Giant Limited and/or its subsidiaries (together referred to as the “Target Group”) located in the People’s Republic of China (the “PRC”). We confirm that we have conducted an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the real property as at 30 April 2020 (the “valuation date”).

BASIS OF VALUATION

Our valuation of the real property has been based on the Market Value, which is defined by The Hong Kong Institute of Surveyors as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”. The Market Value is also understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

VALUATION METHODOLOGY

In valuing the real property, we have assumed that the real property will be developed and completed in accordance with the latest development proposal provided to us. We have adopted the Comparison Approach by making reference to the comparable sales evidence as available in the relevant market and have also taken into account the accrued construction cost and professional fees relevant to the stage of construction as at the valuation date and the remainder of the cost and fees expected to be incurred for completing the development.

TITLE INVESTIGATION

We have been provided with copies of title & legal documents and have been advised by the Company that no further relevant documents have been produced. However, we have not examined the original documents to verify ownership or to ascertain the existence of any amendment documents, which may not appear on the copy handed to us. In the course of our valuation, we have relied upon the advice and information given by the Company's PRC legal advisor — Jiangsu Yongrun Law Firm (江蘇永潤律師事務所) regarding the title of the real property located in the PRC. All documents have been used for reference only.

VALUATION ASSUMPTIONS

Our valuation has been made on the assumption that the real property is sold in the market in its existing state without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which might serve to affect the value of the real property. In addition, no account has been taken of any option or right of pre-emption concerning or effecting sale of the real property and no forced sale situation in any manner is assumed in our valuation.

In valuing the real property, we have relied on the advice given by the Target Group and the Company that the Target Group has valid and enforceable title to the real property which is freely transferable, and have free and uninterrupted rights to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent/land use fees and all requisite land premium/purchase consideration payable have been fully settled.

VALUATION CONSIDERATIONS

The real property was inspected by Mr. YU Hongyin (MPhil. in Engineering) in May 2020. However, no tests or investigations are carried out to determine stability or suitability of ground conditions or factors, which could delay completion of a development on the real property such as archaeological artifacts, contamination, ecological or environmental considerations. Unless otherwise informed, we have assumed that the site is sound and no delays will occur in a construction schedule due to considerations relating to the site, and that the ground is not contaminated.

In the course of our valuation, we have relied to a considerable extent on the information given by the Target Group and the Company and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, particulars of occupancy, site/floor areas, identification of the real property and any other relevant information.

We have not carried out detailed on-site measurements to verify the correctness of the site/floor areas in respect of the real property but have assumed that the site/floor areas shown on the documents handed to us are correct. Except otherwise stated, all dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximations.

We have no reason to doubt the truth and accuracy of the information provided to us by the Target Group and the Company and we have relied on your confirmation that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information for us to reach an informed view.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the real property or for any expenses or taxation, which may be incurred in effecting a sale or purchase.

Unless otherwise stated, it is assumed that the real property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

Our valuation has been prepared in accordance with The HKIS Valuation Standards (2017 Edition) published by The Hong Kong Institute of Surveyors and the International Valuation Standards (IVS) published by The International Valuation Standards Council.

Our valuation has been prepared under the generally accepted valuation procedures and is in compliance with the GEM Listing Rules.

REMARKS

Unless otherwise stated, all money amounts stated herein are in Renminbi (RMB) and no allowance has been made for any exchange transfers.

Our Summary of Value and the Valuation Certificate are attached herewith.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Joannau W. F. Chan
BSc., MSc., MRICS, MHKIS, RPS(GP)
Senior Director

Note:

Ms. Joannau W.F. Chan is a member of the Hong Kong Institute of Surveyors (General Practice) who has over 21 years' experience in valuations of real properties in the People's Republic of China.

SUMMARY OF VALUE

Real property held under development by the Target Group in the PRC

Real property	Market Value in existing state as at 30 April 2020 RMB
A land parcel located at the western side of Nanbei Xinzhuang Lijiaoqiao, Xiazhuzhuang Street (Land no. 1201140022090010001), Wuqing District, Tianjin City, The PRC	
位於中國天津市武清區 下朱莊街南北辛莊立交橋西側 (1201140022090010001地塊) 之一幅土地	
	<u>25,560,000</u>
Total:	<u><u>25,560,000</u></u>

VALUATION CERTIFICATE

Real property held under development by the Target Group in the PRC

Real property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2020 RMB
A land parcel located at the western side of Nanbei Xinzhuang Lijiaoqiao, Xiazhuang Street (Land no. 1201140022090010001), Wuqing District, Tianjin City, The PRC 位於中國天津市武清區下朱莊街南北辛莊立交橋西側(1201140022090010001地塊)之一幅土地	The real property comprises a land parcel with a site area of approximately 53,333.8 sq.m. together with Phase 1 of the planned development at preliminary stage (“Phase 1”). The total planned Gross Floor Area (“GFA”) of Phase 1 will be approximately 12,000 sq.m. upon completion. The estimated total construction cost of Phase 1 is approximately RMB40,000,000, of which the preliminary expenses (inclusive of site formation, design, survey, consultation and application fees) of approximately RMB2,460,000 had been paid up to the valuation date. The main construction works of Phase 1 are scheduled to be commenced in second half of 2021 and completed by the end of 2023 and Phase 2 of the planned development is scheduled to be completed by the end of 2028. The land use rights of the real property have been granted for a term expiring on 16 August 2059 for industrial use.	The real property is under development at preliminary stage.	25,560,000

Notes:

- The real property is located in Wuqing District of Tianjin City, which is about 50 minutes’ driving distance to Tianjin Binhai International Airport. The immediate locality is an industrial area.
- Pursuant to a Tianjin City State-owned Construction Land Use Rights Grant Contract (天津市國有建設用地使用權出讓合同) (“Grant Contract”) entered into between Tianjin City State-owned Land Resources and Housing Administrative Bureau Wuqing District State-owned Land Resources Branch (天津市國土資源與房屋管理局武清區國土資源分局) and Tianjin South China Footwear Co., Ltd. (天津南華鞋業有限公司) (“Tianjin South China”) dated 6 July 2009, the land use rights of portion of the real property with a site area of approximately 10,262.8 sq.m. were contracted to be granted to Tianjin South China at a land premium of RMB2,600,000 for a term of 50 years commencing from the day of handover for industrial use.

The planning and design requirements of the real property are as follows:

Plot Ratio:	≥1.0
Building Height:	<24 m.
Building Density:	30%–45%
Greenery Ratio:	≤20%
Construction Commencement Date:	before 6 January 2010
Construction Completion Date:	before 6 January 2012
Permitted Business Type:	Cultural and Educational Sports Equipment Manufacturing

3. Pursuant to a Tianjin City State-owned Construction Land Use Rights Grant Contract (天津市國有建設用地使用權出讓合同) (“Grant Contract”) entered into between Tianjin City State-owned Land Resources and Housing Administrative Bureau Wuqing District State-owned Land Resources Branch (天津市國土資源與房屋管理局武清區國土資源分局) and Tianjin South China Footwear Co., Ltd. (天津南華鞋業有限公司) (“Tianjin South China”) dated 29 December 2010, the land use rights of the remaining portion of the real property with a site area of approximately 43,071.2 sq.m. were contracted to be granted to Tianjin South China at a land premium of RMB10,900,000 for a term of 50 years commencing from the day of handover for industrial use.

The planning and design requirements of the real property are as follows:

Plot Ratio:	≥1.0
Building Height:	<24 m.
Building Density:	30%–45%
Construction Commencement Date:	before 29 May 2011
Construction Completion Date:	before 29 June 2013
Permitted Business Type:	Cultural and Educational Sports Equipment Manufacturing

4. Pursuant to a Real Estate Title Certificate (房地產權證), Fang Di Zheng Jin Zi Di No. 122051100455 (房地證津字第122051100455號), dated 13 April 2011, the land use rights of the real property with a site area of approximately 53,333.8 sq.m. have been granted to Tianjin South China for a term expiring on 16 August 2059 for industrial use.
5. Pursuant to a Land Use Planning Permit, 2016 Wu Qing Di Zheng 0040 (2016武清地證0040) dated 8 June 2016, the land parcel with a site area of approximately 53,334 sq.m. was permitted to be developed by Tianjin South China for industrial use.
6. Pursuant to a Construction Works Planning Permit, 2016 Wu Qing Jian Zheng 0084 (2016武清建證0084) dated 20 December 2016, the real property with GFA of approximately 5,256 sq.m. was permitted to be developed by Tianjin South China.
7. Pursuant to a Construction Works Commencement Permit, No. 1201142016122901111 dated 29 December 2016, the construction work of the real property with GFA of approximately 5,256 sq.m. was permitted to commence.
8. The opinion of the PRC legal advisor to the Group contains, inter alia, the following:
- The land use rights of the real property are legally vested in Tianjin South China;
 - Tianjin South China is entitled to occupy, use, transfer, lease, mortgage and dispose of the real property in the market; and
 - There had been no administrative penalties or other restrictive notification documents from relevant administrative & management authorities due to violation of land laws and regulations.
9. Tianjin South China is a wholly-owned subsidiary of the Target Group.

1. RESPONSIBILITY STATEMENT

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the SCAH 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. DIRECTORS' INTERESTS

(i) Directors' and chief executives' interests in SCAH or its associated corporations

As at the Latest Practicable Date, the interests of Directors in the Shares, underlying shares and debentures (within the meaning of Part XV of the SFO) of SCAH and its associated corporations (within the meaning of Part XV of the SFO) which would be required to be: (i) notified to SCAH and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which a Director or chief executive of SCAH would be taken or deemed to have under such provisions of the SFO); (ii) entered into the register kept by SCAH pursuant to Section 352 of the SFO; or (iii) notified to SCAH and the Stock Exchange pursuant to the Model Code of the GEM Listing Rules were as follows:

Name of Director	Capacity	Personal interests	Number of Shares held			Total interests	Approximate percentage of total interests to total issued Shares
			Family interests	Corporate interests			
Mr. Ng Hung Sang ("Mr. Ng")	Beneficial owner/ Interest of spouse/ Interest of controlled corporations	363,393,739	967,923,774	5,925,861,298 (Note (a))	7,257,178,811	64.92%	
Mr. Ng Yuk Yeung Paul ("Mr. Paul Ng")	Beneficial owner	2,602,667	—	—	2,602,667	0.02%	

(ii) Long position in underlying shares — share options

Under the share option scheme of SCAH, options may be granted to its Directors and employees and to certain eligible participants of SCAH as defined in the share option scheme to subscribe for the Shares. As at the Latest Practicable Date, the following Directors had personal interests in the following share options granted to them to subscribe for the Shares:

Name of Director	Capacity	Number of underlying Shares	Approximate percentage of total interests to total issued Shares
Ms. Cheung Choi Ngor ("Ms. Cheung")	Beneficial owner	55,896,000 (Note (b))	0.50%
Mr. Paul Ng	Beneficial owner	83,840,000 (Note (b))	0.75%

Notes:

- (a) 5,925,861,298 Shares held by Mr. Ng through controlled corporations include 1,088,784,847 Shares held by Bannock Investment Limited ("Bannock"), 1,150,004,797 Shares held by Eartrade Investments Limited ("Eartrade"), 1,817,140,364 Shares held by Fung Shing Group Limited ("Fung Shing"), 1,728,362,917 Shares held by Parkfield Holdings Limited ("Parkfield"), 76,464,373 Shares held by Ronastar Investments Limited ("Ronastar"), 65,104,000 Shares held by Green Orient Investments Limited ("Green Orient"). Fung Shing, Parkfield and Ronastar were all directly wholly-owned by Mr. Ng. Mr. Ng holds Green Orient indirectly via South China Holdings Company Limited ("SCHC"). Bannock was a wholly-owned subsidiary of Eartrade which was directly owned as to 60% by Mr. Ng, 20% by Mr. Richard Howard Gorges ("Mr. Gorges") and 20% by Ms. Cheung. SCHC was owned as to approximately to 61.22% by Mr. Ng. As such, Mr. Ng was deemed to have interest in the 65,104,000 Shares held by Green Orient and the aggregate 2,238,789,644 Shares held by Bannock and Eartrade.
- (b) The respective underlying Shares held by Ms. Cheung and Mr. Paul Ng were the share options granted to them on 1 October 2013 under the share option scheme adopted by SCAH on 8 May 2012.

3. SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at the Latest Practicable Date, so far as is known to any Director or chief executive of SCAH, the following persons had an interest in the Shares which would fall to be disclosed to SCAH under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholders	Capacity	Beneficial interests	Number of Shares held		Total interests	Approximately percentage of total interests to total issued Shares
			Family interests	Corporate interests		
Earntrade Investments Limited ("Earntrade")	Beneficial owner/ Interest of controlled corporations	1,150,004,797	—	1,088,784,847	2,238,789,644 (Note (a))	20.03%
Fung Shing Group Limited	Beneficial owner	1,817,140,364	—	—	1,817,140,364	16.26%
Parkfield Holdings Limited	Beneficial owner	1,728,362,917	—	—	1,728,362,917	15.46%
Bannock Investment Limited ("Bannock")	Beneficial owner	1,088,784,847 (Note (a))	—	—	1,088,784,847	9.74%
Ms. Ng Lai King Pamela ("Ms. Ng")	Beneficial owner/ Interest of spouse	967,923,774	6,289,255,037 (Note (b))	—	7,257,178,811	64.92%

Notes:

- (a) Bannock is a wholly-owned subsidiary of Earntrade. Earntrade was deemed to have interest in the Shares held by Bannock.
- (b) Ms. Ng, who held 967,923,774 Shares directly, is the spouse of Mr. Ng, the Chairman and an Executive Director of SCAH. By virtue of the SFO, Ms. Ng was deemed to have interest in the 363,393,739 Shares and 5,925,861,298 Shares held by Mr. Ng directly and indirectly through controlled corporations, respectively, as disclosed in the section headed "Directors' Interests" in the above.

Save as disclosed above, as at the Latest Practicable Date and so far as is known to any Director or chief executive of SCAH, no other person had an interest or short position in the Shares and underlying shares of SCAH which would fall to be disclosed to SCAH under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, save for the Sale and Purchase Agreement, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the SCAH Group. As at the Latest Practicable Date, none of the Directors had any interest, either direct or indirect, in any assets which have

been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the SCAH Group since 31 December 2019, being the date to which the latest published audited financial statements of SCAH were made up.

5. COMPETING INTERESTS

SCAH, SCHC and South China Financial Holdings Limited (“SCF”), both, being listed on the Stock Exchange, have certain common directors. The principal activities of SCHC and SCF include property investment and development business, provision of investment advisory, asset management services and dealing in securities.

Mr. Ng, Ms. Cheung and Mr. Gorges, all being executive Directors of SCAH, are also the executive directors of SCHC. Mr. Ng and Ms. Cheung are also the executive director of SCF. Ms. Ng Yuk Mui Jessica (“Ms. Jessica Ng”), an executive Director of SCAH, is also a non-executive director of SCHC and the executive director of SCF. Mr. Paul Ng, a non-executive Director of SCAH, is also an executive director of SCHC.

Mr. Ng, who is the chairman of the board and controlling shareholder of SCHC, is also chairman of the board and substantial shareholder of SCF. Mr. Gorges and Ms. Cheung are the substantial shareholders of a controlled corporation of Mr. Ng, which, together with his associates, holds approximately 61.22% interests in SCHC and Mr. Ng holds approximately 29.36% interests in SCF.

Ms. Cheung holds certain shareholding interests in SCHC and SCF. Mr. Gorges holds certain shareholding interests in SCF. Ms. Jessica Ng holds certain shareholding interests in SCHC. Mr. Paul Ng holds certain shareholding interests in SCHC and SCF.

The SCAH Group seeks to undertake property development projects in smaller size and diversify into the financial services businesses while SCHC mainly focuses on the medium to large scale property investment and development projects.

The SCAH Group is in the course of diversifying into the financial services businesses while SCF undertakes a wide range of financial services businesses of sizable scale in operations and with solid client portfolio.

The abovementioned common directors declare their interests in competing business and abstain from voting in transactions in which SCAH and SCHC or SCF compete or is likely to compete with each other and, therefore, do not control the board of each of SCAH, SCHC and SCF Board as far as transaction in relation to competing business is concerned. As such, the SCAH Board is independent from the board of SCHC or SCF, and the SCAH Group is capable of carrying on its businesses independently of, and at arm’s length from, the businesses of SCHC or SCF. Given the difference in business focus as referred to in the preceding paragraph, the competition between the businesses of SCAH and SCHC or SCF is considered to be relatively remote.

6. DIRECTORS' SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contract with SCAH, or any of its subsidiaries or associated companies which was not determinable by the employer within one year without payment of compensation (other than statutory compensation).

7. LITIGATION

As at the Latest Practicable Date, no member of the SCAH Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of the SCAH Group.

8. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, had been entered into by members of the SCAH Group after the date falling two years prior to the issue of this Circular and up to the Latest Practicable Date and which are or may be material:

- (i) the Joint Venture Agreement; and
- (ii) the Sale and Purchase Agreement.

9. MATERIAL ADVERSE CHANGE

An announcement was made by SCAH on 3 April 2020 in relation to the Stock Exchange decided that SCAH had failed to maintain a sufficient level of operation and assets of sufficient value to support its operations under GEM Listing Rule 17.26 to warrant the continued listing of the Shares and decided to suspend trading in the Shares under GEM Listing Rule 9.04(3) (the "Decision"). Under GEM Listing Rules 4.06(1) and 4.08(1), SCAH has the right to request the Decision be referred to the GEM Listing Committee for a review, and SCAH made another announcement on 15 April 2020 in relation to the application for a review of the Decision being made to the GEM Listing Committee. The review hearing has been scheduled on 14 July 2020. The Shares have not yet been suspended from trading, and the Directors understand that the Shares will not be suspended unless the Decision is finally upheld by the GEM Listing Committee.

Save as disclosed above, as at the Latest Practicable Date, the SCAH Board was not aware of any material adverse change in the financial or trading position of the SCAH Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the SCAH Group were made up.

10. QUALIFICATIONS AND CONSENT OF EXPERTS

The following sets out the qualifications of the experts who have given their opinion or advice as contained in this Circular:

Name	Qualifications
First Shanghai Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO
BMI Appraisals Limited	Independent valuation specialist
Jiangsu Yongrun Law Firm	PRC legal adviser

As at the Latest Practicable Date, each of the above experts did not have any shareholding in any member of the SCAH Group or right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the SCAH Group.

As at the Latest Practicable Date, each of the above experts did not have any direct or indirect interest in any assets which had been, since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the SCAH Group were made up), acquired or disposed of by, or leased to, any member of the SCAH Group, or were proposed to be acquired or disposed of by, or leased to, any member of the SCAH Group.

Each of the above experts has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its letter and/or reports and references to its name and its letter and/or reports in the form and context in which they respectively appear.

11. MISCELLANEOUS

- (i) The registered office of SCAH is at P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman KY1-1205, Cayman Islands and the head office and principal place of business in Hong Kong is 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong.
- (ii) The principal share registrar and transfer office of SCAH is SMP Partners (Cayman) Limited of 3rd Floor, Royal Bank House, 24 Shedden Road, P.O. Box 1586, Grand Cayman KY1-1110, Cayman Islands. The branch share registrar and transfer office of SCAH is Union Registrars Limited of Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.
- (iii) The company secretary of SCAH is Mr. Watt Ka Po James, who is a fellow member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.
- (iv) The English text of this Circular and the accompanying form of proxy shall prevail over the Chinese text in the case of inconsistency.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the head office and principal place of business of SCAH in Hong Kong at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong during normal business hours on any business day from the date of this Circular up to and including the date of the EGM:

- (i) the memorandum and articles of association of SCAH;
- (ii) the Sale and Purchase Agreement;
- (iii) the material contracts (including the Sale and Purchase Agreement) as referred to in the paragraph headed “Material Contracts” in this Appendix;
- (iv) the written consents as referred to under the paragraph headed “Qualifications and Consent of Expert” in this Appendix;
- (v) the letter from the Independent Board Committee, the text of which is set out in the section headed “Letter from the Independent Board Committee” of this Circular;
- (vi) the letter from the Independent Financial Adviser, the text of which is set out in the section headed “Letter from the Independent Financial Adviser” of this Circular;
- (vii) the business valuation report of the Target Group, the text of which is set out in Appendix I to this Circular;
- (viii) the property valuation report of the Site, the text of which is set out in Appendix II to this Circular;
- (ix) this Circular; and
- (x) the letter of indemnity dated 23 June 2020.



SOUTH CHINA ASSETS HOLDINGS LIMITED

南華資產控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 08155)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “EGM”) of South China Assets Holdings Limited (the “**Company**”) will be held at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Tuesday, 14 July 2020 at 10:00 a.m. to consider and, if thought fit, pass the following resolution as ordinary resolution:

ORDINARY RESOLUTION

“THAT

- (a) the conditional sale and purchase agreement dated 21 May 2020 (the “**Sale and Purchase Agreement**”) (a copy of the Sale and Purchase Agreement has been produced at the meeting and marked “A” and initialled by the chairman of the meeting for the purpose of identification) entered into between South China Industries (China) Limited as vendor and Proper Mark International Limited as purchaser in relation to the acquisition of 100% of the entire issued share capital of Silver Giant Limited and all transactions contemplated thereunder and in connection therewith, be and are hereby confirmed, ratified and approved; and
- (b) any director of the Company be and is hereby authorised to take all such steps, do all such acts and things and execute all such documents which he/she may in his/her absolute discretion, consider necessary, desirable or expedient in connection with or to implement or give effect to the Sale and Purchase Agreement and the transactions contemplated thereunder.”

By order of the board of Directors of
South China Assets Holdings Limited
南華資產控股有限公司
Watt Ka Po James
Company Secretary

Hong Kong, 26 June 2020

NOTICE OF EGM

Registered office:

P.O. Box 31119
Grand Pavilion
Hibiscus Way
802 West Bay Road
Grand Cayman KY1-1205
Cayman Islands

Head Office and Principal Place of Business in Hong Kong:

28th Floor
Bank of China Tower
1 Garden Road
Central
Hong Kong

Notes:

1. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote in his stead. A member who is the holder of two or more shares and entitled to attend and vote at the meeting convened by the above notice is entitled to appoint more than one proxy to represent him and vote on his behalf. A proxy need not be a member of the Company.
2. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority must be deposited at the offices of the Company's branch share registrar, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not later than 48 hours before the time of the meeting or any adjourned meeting.
3. Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the above meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she/it were solely entitled thereto to. If more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 8 July 2020 to Tuesday, 14 July 2020 (both dates inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all instruments of transfer together with the relevant share certificate(s) must be lodged with Union Registrars Limited, the branch share registrar of the Company in Hong Kong, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Tuesday, 7 July 2020.
6. A form of proxy for use at the EGM is enclosed with the circular to the shareholders of the Company.
7. The ordinary resolution set out above will be determined by way of a poll.

NOTICE OF EGM

8. To safeguard the health and safety of the shareholders of the Company and to prevent the spreading of the COVID-19 pandemic, certain precautionary measures will be implemented at the EGM, including (1) compulsory temperature screening/checks; (2) wearing of surgical face mask; and (3) no provision of refreshments or drinks or souvenir. Attendees who do not comply with the precautionary measures referred to in (1) and (2) above may be denied entry to the EGM venue, at the absolute discretion of the Company as permitted by law. Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the EGM venue. For the health and safety of the shareholders of the Company, the Company would like to encourage shareholders of the Company to exercise their right to vote at the EGM by appointing the Chairman of the EGM as their proxy and to return their proxy forms by the time specified above, instead of attending the EGM in person.
9. As at the date of this notice, the board of directors of the Company comprises Mr. Ng Hung Sang, Ms. Cheung Choi Ngor, Mr. Richard Howard Gorges and Ms. Ng Yuk Mui Jessica as executive directors and Mr. Ng Yuk Yeung Paul as non-executive director and Mr. Cheng Hong Kei, Ms. Pong Scarlett Oi Lan, BBS, J.P. and Mr. Yeung Chi Hang as independent non-executive directors.