
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your 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 the Company, 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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.



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)

CONTINUING CONNECTED TRANSACTION AND NOTICE OF EGM

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



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

A letter from the 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 33 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 Wednesday, 2 December 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 the Company 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 the Company 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. The Company 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.

16 November 2020

CHARACTERISTICS OF GEM

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.

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	5
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	15
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	17
APPENDIX I — GENERAL INFORMATION	I-1
NOTICE OF EGM	EGM-1

DEFINITIONS

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

“associates”	has the meaning ascribed to it under the Listing Rules or the GEM Listing Rules, where applicable
“Board”	board of the Directors
“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
“Cangzhou Real Estate”	滄州南華房地產開發有限公司 (Cangzhou South China Real Estate Development Limited)*, an indirect wholly-owned subsidiary of the Company
“Circular”	this circular and the appendix hereto
“Company”	South China Assets Holdings Limited, an exempt company incorporated in the Cayman Islands with limited liability, and the Shares are being listed and traded on GEM (stock code: 08155)
“connected person”	has the meaning ascribed to it under the Listing Rules or the GEM Listing Rules, where applicable
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules or the GEM Listing Rules, where applicable
“Directors”	the directors of the Company
“EGM”	an extraordinary general meeting of the Company, to be convened and held at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Wednesday, 2 December 2020 at 10:00 a.m. for the Independent Shareholders to consider and, if thought fit, approve the Engagement Agreement and the transactions contemplated thereunder (or any adjournment thereof)
“Effective Date”	the effective date of the Engagement Agreement, i.e. the date on which all conditions precedent set out in the Engagement Agreement are fulfilled

DEFINITIONS

“Engagement”	the engagement of Cangzhou Real Estate to provide comprehensive management services (including but not limited to design and planning) of the Project on behalf of Tianjin Yuji for a term of twenty-four (24) months from the Effective Date
“Engagement Agreement”	the engagement agreement dated 6 October 2020 and entered into between Tianjin Yuji and Cangzhou Real Estate in respect of the Engagement
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huanghua Project”	a property project located in Huanghua new city* (黃驊新城), Hebei province, the PRC. The project comprises two (2) pieces of land, having a total area of approximately 65,257 sq.m., which have been planned for development of commercial street zones, apartments and office buildings
“Independent Board Committee”	the independent board committee of the Board established by the Board, comprising two independent non-executive Directors, namely Mr. Cheng Hong Kei and Mr. Yeung Chi Hang, to advise the Independent Shareholders in respect of the Engagement Agreement and the transactions contemplated thereunder
“Independent Financial Adviser”	First Shanghai Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders with respect to the Engagement Agreement and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders, other than Mr. Ng and his associates, who are required to abstain from voting at the EGM pursuant to the GEM Listing Rules

DEFINITIONS

“Joint Venture Agreement”	a joint venture agreement dated 9 April 2020 entered into between the Company and a wholly-owned subsidiary of SCHC in respect of formation of a joint venture in which the Company and the wholly-owned subsidiary of SCHC respectively hold 60% and 40% equity interest in the joint venture which directly or indirectly carries out production and sales of medical face masks and related products
“Latest Practicable Date”	12 November 2020, being the latest practicable date prior to the publication of this Circular for the purposes of ascertaining certain information contained in this Circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	17 November 2020 or such other date as Tianjin Yuji and Cangzhou Real Estate may further agree in writing, as at the Latest Practicable Date, Tianjin Yuji and Cangzhou Real Estate agreed the Long Stop Date to be amended to 9 December 2020
“Mr. Ng”	Mr. Ng Hung Sang, chairman, executive director of each of the Board and SCHC Board, an ultimate controlling shareholder of each of the Company and SCHC
“Mr. Paul Ng”	Mr. Ng Yuk Yeung Paul, son of Mr. Ng
“PRC”	the People’s Republic of China (for the purposes of this Circular, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan)
“Project”	a property development project located in Sicundian town (泗村店鎮) of Wuqing district (武清區) in Tianjin, the PRC, having an area of approximately 58,000 sq.m. for residential development, which is close to Beijing, the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 21 May 2020 entered into between South China Industries (China) Limited, an indirect wholly-owned subsidiary of SCHC as vendor and Proper Mark International Limited, an indirect wholly-owned subsidiary of the Company as purchaser in respect of the acquisition of one (1) share of US\$1.00 in the share capital of Silver Giant Limited, a company incorporated in the British Virgin Islands, which is a then indirect wholly-owned subsidiary of SCHC, representing 100% of its entire issued share capital

DEFINITIONS

“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)”	ordinary share(s) of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“sq.m.”	square meters
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianjin Yuji”	天津南華譽基房地產開發有限公司 (Tianjin South China Yuji Real Estate Development Limited)*, an indirect wholly-owned subsidiary of SCHC
“Tianjin Yuji Group”	Tianjin Yuji and its subsidiaries
“US\$”	United States dollars, the lawful currency of the United States of America
“Zhongjie Project”	a residential property project located in Cangzhou Zhongjie Industrial Park District* (滄州市中捷產業園區), Hebei province, the PRC. The project has 4 blocks, having a total gross floor area of approximately 17,300 sq.m.
“%”	per cent.

* Denotes English translation of Chinese company names and is provided for identification purpose only.

LETTER FROM THE BOARD



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:

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

16 November 2020

To the Shareholders

Dear Sirs,

**CONTINUING CONNECTED TRANSACTION
AND
NOTICE OF EGM**

INTRODUCTION

Reference is made to the announcement of the Company dated 6 October 2020.

On 6 October 2020 (after trading hours), Tianjin Yuji (an indirect wholly-owned subsidiary of SCHC) and Cangzhou Real Estate (an indirect wholly-owned subsidiary of the Company) entered into the Engagement Agreement, pursuant to which Tianjin Yuji has conditionally agreed to engage Cangzhou Real Estate to provide comprehensive management services (including but not limited to design and planning) of the Project on its behalf and Cangzhou Real Estate has conditionally agreed to be engaged to provide comprehensive management services (including but not limited to design and planning) of the Project for a term of twenty-four (24) months (or such other longer period to be mutually agreed between Tianjin Yuji and Cangzhou Real Estate in the event that completion of verification of the last phase of construction of the Project is beyond the term of twenty-four (24) months) from the Effective Date.

LETTER FROM THE BOARD

The purpose of this Circular is to provide you with, among other things, (i) further details of the Engagement Agreement and the transactions contemplated thereunder; (ii) the letter of recommendation from the Independent Board Committee to approve the Engagement Agreement and the transactions contemplated thereunder; (iii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in relation to the Engagement Agreement and the transactions contemplated thereunder; and (iv) the notice of the EGM.

MAJOR TERMS OF THE ENGAGEMENT AGREEMENT

Details of the Engagement Agreement and the transactions contemplated thereunder are set out below:

Date 6 October 2020 (after trading hours)

Parties (1) Tianjin Yuji; and
(2) Cangzhou Real Estate

Engagement

Cangzhou Real Estate shall manage the Project on the behalf of Tianjin Yuji. The scope of management services to be provided by Cangzhou Real Estate includes:

- (i) pre-development service — overall positioning, implementation and planning of the Project; and coordination with various relevant authorities for all necessary licences, permits and approvals;
- (ii) planning and design service — selection of designing unit; managing progress and controlling quality of output;
- (iii) cost control — formulating cost control policy for monitoring the costs of the Project;
- (iv) construction support service — organising tenders of various construction works from different contractors; selection, coordination and management of contractors and project managers; overall management of quality and completion progress of the Project (including construction of basic and common ancillary facilities);
- (v) verification and delivery service — final verification and acceptance of completion of various construction works; filing of all necessary reports of construction works to the authorities; organising delivery of properties upon completion of construction of properties for the Project;
- (vi) record service — recording down all information and documents in connection with the Project and handing over a copy of such record to Tianjin Yuji from time to time;

LETTER FROM THE BOARD

- (vii) contract enforcement service — management of various contracts (including preparation and preliminary review); performing and observing all obligations and exercising all rights of each of the contracts for Tianjin Yuji Group; resolving all disputes arising out of such contracts for Tianjin Yuji Group; and
- (viii) financial service — formulating financial control policy, opening bank account(s) for the Project and making payments for the Project.

Term

The term of the Engagement Agreement shall be twenty-four (24) months (or such other longer period to be mutually agreed between Tianjin Yuji and Cangzhou Real Estate in the event that completion of verification of the last phase of construction of the Project is beyond the term of twenty-four (24) months) from the Effective Date. For the avoidance of doubt, the term of the Engagement Agreement shall not exceed thirty-six (36) months.

Engagement Fee

The total engagement fee in respect of the Engagement is RMB30.0 million (equivalent to approximately HK\$34.1 million) (represents approximately 10% of the total estimated construction cost of the Project). The total construction cost of the Project would be approximately RMB300 million, which was based on the construction budget set out by Tianjin Yuji, after taking into consideration of factors such as the location, scale, nature and design of the Project. The engagement fee for the abovementioned services shall be paid by Tianjin Yuji to Cangzhou Real Estate in cash on a monthly basis (i.e. RMB1,250,000 per month). For the avoidance of doubt, the total engagement fee shall remain unchanged in the event that completion of verification of the last phase of construction of the Project is beyond the term of twenty-four (24) months.

The engagement fee was determined after arm's length negotiations between Tianjin Yuji and Cangzhou Real Estate after taking into account of (i) the prevailing market price of similar services, which is derived by a mark-up (approximately 40%, by referring to the interim results for the six months ended 30 June 2020 of Green Town Management Holdings Company Limited (綠城管理控股有限公司) (stock code: 9979) (a company listed on the Main Board of the Stock Exchange) (“Green Town”), which, according to its prospectus dated 29 June 2020, has been a leading project management company in the PRC real estate market in terms of total revenue) on the estimated costs (approximately RMB9 million per year, which are mainly staff and general administrative costs) of Cangzhou Real Estate for the Engagement; (ii) immediate availability of resources of Cangzhou Real Estate as Cangzhou Real Estate has a professional team of approximately 20 members as at the Latest Practicable Date which is ready-for-service; (iii) solid experience of Cangzhou Real Estate (i.e. phase 1 of Zhongjie Project has been completed and phase 2 of Zhongjie Project and phase 1 of Huanghua Project are under-planning and construction) in property development in Tianjin and its vicinity; and (iv) relatively close working relationships between Cangzhou Real Estate and the local authorities from its property development projects currently on hand in the vicinity of Tianjin, namely Zhongjie Project and Huanghua Project. The Group has only involved in its own property development projects, but not provided any similar management services for any independent third party before. Therefore, there are no other similar transactions in the past for

LETTER FROM THE BOARD

the Directors to make comparison with. In addition, there is no other public information regarding the profit margin of the property management services in the PRC except Green Town's as mentioned above. Despite so, based on the above, the Directors are of the view that (1) Green Town is an appropriate comparable company due to its leading status in the project management market in the PRC and lack of other public information regarding the profit margin of the property management services in the PRC; and (2) the basis in determining the engagement fee in respect of the Engagement is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions precedent

The Engagement is conditional upon the fulfilment of both of the following conditions:

- (i) having obtained the approval by the respective board of directors of Tianjin Yuji and Cangzhou Real Estate on the execution of the Engagement Agreement by their respective authorised representatives; and
- (ii) having obtained the approval from the Independent Shareholders at the EGM in respect of the Engagement Agreement and the transactions contemplated thereunder.

The above conditions cannot be waived by either party to the Engagement Agreement. If the conditions set out above have not been satisfied by 5:00 p.m. on the Long Stop Date, the Engagement Agreement shall lapse automatically, and thereupon the Engagement Agreement shall be null and void and of no further effect (for the avoidance of doubt, no party thereto shall have any further claim of whatsoever nature against the other party).

BASIS OF THE PROPOSED ANNUAL CAP

Since the term of the Engagement Agreement shall be twenty-four (24) months from the Effective Date, assuming the Effective Date is the date of Long Stop Date, the maximum proposed annual cap for the transactions contemplated under the Engagement Agreement for each of the three financial years ending 31 December 2022 are as follows:

Period	Proposed Annual Cap RMB ('000)
For the financial year ending 31 December 2020	1,250
For the financial year ending 31 December 2021	15,000
For the financial year ending 31 December 2022	13,750 ^(Note)

Note: The maximum proposed annual cap for the financial year ending 31 December 2022 shall be RMB15,000,000 assuming the Effective Date is 1 January 2021.

As at the Latest Practicable Date, since the Group had not entered into any similar transaction in the past, there is no historical transaction amount available.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE ENGAGEMENT

The Project is located in Tianjin, which is the only property development project held by SCHC Group, pending for development in Tianjin. SCHC Group does not have its property development professional team in Tianjin. On the other hand, the Group has solid experience (including having its own professional team) in management (including but not limited to design and planning) of small to medium scale of property projects in the vicinity of Tianjin. For example, the Group has completed its pre-construction stage of Block 3 of its Zhongjie Project with the main construction works thereof expected to be carried out in about early November 2020. In addition, the Group has started the planning and design stage of the Phase 1A of Huanghua Project. The development area of the Project is about 58,000 sq.m., which is considered to be a medium scale property project that the Group is experienced in.

Although the Group has not provided any similar project management services for any independent third party before, the Board believes that it is the best interest of the Group to further expand its scope of services in the property development segment. The project management services provided by project management companies are typically transformed from traditional property development. The main difference between the project management companies and traditional property developers are (1) the project management companies do not own the project itself; and (2) the project management companies receive service fees in return for their project management services while the traditional property developers recognize return through the sales of and rental income from premises/units upon completion of the project. The Board considers that the engagement in project management services may widen the scope of business opportunities by utilizing its current experience and expertise in property development without further incurring substantial labour costs and capital injection required in exploring a new business, which in turn is expected to generate additional revenue to the Group. Therefore, the engagement in project management services would be beneficial to its shareholders. The Board is of the view that the Engagement will provide a steady stream of positive cash flow for the Group without bearing any substantial commercial risk during the term of the Engagement Agreement. Despite the Project is not owned by the Group, the Board believes that it is a good opportunity for the Group to expand its property development portfolio — (i) developing its own property development projects, e.g. Zhongjie, Huanghua and Xiazhuzhuang; and (ii) being engaged or commissioned by other property developer(s) to engage in property development in Beijing-Tianjin-Hebei urban agglomeration, which would enhance its sustainability in property development sector, and that the Group is able to enjoy an advantage of economies of scale in the Engagement since it has already had a professional team for property development in the vicinity of Tianjin. The Group would continue to seek other opportunity for provision of similar project management services from other parties in the future for expansion of such business segment.

As at the Latest Practicable Date, Cangzhou Real Estate has about 40 staff. The Board believes that the current manpower and resources of Cangzhou Real Estate are sufficient to handle both the development of Zhongjie Project and Huanghua Project and assist SCHC Group to manage the Project. As the nature of project development and management of each of the aforesaid projects is very similar, e.g. engagement of design entity, main contractor and etc. and their locations are in closer vicinity in Tianjin, it is expected that Cangzhou Real Estate will enjoy the benefits of economies of scale in developing/managing all such property

LETTER FROM THE BOARD

development projects together at the same time. In the event that any extra manpower is required, Cangzhou Real Estate will recruit additional staff. The Directors currently do not see any difficulty in this regard.

Based on the information available to the Board, the Project was acquired by SCHC Group from the Group in October 2015 (the “**Acquisition**”). The Acquisition was approved by the then independent shareholders of the Company on 30 September 2015. Upon completion of the Acquisition, the Project had not been immediately developed by the SCHC Group because of its lower priority for development in view of its smaller project size when comparing with other sizeable projects then to be undertaken by SCHC Group. As per the knowledge of the Board, the Project has yet been developed as (i) the SCHC Group has to maximize allocation and utilization of its resources in property development sector by focusing on its flat-ship property project namely Central Square in Shenyang, the PRC, the construction of which was recently fully completed despite the pre-sale of which has been taken place since 2016; and (ii) the SCHC Group does not have its property development professional team in Tianjin. By taking into account of completion of Central Square project; good property market condition in Tianjin; and the property development experience in Tianjin and its vicinity of the Company, the SCHC Group considered that it is the right time to commence the Project. Given the facts that the Group has its niche industry professionalism to manage relatively smaller property development project and the Engagement can provide additional revenue, profit and operating cash inflow to the Group in the coming two years, with the common directors of the Company and SCHC all abstained from voting on the board resolutions of the Company in the relation to the Engagement and Mr. Ng and his associates will be abstain from voting on the resolutions approving the Engagement Agreement and the transactions contemplated thereunder at the EGM, the Directors consider that the Engagement will be mutual beneficial to both the SCHC Group and the Group, and therefore in the interests of the Company and the Shareholders as a whole.

The Board is of the view that the Engagement will lead to a “win-win” situation for both the Company and SCHC, which is on normal commercial terms, and that the terms of the Engagement Agreement are fair and reasonable and for the interests of the Company and Shareholders as a whole.

INFORMATION ON THE GROUP, SCHC GROUP, TIANJIN YUJI, CANGZHOU REAL ESTATE AND THE PROJECT

The Group

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

LETTER FROM THE BOARD

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 agricultural and forestry businesses.

Tianjin Yuji

Tianjin Yuji is a property development company in the PRC, which is an indirect wholly-owned subsidiary of SCHC. The Project is owned by Tianjin Yuji.

Cangzhou Real Estate

Cangzhou Real Estate is a property management company in the PRC, which is an indirect wholly-owned subsidiary of the Company.

The Project

The land parcel of the Project is located in Sicundian town of Wuqing district in Tianjin, the PRC. The site area of the Project is approximately 58,000 sq.m., with the planned saleable gross floor area of approximately 72,000 sq.m.. Under the existing development plan, there will be 14 blocks with over 500 units to be built. The main construction works are expected to be commenced in the second quarter of 2021 and it would take approximately 18 months for completion.

The expected development timetable is as follows:

To obtain the construction work planning permit	1st quarter of 2021
To obtain the construction work commencement permit	2nd quarter of 2021
To satisfy the conditions for pre-sale	3rd quarter of 2021
Completion of main buildings construction works and the exterior decoration of the main buildings	4th quarter of 2021
Project verification and acceptance for completion	4th quarter of 2022

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 the Company and approximately 61.22% of the total issued share capital of SCHC. Therefore, each of the Company and SCHC is an associate of Mr. Ng. Given the Engagement is a transaction for a continuous period of twenty-four (24) months with an associate of a connected person of the Company, the Engagement constitutes a continuing connected transaction for the Company under Chapter 20 of the GEM Listing Rules.

Given the Engagement is considered to be a continuing connected transaction for each of the Company and SCHC, the common directors of the Company and SCHC, namely Mr. Ng, Ms. Cheung Choi Ngor, Mr. Richard Howard Gorges, Ms. Ng Yuk Mui Jessica, Mr. Paul Ng and Ms. Pong Scarlett Oi Lan, BBS, J.P. have abstained from voting on the board resolutions

LETTER FROM THE BOARD

of the Company in relation to the Engagement Agreement and the transactions contemplated thereunder. Save as disclosed above, no other directors of the Company have abstained from voting on the board resolutions.

Given that the highest of the applicable percentage ratios (as defined in the GEM Listing Rules) in respect of the Engagement is more than 5%, the Engagement is subject to reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

THE EGM

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

As at the Latest Practicable Date, Mr. Ng and his associates held approximately 64.92% of the total issued share capital of the Company and approximately 61.22% of the issued share capital of SCHC. Therefore, Mr. Ng was considered to have a material interest in the Engagement Agreement and the transactions contemplated thereunder by virtue of his interests in each of the Company and SCHC, and he and his associates, namely Fung Shing Group Limited, Parkfield Holdings Limited, Ronastar Investments Limited, Eartrade Investments Limited, Bannock Investment Limited, Green Orient Investments Limited, Ms. Ng Lai King Pamela and Mr. Paul Ng, held approximately 64.94% of the total issued share capital of the Company in aggregate as at the Latest Practicable Date, will abstain from voting on the resolutions approving the Engagement Agreement and the transactions contemplated thereunder.

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 Engagement Agreement and the transactions contemplated thereunder must abstain from voting on the resolution approving the Engagement Agreement and the transactions contemplated thereunder 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 the Company 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.

LETTER FROM THE BOARD

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 the Company will be closed from Friday, 27 November to Wednesday, 2 December 2020 (both dates inclusive). No transfer of the 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 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 Thursday, 26 November 2020.

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 the Company 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 and Mr. Yeung Chi Hang) has been formed to advise and provide recommendation to the Independent Shareholders in respect of the Engagement Agreement and the transactions contemplated thereunder 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 terms of the Engagement Agreement and the transactions contemplated thereunder.

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 Engagement Agreement and the transactions contemplated thereunder; and (ii) the letter from the Independent Financial Adviser which contains its advice to the Independent Board Committee and the Independent Shareholders regarding the Engagement Agreement and the transactions contemplated thereunder.

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

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is drawn to the general information which are set out in Appendix I to this Circular.

WARNING NOTICE

Warnings: The Engagement is subject to the fulfillment of the conditions precedent set out in the Engagement Agreement, therefore, the Engagement may or may not proceed. The Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares, and are recommended to consult their respective 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 relation to the Engagement Agreement and the transactions contemplated thereunder.



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 Sirs,

CONTINUING CONNECTED TRANSACTION

We refer to 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 to form the Independent Board Committee to advise the Independent Shareholders in respect of the Engagement Agreement and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” contained in the Circular. The Independent Financial Adviser has been appointed to advise the Independent Shareholders and us in this regard.

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 Engagement Agreement and the transactions contemplated thereunder, are on normal commercial terms, fair and reasonable and in the interests of the Group and the Independent Shareholders as a whole.

Details of the advice and the principal factors and reasons that the Independent Financial Adviser has 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 Board” in the Circular and the additional information set out in the appendix thereto.

Having taken into account the (i) terms of the Engagement Agreement and the transactions contemplated thereunder; and (ii) the factors referred to in the “Letter from the Independent Financial Adviser” in the Circular, we are of the opinion that the terms of the Engagement Agreement and the transactions contemplated thereunder are (i) fair and reasonable so far as the Shareholders (including the Independent Shareholders) are concerned; (ii) in the ordinary and usual course of business of the Company on normal commercial terms; and (iii) are in the interests of the Group and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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

Yours faithfully,
For and on behalf of
The Independent Board Committee

Cheng Hong Kei
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 continuing connected transaction (including the proposed annual caps) contemplated under the Engagement Agreement (the “Continuing Connected Transaction”) for the purpose of inclusion in this circular.



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

16 November 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,

CONTINUING CONNECTED TRANSACTION

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transaction (including the proposed annual caps) contemplated under the Engagement Agreement, details of which are contained in the Circular dated 16 November 2020, of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those ascribed in the Circular.

On 6 October 2020, Tianjin Yuji (an indirect wholly-owned subsidiary of SCHC) and Cangzhou Real Estate (an indirect wholly-owned subsidiary of the Company) entered into the Engagement Agreement, pursuant to which Tianjin Yuji has conditionally agreed to engage Cangzhou Real Estate to provide comprehensive management services (including but not limited to design and planning) of the Project on its behalf and Cangzhou Real Estate has conditionally agreed to be engaged to provide comprehensive management services (including but not limited to design and planning) of the Project for a term of twenty-four (24) months

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

from the Effective Date (or such other longer period to be mutually agreed between Tianjin Yuji and Cangzhou Real Estate in the event that completion of verification of the last phase of construction of the Project is beyond the term of twenty-four (24) months).

IMPLICATIONS UNDER THE GEM LISTING RULES

As at the Latest Practicable Date, Mr. Ng and his associates held approximately 64.92% of the total issued share capital of the Company. Therefore, the Company is an associate of Mr. Ng. Given the Engagement is a transaction for a continuous period of twenty-four (24) months with an associate of a connected person for the Company, the Engagement constitutes a continuing connected transaction for the Company under Chapter 20 of the GEM Listing Rules.

Given that the highest of the applicable percentage ratios (as defined in the GEM Listing Rules) in respect of the Engagement is more than 5%, the Engagement 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 Engagement Agreement and the transactions contemplated thereunder.

As at the Latest Practicable Date, Mr. Ng and his associates held approximately 64.92% of the total issued share capital of the Company and approximately 61.22% of the issued share capital of SCHC. Therefore, Mr. Ng was considered to have a material interest in the Engagement Agreement and the transaction contemplated thereunder by virtue of his interests in each of the Company and SCHC, and he and his associates, namely Fung Shing Group Limited, Parkfield Holdings Limited, Ronastar Investments Limited, Eartrade Investments Limited, Bannock Investment Limited, Green Orient Investments Limited, Ms. Ng Lai King Pamela and Mr. Paul Ng, held approximately 64.94% of the total issued share capital of the Company in aggregate as at the Latest Practicable Date, will abstain from voting on the resolutions approving the Engagement Agreement and the transactions contemplated thereunder.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising the two independent non-executive directors of the Company, namely Mr. Cheng Hong Kei and Mr. Yeung Chi Hang, has been established to consider the Continuing Connected Transaction and the transactions contemplated under the Engagement Agreement, and to advise the Independent Shareholders on the fairness and reasonableness in relation to the terms of the Continuing Connected Transaction 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 Continuing Connected Transaction contemplated under the Engagement Agreement are conducted in the ordinary and usual course of business of the Group; (ii) whether the terms of the Engagement Agreement are on normal commercial terms, in the interests of the Company and the Shareholders as a whole,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 Engagement Agreement and the transactions contemplated thereunder.

OUR INDEPENDENCE

Independent Shareholders should note that, within the past two years from the Latest Practicable Date, we were engaged as the independent financial adviser by the Company for one occasion (i.e. mainly in relation to the provision of independent financial advice to the then Independent Board Committee and Independent Shareholders for a discloseable and connected transaction of the Company) as detailed in the circular of the Company dated 26 June 2020.

Given (i) our independent role in that previous engagement; (ii) none of the members of our parent group is a direct party to the Engagement Agreement; and (iii) our independent financial advisory fees for this present engagement in addition to that previous engagement represented an insignificant percentage of revenue of our parent group, we consider that the previous engagement would not affect our independence to form our opinion in respect of this transaction to be contemplated under the Engagement Agreement.

BASIS OF OUR OPINION

In arriving at our recommendation, we have relied on the information and facts provided by the Company and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company (the “**Management**”). We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and Management for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

The 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 and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the Management, nor have we conducted an independent investigation into the business and affairs of the Group, Tianjin Yuji Group and SCHC Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the Continuing Connected Transaction (including the proposed annual caps) pursuant to the Engagement Agreement, we have taken into consideration the following principal factors and reasons:

1. Background of the Group

The Company acts as an investment holding company. The Group is principally engaged in (i) property development in the PRC; (ii) financial services (subsidiaries of the Company 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 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 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 Group.

2. Financial information of the Group

Review of operating performance

Set out below is a summary of the audited/unaudited consolidated financial information of the Group for the three FYs from 2018 to 2019 and the six months ended 30 June 2020 as extracted from the annual reports of the Company for the two FYs 2018 and 2019 (the "Annual Report(s)") and the interim report for the six months ended 30 June 2020 (the "Interim Report"):

	For the FY		For the six months ended	
	2017	2018	2019	30 June
	(Audited)	(Audited)	(Audited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	1,736	1,121	19,022	3,049
Operating profit/(loss)	33,757	(9,589)	(3,768)	(6,130)
Profit/(loss) before income tax	7,385	(30,635)	(18,725)	(12,414)
(Loss) attributable to equity holders of the Company	(14,819)	(7,851)	(18,888)	(12,280)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the FY 2019 versus FY 2018

As disclosed in the Annual Report, the 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 Group recorded a loss attributable to its owners of approximately HK\$18.9 million (FY 2018: approximately HK\$7.9 million).

For the six months ended 30 June 2020

For the six months ended 30 June 2020, the Group recorded revenue of approximately HK\$3.0 million, representing a decrease of approximately 65.5% comparing with that of approximately HK\$8.8 million for the corresponding period in 2019 mainly because no revenue from sale of property had been recognized during the period. The Group recorded a loss attributable to its equity holders for the six months ended 30 June 2020 of approximately HK\$12.3 million (2019: HK\$13.0 million) in which decreased by HK\$0.7 million due to efforts in containing costs.

Review of financial and cash flow positions

Set out below is the summary of the consolidated financial positions of the Group as at 31 December 2017, 2018 and 2019 and 30 June 2020 as extracted from the Annual Reports and Interim Report:

	As at 31 December			As at
	2017	2018	2019	30 June
	(Audited) HK\$'000	(Audited) HK\$'000	(Audited) HK\$'000	(Unaudited) HK\$'000
Non-current assets	358,146	219,996	235,204	224,410
Current assets	512,403	357,468	180,333	172,532
Total assets	870,549	577,464	415,537	396,942
Non-current liabilities	(465,290)	(364,020)	(245,500)	(245,500)
Current liabilities	(229,792)	(176,185)	(133,678)	(140,128)
Total liabilities	(695,082)	(540,205)	(379,178)	(385,628)
Equity attributable to equity holders of the Company (also known as net asset value (“NAV”) of the Group)	175,467	37,259	36,359	11,314
Cash and bank balances	190,577	177,393	21,917	21,096
Net current assets	282,611	181,283	46,655	32,404
Current ratios	2.2 times	2.0 times	1.3 times	1.2 times

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 31 December			As at
	2017	2018	2019	30 June
	(Audited) HK\$'000	(Audited) HK\$'000	(Audited) HK\$'000	(Unaudited) HK\$'000
Interest-bearing borrowings (i.e. being the aggregate of bank borrowing and loans from shareholders)	469,290	368,020	248,500	247,500
Gearing ratio (i.e. being calculated as the aggregate interest-bearing borrowings to be divided by the NAV of the Group)	267.5%	987.7%	683.5%	2,187.6%
				For the six months ended
	For the FY			30 June
	2017	2018	2019	2020
	(Audited) HK\$'000	(Audited) HK\$'000	(Audited) HK\$'000	(Unaudited) HK\$'000
Operating cash inflow/(outflow) before working capital changes	51,134	(17,920)	(3,929)	N/A
Net cash generated from/(used in) operating activities	230,926	98,459	(2,779)	3,121
Net cash generated from investing activities	11,519	17,790	10,196	3,516
Net cash used in financing activities	(85,957)	(129,232)	(162,843)	(7,284)

As at 30 June 2020 versus 31 December 2019

As at 30 June 2020, the Group had current assets of approximately HK\$172.5 million (31 December 2019: approximately HK\$180.3 million), and current liabilities of approximately HK\$140.1 million (31 December 2019: approximately HK\$133.7 million), representing net current assets and current ratio of approximately HK\$32.4 million (31 December 2019: approximately HK\$46.7 million) and 1.2 times (31 December 2019: approximately 1.3 times), respectively. The Group's current ratios were slightly above 1.0 times as at 31 December 2019 and 30 June 2020, indicating that the Group's liquidity positions were marginally healthy. As at 30 June 2020, the Group had cash and bank balances of approximately HK\$21.1 million (31 December 2019: approximately HK\$21.9 million). There was no material change in the Group's current ratio and cash and bank balances as at 30 June 2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group's aggregate interest-bearing borrowings amounted to approximately HK\$247.5 million as at 30 June 2020 (31 December 2019: approximately HK\$248.5 million) comprised bank borrowings of HK\$2.0 million (31 December 2019: HK\$3.0 million) and loans from shareholders of approximately HK\$245.5 million (31 December 2019: approximately HK\$245.5 million), representing a very high gearing ratio of approximately 2,187.6% (2018: approximately 683.5%). The Group's gearing position had greatly deteriorated mainly because of the significant decrease in net asset value from approximately HK\$36.4 million as at 31 December 2019 to HK\$11.3 million as at 30 June 2020, which were at very high levels.

As at 31 December 2019 versus 31 December 2018

As at 31 December 2019, the 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 Group's current ratios were slightly above 1.0 times as at 31 December 2018 and 2019, indicating that the Group's liquidity positions were marginally healthy. As at 31 December 2019, the Group had cash and bank balances of approximately HK\$21.9 million (2018: approximately HK\$177.4 million). The 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 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 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

Subsequent to the completion of phase 1 of the Zhongjie Project, planning of phase 2 of the Zhongjie Project has been commenced in the first quarter of 2020. Phase 2 development thereof consists of 2 complexes. The relevant land use rights of the first complex has been obtained and the construction work planning permit has been obtained in September 2020. The main construction works of the first complex are expected to be carried out in about early November 2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the Company, the planning and design stage of the Phase 1A of Huanghua Project has been started and its construction works are expected to be commenced in the second quarter of 2021.

Regarding the development site at Xiazhuzhuang Street, Wuqing District, Tianjin City (the “**Xiazhuzhang Project**”), the Company plans to develop Xiazhuzhang Project in two development phases. The construction work of phase one is expected to be commenced in the second half of 2021 and would take approximately 24 months for completion.

Looking forward, it will be another challenging time given the global market continues to be shadowed by economic, political and public health risks, including the prolonged trade and political disputes between the United States of America and the PRC, the political campaigns in Hong Kong and COVID-19 pandemic that will cast severe negative impact on every business sector of the world and significantly slow down global economic growth. Despite the challenges, the Management believes that opportunities exist for business growth of the Group. The Group will optimize capital allocation in its current main businesses and in any other business sector which is expected to have positive impact on the Group’s performance, which in turn would be beneficial to the Shareholders.

On 24 September 2020, the Company received a letter from the GEM Listing Committee, notifying the Company that the GEM Listing Committee had decided to uphold the decision to suspend trading in the Shares under GEM Listing Rule 9.04(3) (the “**LC’s Decision**”) as it was of the view that the Company failed to carry out a business with a sufficient level of operations and assets of sufficient value to support its operations under Rule 17.26 of the GEM Listing Rules to warrant the continued listing. However, on 29 September 2020, the Company has submitted a request for a review by the GEM Listing Review Committee in relation to the LC’s Decision.

Conclusion

The Group has limited scale of operation in terms of revenue, while its operating results had not been satisfactory over the past three FYs from 2017 to 2019 and the six months ended 30 June 2020. The 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/period end dates up to 30 June 2020. Despite of the Group’s persistent loss-making performance, the Group had marginally healthy working capital positions at the recent year/period end dates up to 30 June 2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Following the above financial analysis on the Group, we consider that the Continuing Connected Transaction can provide additional revenue and operating cash inflow to the Group in the coming two years, so which is conducted in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of Group and the Shareholders as a whole.

3. Background of the contracting parties

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 agricultural and forestry businesses.

Tianjin Yuji

Tianjin Yuji is a property development company in the PRC, which is an indirect wholly-owned subsidiary of SCHC. The Project is owned by Tianjin Yuji.

Cangzhou Real Estate

Cangzhou Real Estate is a property management company in the PRC, which is an indirect wholly-owned subsidiary of the Company.

4. Reasons for and benefits of the Engagement

As mentioned in the “Letter from the Board” of the Circular (the “**Board Letter**”), the Project is located in Tianjin, which is the only property development project held by SCHC Group, pending for development in Tianjin. SCHC Group does not have its property development professional team in Tianjin. On the other hand, the Group has solid experience (including having its own professional team) in management (including but not limited to design and planning) of small to medium scale of property projects in the vicinity of Tianjin. For example, the Group has completed its pre-construction stage of Block 3 of its Zhongjie Project with the main construction works thereof expected to be carried out in about early November 2020. In addition, the Group has started the planning and design stage of the Phase 1A of Huanghua Project. The development area of the Project is about 58,000 sq.m., which is considered to be a medium scale property project that the Group is experienced in.

Although the Group has not provided any similar project management services for any independent third party before, the Board believes that it is the best interest of the Group to further expand its scope of services in the property development segment. The project management services provided by project management companies are typically transformed from traditional property development. The main difference between the project management companies and traditional property developers are (1) the project management companies do not own the project itself; and (2) the project management companies receive service fees in return for their project management services while the traditional property developers recognize return through the sales of and rental income from premises/units upon completion of the project. The Board considers that the engagement in project management services may

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

widen the scope of business opportunities by utilizing its current experience and expertise in property development without further incurring substantial labour costs and capital injection required in exploring a new business, which in turn is expected to generate additional revenue to the Group. Therefore, the engagement in project management services would be beneficial to its shareholders. The Board is of the view that the Engagement will provide a steady stream of positive cash flow for the Group without bearing any substantial commercial risk during the term of the Engagement Agreement. Despite the Project is not owned by the Group, the Board believes that it is a good opportunity for the Group to expand its property development portfolio — (i) developing its own property development projects, e.g. Zhongjie, Huanghua and Xiazhuzhuang; and (ii) being engaged or commissioned by other property developer(s) to engage in property development in Beijing-Tianjin-Hebei urban agglomeration, which would enhance its sustainability in property development sector, and that the Group is able to enjoy an advantage of economies of scale in the Engagement since it has already had a professional team for property development in the vicinity of Tianjin. The Group would continue to seek other opportunity for provision of similar project management services from other parties in the future for expansion of such business segment.

As at the Latest Practicable Date, Cangzhou Real Estate has about 40 staff. The Board believes that the current manpower and resources of Cangzhou Real Estate are sufficient to handle both the development of Zhongjie Project and Huanghua Project and assist SCHC Group to manage the Project. As the nature of project development and management of each of the aforesaid projects is very similar, e.g. engagement of design entity, main contractor and etc. and their locations are in closer vicinity in Tianjin, it is expected that Cangzhou Real Estate will enjoy the benefits of economies of scale in developing/managing all such property development projects together at the same time. In the event that any extra manpower is required, Cangzhou Real Estate will recruit additional staff. The Directors currently do not see any difficulty in this regard.

Based on the information available to the Board, the Project was acquired by SCHC Group from the Group in October 2015 (the “**Acquisition**”). The Acquisition was approved by the then independent shareholders of the Company on 30 September 2015. Upon completion of the Acquisition, the Project had not been immediately developed by the SCHC Group because of its lower priority for development in view of its smaller project size when comparing with other sizeable projects then to be undertaken by SCHC Group. As per the knowledge of the Board, the Project has yet been developed as (i) the SCHC Group has to maximize allocation and utilization of its resources in property development sector by focusing on its flat-ship property project namely Central Square in Shenyang, the PRC, the construction of which was recently fully completed despite the pre-sale of which has been taken place since 2016; and (ii) the SCHC Group does not have its property development professional team in Tianjin. By taking into account of completion of Central Square project; good property market condition in Tianjin; and the property development experience in Tianjin and its vicinity of the Company, the SCHC Group considered that it is the right time to commence the Project. Given the facts that the Group has its niche industry professionalism to manage relatively smaller property development project and the Engagement can provide additional revenue, profit and operating cash inflow to the Group in the coming two years, with the common directors of the Company and SCHC all abstained from voting on the board resolutions of the Company in the relation to the Engagement and Mr. Ng and his associates will be abstain from voting on the resolutions

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

approving the Engagement Agreement and the transactions contemplated thereunder at the EGM, the Directors consider that the Engagement will be mutual beneficial to both the SCHC Group and the Group, and therefore in the interests of the Company and the Shareholders as a whole.

The Board is of the view that the Engagement will lead to a “win-win” situation for both the Company and SCHC, which is on normal commercial terms, and that the terms of the Engagement Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered the background information of the Group and the reasons behind of entering into the Engagement, we are of the view that the Engagement is in line with the Group’s long-term business strategy as project management is incidental and ancillary to its focus on the key business segment of property development and therefore conducted in the ordinary and usual course of business of the Group, while the terms of the Engagement Agreement (including the proposed annual caps) and the transactions contemplated thereunder are on normal commercial terms after arm’s length negotiations, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. Principal terms and conditions of the Engagement Agreement

On 6 October 2020, Tianjin Yuji (an indirect wholly-owned subsidiary of SCHC) and Cangzhou Real Estate (an indirect wholly-owned subsidiary of the Company) entered into the Engagement Agreement, pursuant to which Tianjin Yuji has conditionally agreed to engage Cangzhou Real Estate to provide comprehensive management services (including but not limited to design and planning) of the Project on its behalf and Cangzhou Real Estate has conditionally agreed to be engaged to provide comprehensive management services (including but not limited to design and planning) of the Project for a term of twenty-four (24) months from the Effective Date (or such other longer period to be mutually agreed between Tianjin Yuji and Cangzhou Real Estate in the event that completion of verification of the last phase of construction of the Project is beyond the term of twenty-four (24) months).

The Engagement

Cangzhou Real Estate shall manage the Project on the behalf of Tianjin Yuji. The scope of management services to be provided by Cangzhou Real Estate includes:

- (i) pre-development service — overall positioning, implementation and planning of the Project; and coordination with various relevant authorities for all necessary licences, permits and approvals;
- (ii) planning and design service — selection of designing unit; managing progress and controlling quality of output;
- (iii) cost control — formulating cost control policy for monitoring the costs of the Project;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iv) construction support service — organising tenders of various construction works from different contractors; selection, coordination and management of contractors and project managers; overall management of quality and completion progress of the Project (including construction of basic and common ancillary facilities);
- (v) verification and delivery service — final verification and acceptance of completion of various construction works; filing of all necessary reports of construction works to the authorities; organising delivery of properties upon completion of construction of properties for the Project;
- (vi) record service — recording down all information and documents in connection with the Project and handing over a copy of such record to Tianjin Yuji from time to time;
- (vii) contract enforcement service — management of various contracts (including preparation and preliminary review); performing and observing all obligations and exercising all rights of each of the contracts for Tianjin Yuji Group; resolving all disputes arising out of such contracts for Tianjin Yuji Group; and
- (viii) financial service — formulating financial control policy, opening bank account(s) for the Project and making payments for the Project.

Term

The term of the Engagement Agreement shall be twenty-four (24) months (or such other longer period to be mutually agreed between Tianjin Yuji and Cangzhou Real Estate in the event that completion of verification of the last phase of construction of the Project is beyond the term of twenty-four (24) months) from the Effective Date. For the avoidance of doubt, the term of the Engagement Agreement shall not exceed thirty-six (36) months.

Engagement fee

The total engagement fee in respect of the Engagement is RMB30.0 million (equivalent to approximately HK\$34.1 million) (represents approximately 10% of the total estimated construction cost of the Project). The total construction cost of the Project would be approximately RMB300 million, which was based on the construction budget set out by Tianjin Yuji, after taking into consideration of factors such as the location, scale, nature and design of the Project. The engagement fee for the abovementioned services shall be paid by Tianjin Yuji to Cangzhou Real Estate in cash on a monthly basis (i.e. RMB1,250,000 per month). For the avoidance of doubt, the total engagement fee shall remain unchanged in the event that completion of verification of the last phase of construction of the Project is beyond the term of twenty-four (24) months.

The engagement fee was determined after arm's length negotiations between Tianjin Yuji and Cangzhou Real Estate after taking into account of (i) the prevailing market price of similar services, which is derived by a mark-up (approximately 40%, by referring to

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the interim results for the six months ended 30 June 2020 of Green Town Management Holdings Company Limited (綠城管理控股有限公司) (stock code: 9979) (a company listed on the Main Board of the Stock Exchange) (“Green Town”), which, according to its prospectus dated 29 June 2020, has been a leading project management company in the PRC real estate market in terms of total revenue) on the estimated costs (approximately RMB9 million per year, which are mainly staff and general administrative costs) of Cangzhou Real Estate for the Engagement; (ii) immediate availability of resources of Cangzhou Real Estate as Cangzhou Real Estate has a professional team of approximately 20 members as at the Latest Practicable Date which is ready-for-service; (iii) solid experience of Cangzhou Real Estate (i.e. phase 1 of Zhongjie Project has been completed and phase 2 of Zhongjie Project and phase 1 of Huanghua Project are under-planning and construction) in property development in Tianjin and its vicinity; and (iv) relatively close working relationships between Cangzhou Real Estate and the local authorities from its property development projects currently on hand in the vicinity of Tianjin, namely Zhongjie Project and Huanghua Project. The Group has only involved in its own property development projects, but not provided any similar management services for any independent third party before. Therefore, there are no other similar transactions in the past for the Directors to make comparison with. In addition, there is no other public information regarding the profit margin of the property management services in the PRC except Green Town’s as mentioned above. Despite so, based on the above, the Directors are of the view that (1) Green Town is an appropriate comparable company due to its leading status in the project management market in the PRC and lack of other public information regarding the profit margin of the property management services in the PRC; and (2) the basis in determining the engagement fee in respect of the Engagement is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

According to some public forum websites of 百度 (Baidu) in the PRC, such as <https://zhidao.baidu.com>, typical project management fee in the PRC construction industry/market is proportional to the total construction cost of a construction project, and generally accounted for a range of 6.05% to 9.07% on the construction value of each construction project, which we consider can provide for Independent Shareholders’ general understanding about construction project management fee level in the industry. Based on this understanding, the project management fee rate at 10% under the Engagement is comparable to or even more favourable than that of the market, given that determination of project management fee rate for a construction project is a commercial decision between project manager and property developer on case by case basis.

Based on our understanding from the Management, the Group has negotiated the project management fee rate based on the prevailing market price of similar services and its own estimated management cost of undertaking the management work for the Project. We have conducted independent research for market information from Green Town, which, according to its prospectus dated 29 June 2020, has been a leading project management company in the PRC real estate market in terms of total revenue and newly contracted gross floor areas in 2019 and accumulated contracted gross floor areas from 2017 to 2019. As disclosed in Green Town’s interim report, Green Town had its gross profit margin of 39.9% for its business segment of commercial project management for

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the six months ended 30 June 2020. On such basis, we have compared the gross profit margins between the management work for the Project and the business segment of “commercial project management” of Green Town, and considered that the project management fee under the Engagement with internally estimated gross profit margin of around 40% of the total project management fee receivable shall be consistent with the market norm, and therefore on normal commercial terms. Given Green Town has been the largest and leading property management company in the PRC whose operating performance is indicative in its industry, we consider making reference to and comparison with it to be a reliable, fair and representative sample.

Based on our independent research from the PRC government website at www.gov.cn, where the 中華人民共和國財政部 (the Ministry of Finance of the PRC) had issued a 《基本建設項目建設成本管理規定》(Notice of Basic Construction Project Construction Cost Management Requirement) stipulating the project management fee level shall be charged for a construction project at progressive rates from 2% to 0.4% depending on the progressively increasing construction value of each construction project (the “**Government Stipulated Rate**”). If the Government Stipulated Rate is strictly applied to the Project, the project management fee for the Project would be RMB3.4 million, representing merely 1.13% of the estimated total construction cost of the Project of approximately RMB300 million. On such basis, we consider that the project management fee rate for the Engagement at 10% on the total construction costs of the Project is much better than the Government Stipulated Rate and therefore favourable to the Group, and in the interests of the Group and the Shareholders as a whole.

We have reviewed and understand from a sample of 建設工程監理合同 (Construction Work Management Contract) issued by 中華人民共和國住房和城鄉建設部 (the Ministry of Housing and Urban-Rural Development Bureau of the PRC), where it has stipulated that payment terms of a construction project shall generally be payable in four to five instalments at different stages of the construction work during the tenure of a construction project until completion. According to the Engagement Agreement, the total engagement fee in respect of the Engagement of RMB30 million (i.e. RMB1.25 million per month) shall be paid by Tianjin Yuji to Cangzhou Real Estate in cash on monthly basis, which we consider to be on normal commercial terms or even slightly favourable to the Group in terms of cash flow effect on the Group, fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Conditions precedent

The Engagement is conditional upon the fulfilment of both the following conditions:

- (i) having obtained the approval by the respective board of directors of Tianjin Yuji and Cangzhou Real Estate on the execution of the Engagement Agreement by their respective authorised representatives; and
- (ii) having obtained the approval from the Independent Shareholders at the EGM in respect of the Engagement Agreement and the transactions contemplated thereunder.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The above conditions cannot be waived by either party to the Engagement Agreement. If the conditions set out above have not been satisfied by 5:00 p.m. on the Long Stop Date, the Engagement Agreement shall lapse automatically, and thereupon the Engagement Agreement shall be null and void and of no further effect (for the avoidance of doubt, no party thereto shall have any further claim of whatsoever nature against the other party).

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

6. Assessment of the proposed annual caps

Since the term of the Engagement Agreement shall be twenty-four (24) months from the Effective Date (assuming the Effective Date will be on the Long Stop Date) the maximum proposed annual caps for the Continuing Connected Transaction contemplated under the Engagement Agreement for each of the three FYs from 2020 to 2022 are as follows:

Period	Proposed annual caps <i>RMB'000</i>
For the FY 2020	1,250
For the FY 2021	15,000
For the FY 2022	Up to 15,000

Since the SCHC Group and the Group had not entered into any similar transaction in the past, there is no historical transaction amount available.

As indicated in the above, the proposed annual caps are simply allocated for the remaining period ending 31 December 2020 and the two years ending 31 December 2022, which are commensurate with the total project management fee of RMB30 million receivable on monthly basis under the Engagement, whilst a buffer of RMB2.5 million (i.e. RMB1.25 million per month x 2 months) is provided for any probable delay of receipt between the two FYs ending 31 December 2022 as if the Effective Date is slightly delayed to 1 January 2021, which we consider to be prudent and justifiable.

Based on the above analysis and consideration, we are of the view that the basis adopted by the Management in determining the proposed annual caps thereunder is prudent, justifiable, fair and reasonable; while the entering into of the Engagement Agreement (including the proposed annual caps) is conducted in the ordinary and usual course of business of the Group and on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as whole.

7. Measures to ensure compliance with the GEM Listing Rules

In compliance with the annual review requirements under the GEM Listing Rules, the Company will comply with the following during the term of the Engagement Agreement in relation to the Continuing Connected Transaction:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (i) each year the independent non-executive Directors must review the Continuing Connected Transaction and confirm in the annual report and accounts of the Company that the Continuing Connected Transaction has been entered into (a) in the ordinary and usual course of business of the Company; (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (c) in accordance with the Engagement Agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (ii) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the annual report of the Company) confirming that the Continuing Connected Transaction (a) have received the approval of the Board; (b) are in accordance with the pricing policies of the Company if the Continuing Connected Transaction involves provision of goods or services by the Company; (c) have been entered into in accordance with the relevant agreement governing the transactions; and (d) have not exceeded the proposed annual caps;
- (iii) the Company will allow, and will procure that the counter-party (i.e. SCHC Group) will allow, the auditors of the Company with sufficient access to the relevant records of the Continuing Connected Transaction for the purpose of reporting on the Continuing Connected Transaction. The Board must state in the annual report whether its auditors have confirmed the matters stated in paragraph (ii) above; and
- (iv) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the GEM Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (i) and/or (ii) above respectively.

In light of the requisite reporting requirements attached to the Continuing Connected Transaction, and having considered, in particular, (i) the restriction of the value of the Continuing Connected Transaction by way of the proposed annual caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the Continuing Connected Transaction and the proposed annual caps not being exceeded, we are of the view that appropriate measures will be in place to govern and monitor the conduct of the Continuing Connected Transaction and safeguard the interests of the Independent Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having taken into account the principal factors and reasons as referred to the above, we are of the view that the Continuing Connected Transaction (including the proposed annual caps) contemplated under the Engagement Agreement are conducted in the ordinary and usual course of business of the Group, and are on normal commercial terms or even better, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company 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 resolution to be proposed at the EGM to approve the Continuing Connected Transaction (including the proposed annual caps) and the transactions contemplated thereunder.

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.

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 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. DISCLOSURE OF INTERESTS

(i) Directors' and chief executives' interests in the Company 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 the Company and its associated corporations (within the meaning of Part XV of the SFO) which would be required to be: (i) notified to the Company 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 the Company would be taken or deemed to have under such provisions of the SFO); (ii) entered into the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company 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	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. 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 the Company, options may be granted to the Directors and employees and to certain eligible participants of the Company 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 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 the Company 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 the Directors, supervisors and chief executives of the Company, the persons (other than Directors, supervisors or chief executives of the Company) who have interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO 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	Approximate percentage of total interests to total issued Shares
			Family interests	Corporate interests		
Eartrade	Beneficial owner/ Interest of controlled corporations	1,150,004,797	—	1,088,784,847 <i>(Note (a))</i>	2,238,789,644	20.03%
Fung Shing	Beneficial owner	1,817,140,364	—	—	1,817,140,364	16.26%
Parkfield	Beneficial owner	1,728,362,917	—	—	1,728,362,917	15.46%
Bannock	Beneficial owner	1,088,784,847 <i>(Note (a))</i>	—	—	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 <i>(Note (b))</i>	—	7,257,178,811	64.92%

Notes:

- (a) Bannock is a wholly-owned subsidiary of Eartrade. Eartrade 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 the Company. 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' and chief executives' interests in the Company or its associated corporations" above.

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

4. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, save for the Engagement 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 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 Group since 31 December 2019, being the date to which the latest published audited financial statements of the Company were made up.

5. COMPETING INTEREST

The Company, SCHC and South China Financial Holdings Limited (“SCF”), 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, are also the executive directors of SCHC. Mr. Ng and Ms. Cheung are also the executive directors of SCF. Ms. Ng Yuk Mui Jessica, an executive Director, is also a non-executive director of SCHC and the executive director of SCF. Mr. Paul Ng, a non-executive Director, is also an executive director of SCHC. Ms. Pong Oi Lan Scarlett, BBS, J.P., an independent non-executive Director, is also an independent non-executive director of SCHC.

Mr. Ng, who is the chairman of the board and controlling shareholder of SCHC, is also the 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. Ng Yuk Mui Jessica holds certain shareholding interests in SCHC. Mr. Paul Ng holds certain shareholding interests in SCHC and SCF.

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

The 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 the Company and SCHC or SCF compete or is likely to compete with each other and, therefore, do not control the board of each of the Company, SCHC and SCF as far as transaction in relation to competing business is concerned. As such, the Board is independent from the board of SCHC or SCF, and the 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 the Company 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 the Company, 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, to the best of the Directors' knowledge information and belief, no member of the 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 Group that would have a material adverse effect on the results of operations or financial conditions of the 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 Group after the date falling two (2) 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;
- (ii) the Sale and Purchase Agreement; and
- (iii) the Engagement Agreement.

9. MATERIAL ADVERSE CHANGE

An announcement was made by the Company on 3 April 2020 in relation to the Stock Exchange's decision that the Company 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), the Company has the right to request the Decision be referred to the GEM Listing Committee for a review. The Company has made another announcement on 15 April 2020 in relation to the application for a review of the Decision to the GEM Listing Committee.

The review hearing of the Decision by the GEM Listing Committee was taken place on 9 September 2020. On 24 September 2020, the Company received a letter dated the same day from the GEM Listing Committee, notifying the Company that the GEM Listing Committee had decided to uphold the Decision to suspend trading in the Shares under GEM Listing Rule 9.04(3) (the “**LC’s Decision**”) as it was of the view that the Company failed to carry out a business with a sufficient level of operations and assets of sufficient value to support its operations under GEM Listing Rule 17.26 to warrant the continued listing. On 29 September 2020, the Company submitted a request for a review by the GEM Listing Review Committee in relation to the LC’s Decision.

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

10. QUALIFICATIONS AND CONSENT OF EXPERT

The following sets out the qualifications of the expert who has given its opinion or advice as contained in this Circular:

Name	Qualification
First Shanghai Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

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

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

As at the Latest Practicable Date, the above expert 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 the Company 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 the Company is Suntera (Cayman) Limited of 3rd Floor, Royal Bank House, 24 Shedden Road, P.O. Box 1586, George Town, Grand Cayman, KY1-1110, Cayman Islands. The branch share registrar and transfer office of the Company 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 the Company is Mr. Watt Ka Po James, who is a fellow member of both The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom 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 the Company 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 the Company;
- (ii) the Engagement Agreement;
- (iii) the material contracts as referred to in the paragraph headed "8. Material contracts" in this Appendix;
- (iv) the written consent as referred to in the paragraph headed "10. Qualifications and consent of expert" in this Appendix;
- (v) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this Circular;
- (vi) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this Circular;
- (vii) the letter from the Independent Financial Adviser, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" in this Circular; and
- (viii) this Circular.

NOTICE OF EGM



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 Wednesday, 2 December 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 engagement agreement dated 6 October 2020 (the “**Engagement Agreement**”) (a copy of the Engagement Agreement has been produced at the meeting and marked “A” and initialed by the chairman of the meeting for the purpose of identification) entered into between 天津南華譽基房地產開發有限公司 (Tianjin South China Yuji Real Estate Development Limited)* (“**Tianjin Yuji**”) and 滄州南華房地產開發有限公司 (Cangzhou South China Real Estate Development Limited)* (“**Cangzhou Real Estate**”) in relation to the provision of comprehensive management services by Cangzhou Real Estate to Tianjin Yuji and all the transactions contemplated thereunder and in connection therewith, be and are hereby approved, ratified and confirmed; 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 Engagement 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, 16 November 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 office of the Company's branch share registrar in Hong Kong, 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 EGM 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 Friday, 27 November 2020 to Wednesday, 2 December 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 Thursday, 26 November 2020.
6. Proxy Form 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 (1) Mr. Ng Hung Sang, Ms. Cheung Choi Ngor, Mr. Richard Howard Gorges and Ms. Ng Yuk Mui Jessica as executive directors; (2) Mr. Ng Yuk Yeung Paul as non-executive director; and (3) Mr. Cheng Hong Kei, Ms. Pong Scarlett Oi Lan, BBS, J.P. and Mr. Yeung Chi Hang as independent non-executive directors.

* *Denotes English translation of a Chinese company name and is provided for identification purpose only.*