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 advisers.

If you have sold or transferred all your shares in the Company, you should hand this circular at once 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.

華融投資股份有限公司

HUARONG INVESTMENT STOCK CORPORATION LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2277)

MAJOR AND CONNECTED TRANSACTION
DISPOSAL OF THE ENTIRE INTEREST IN THE TARGET COMPANY

Financial Adviser to the Company

ANGLO CHINESE CORPORATE FINANCE, LIMITED 英高

Independent Financial Adviser
to the Independent Board Committee and the Shareholders

SOMERLEY CAPITAL LIMITED

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 4 to 12 of this circular. A letter from the Independent Board Committee containing its recommendation to the Shareholders is set out on page 13 of this circular. A letter from Somerley, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Shareholders is set out on pages 14 to 32 of this circular.

2 December 2019

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

"Board"	the board of Directors
"business day"	means any day on which banks are generally open for business in Hong Kong (excluding Saturdays, Sundays and public holidays in Hong Kong)
"China Huarong"	China Huarong Asset Management Co., Ltd., a joint stock limited liability company incorporated in the PRC, the shares of which are listed on the Stock Exchange (stock code: 2799)
"Company"	Huarong Investment Stock Corporation Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange (stock code: 2277)
"Completion"	completion of the Disposal in accordance with the terms of the Share Purchase Agreement
"connected person"	has the meaning as ascribed to it under the Listing Rules
"connected transaction"	has the meaning as ascribed to it under the Listing Rules
"Consideration"	HK$290,000,000, being the consideration of the Disposal under the Share Purchase Agreement
"Directors"	the directors of the Company
"Disposal"	the disposal of the entire issued share capital of the Target Company pursuant to the Share Purchase Agreement
"Disposal Group"	the Target Company and its subsidiaries
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Independent Board Committee"	the independent board committee of the Company formed to advise the Shareholders in respect of the Share Purchase Agreement and the Disposal contemplated thereunder, comprising all independent non-executive Directors, namely Mr. Chan Kee Huen Michael, Mr. Tse Chi Wai and Dr. Lam Lee G.
"Independent Financial Adviser" or "Somerley"	Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, which has been appointed as the independent financial adviser to advise the Independent Board Committee and the Shareholders in respect of the Share Purchase Agreement and the Disposal contemplated thereunder
"Latest Practicable Date"	26 November 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	27 September 2020, or such later date as may be agreed in writing by the Company and the Purchaser
"Purchaser"	Acute Peak Investments Limited, a company incorporated in the British Virgin Islands with limited liability
"Right Select"	Right Select International Limited, a company incorporated in the British Virgin Islands with limited liability, the immediate controlling Shareholder of the Company and an indirect wholly-owned subsidiary of China Huarong
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Purchase Agreement"	the share purchase agreement dated 27 September 2019 entered into between the Company and the Purchaser in respect of the Disposal

"Shareholder(s)"	holder(s) of the ordinary shares of HK$0.01 each in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Auto Brave Limited, a company incorporated in the British Virgin Islands with limited liability, and a wholly-owned subsidiary of the Company as at the Latest Practicable Date
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent

華融投資股份有限公司
HUARONG INVESTMENT STOCK CORPORATION LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2277)

Executive Directors:
Mr. Yu Meng *(Chairman)*
Mr. Xu Xiaowu

Non-executive Director:
Ms. Zhao Yingxuan

Independent non-executive Directors:
Mr. Chan Kee Huen Michael
Mr. Tse Chi Wai
Dr. Lam Lee G.

Registered office:
PO Box 1350, Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

Head office and principal place of business in Hong Kong:
Room 3201, 32/F
Two Pacific Place
88 Queensway
Hong Kong

2 December 2019

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
DISPOSAL OF THE ENTIRE INTEREST IN THE TARGET COMPANY

1. INTRODUCTION

Reference is made to the announcements of the Company dated 27 September 2019, 23 October 2019 and 25 November 2019 in relation to the Disposal.

On 27 September 2019 (after trading hours), the Company and the Purchaser entered into the Share Purchase Agreement in relation to the Disposal, pursuant to which the Company has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the entire issued share capital of the Target Company at the Consideration of HK$290,000,000. The Disposal constitutes a major and connected transaction for the Company under the Listing Rules.

This circular is despatched to the Shareholders for information purposes only and contains, among other things, (i) further information on the Share Purchase Agreement and the Disposal contemplated thereunder, (ii) a letter from the Independent Board Committee containing its recommendation to the Shareholders in respect of the Share Purchase Agreement and the Disposal contemplated thereunder, (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Shareholders, and (iv) financial and general information of the Group.

2. THE SHARE PURCHASE AGREEMENT

The principal terms of the Share Purchase Agreement are summarised as follows:

Date

27 September 2019

Parties

(1) Vendor: the Company

(2) Purchaser: Acute Peak Investments Limited

Subject Matter

Pursuant to the Share Purchase Agreement, the Company has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the entire issued share capital of the Target Company.

Consideration

As at the date of the Share Purchase Agreement, the Group (excluding the Disposal Group) owes a total amount of HK$311,797,945 to the Disposal Group, which is repayable on demand (the "**Intra-Group Loan**"). On 18 October 2019, the Company repaid HK$21,797,945 of the Intra-Group Loan to the Disposal Group.

The Consideration is HK$290,000,000, which shall be settled at Completion in the following manner:

(a) the Company shall procure its subsidiaries (excluding the Disposal Group), and the Purchaser shall procure the Disposal Group, to execute any such document, do all such things and take all such steps as necessary to novate of all repayment obligations in connection with the outstanding balance of HK$290,000,000 of the Intra-Group Loan (the "**Assigned Intra-Group Loan Balance**") to the Company and to assign all of the Disposal Group's rights and benefits to the repayment of the Assigned Intra-Group Loan Balance to the Purchaser; and

(b) the Purchaser's obligations to pay the Consideration, being HK$290,000,000, to the Company shall be set off in full against the Group's obligations to repay the Assigned Intra-Group Loan Balance.

The Consideration was arrived at after arm's length negotiation between the Company and the Purchaser, and was determined with reference to, among others:

(i) the Target Company's financial position, results of operation and prospects: For the two years ended 31 December 2017 and 2018, the Target Company recorded net losses of approximately HK$13.4 million and HK$20.1 million, respectively. The net losses from the Foundation Business are mainly attributable to (i) intensive peer competition; (ii) increase in related costs; and (iii) fluctuations of the market condition, in each case in the foundation and substructure construction industry, associated with substantial uncertainties in terms of the overall local economic landscape in Hong Kong. The Directors are of the view that the foregoing adverse effects will continue with no sight of recovery in the near future;

(ii) the prevailing market conditions and economic landscape: According to the statistics on the building and construction industry published by Census and Statistics Department of Hong Kong, total gross value of construction works performed in nominal terms by main contractors showed a decreasing growth. In particular, gross value of piling and related foundation works in nominal terms performed by main contractors at construction sites decreased by around 7.4% and 19.2% in 2016 and 2017 over their respectively prior year, with a rebound of around 8.9% in 2018 over 2017. However, recent statistics have shown that gross value of piling and related foundation works in nominal terms performed by main contractors at construction sites in the first quarter and second quarter of 2019 substantially decreased by around 30.2% and 35.0% respectively as compared with the corresponding periods in 2018. Based on the above industry data and the latest general economic environment and recent local social incidents in Hong Kong, the overall building and construction industry in Hong Kong is expected to face much challenges and uncertainties in the near future;

(iii) the lack of interest from independent third parties to acquire the Target Company: The Company has approached, through its financial adviser, an aggregate of 40 potential investors ranging from leading Chinese private equity firms to renowned international and local asset manages in Hong Kong in relation to the disposal of the Target Company, but no indicative proposal was received from such potential investors;

(iv) the Consideration offered by the Purchaser, being HK$290,000,000, which is substantially higher than the unaudited net asset value of the Target Company as at 30 June 2019, being approximately HK$22.1 million; and

(v) the information set out under the section headed "Reasons for and Benefits of the Disposal" below.

Conditions Precedent

Completion is subject to the satisfaction of the following conditions precedent:

(a) the Share Purchase Agreement and the Disposal having been approved by the independent Shareholder(s) in accordance with the Listing Rules and the applicable laws and regulations by way of written approval from the independent Shareholders or otherwise by passing the requisite resolution(s) at a general meeting of the Company;

(b) the repayment of HK$21,797,945 of the Intra-Group Loan by the Company to the Disposal Group; and

(c) all necessary approvals, confirmations, waiver or consents from the relevant authorities (including, without limitation, the Stock Exchange) or any third parties (including but not limited to consents from any creditors of the Group, if necessary) which are required for the execution and performance of the Share Purchase Agreement and the Disposal having been obtained, and such approvals, confirmations, waiver or consents not having been revoked or withdrawn.

For avoidance of doubt, such approvals, confirmations, waiver or consents as described in condition (c) above include (i) the no comment letter from the Stock Exchange with respect to this circular, and (ii) the consent from a creditor regarding change of control that is required under the financial arrangement involving such creditor and the Group.

The conditions (b) and (c) above are waivable in whole or in part to the extent legally permissible. If any of the above conditions precedent is not fulfilled or waived (where applicable) by 6:00 p.m. on the Long Stop Date, the Share Purchase Agreement shall lapse and be of no further effect, unless the Company and the Purchaser agree in writing to extend the Long Stop Date.

As at the Latest Practicable Date, all of the above conditions precedent have been fulfilled.

Completion

Completion shall take place on the tenth business day after the fulfillment of all conditions precedent set out in the Share Purchase Agreement.

3. INFORMATION ON THE TARGET COMPANY

The Target Company is an investment holding company incorporated in the British Virgin Islands on 8 February 2016, which is wholly owned by the Company as at the Latest Practicable Date. The Target Company is principally engaged in the provision of foundation and substructure construction services (the "**Foundation Business**") through its operating subsidiaries incorporated in Hong Kong.

Based on the unaudited consolidated financial statements of the Target Company prepared in accordance with the Hong Kong Financial Reporting Standards, (i) its unaudited total assets and unaudited net assets as at 30 June 2019 were approximately HK$566.9 million and approximately HK$22.1 million, respectively; and (ii) for the two years ended 31 December 2017 and 2018, the Target Company recorded losses as follows:

	For the year ended 31 December 2017 *(approximately HK$ million)*	**For the year ended 31 December 2018** *(approximately HK$ million)*
Unaudited loss before taxation	14.5	23.6
Unaudited loss after taxation	13.4	20.1

4. FINANCIAL EFFECT OF THE DISPOSAL

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

Effect on assets and liabilities

It is estimated that, upon Completion, the Group's total assets will be decreased by approximately HK$277 million and the Group's total liabilities will be decreased by approximately HK$545 million.

Effect on earnings

It is estimated that, upon Completion, the Group will record a gain from the Disposal of approximately HK$268 million, being the difference between the Consideration and the unaudited net assets of the Target Company as at 30 June 2019. The earnings of the Group will increase by an amount equivalent to such gain from the Disposal. The final amount of the gain from the Disposal is subject to the review by the auditor of the Company.

No proceeds in cash will be received by the Group from the Disposal as the Consideration shall be settled by way of setting off the Assigned Intra-Group Loan Balance in full.

5. INFORMATION ON THE COMPANY AND THE PURCHASER

The Company is an investment holding company incorporated in the Cayman Islands. As at the Latest Practicable Date, the principal business activities of the Group are (i) direct investments; (ii) financial services and others (together with (i), the "**Remaining Business**"); and (iii) the Foundation Business.

The Purchaser is a company incorporated in the British Virgin Islands with limited liability, and is principally engaged in investment holding. It is owned as to (a) 50% by Mr. Kwan Wai Ming, an ex-executive Director in the last 12 months and a director of the Target Company and its subsidiaries; and (b) 50% by Mr. Leung Kam Chuen, a director of the Target Company and its subsidiaries.

6. REASONS FOR AND BENEFITS OF THE DISPOSAL

The Target Company is principally engaged in the Foundation Business through its operating subsidiaries incorporated in Hong Kong.

For the two years ended 31 December 2017 and 2018, the Target Company recorded net losses of approximately HK$13.4 million and HK$20.1 million, respectively, and its revenue for the same periods amounted to approximately HK$303.6 million and HK$585.5 million, respectively, representing approximately 33.37% and 39.13% of the Group's revenue for the respective periods. In addition, as at 31 December 2017 and 2018, the total assets of the Target Company amounted to approximately HK$582.8 million and HK$600.2 million, respectively, representing approximately 4.2% and 5.8% of the Group's total assets, respectively.

The net losses from the Foundation Business are mainly attributable to (i) intensive peer competition; (ii) increase in related costs; and (iii) fluctuations of the market condition, in each case in the foundation and substructure construction industry, associated with substantial uncertainties in terms of the overall local economic landscape in Hong Kong. The Directors are of the view that the foregoing adverse effects will continue with no sight of recovery in the near future.

On the other hand, the Group has developed and focused on the Remaining Business. As at 31 December 2017 and 2018, the assets of the Remaining Business (including the unallocated corporate assets) amounted to approximately HK$13,676 million and HK$10,159 million, respectively, representing approximately 98% and 98% of the Group's total assets, respectively. For the years ended 31 December 2017 and 2018, its revenue amounted to approximately HK$606 million and HK$911 million, respectively, representing approximately 67% and 61% of the Group's revenue of the respective periods. The total segment result of the Remaining Business for the same periods amounted to approximately HK$487 million and HK$151 million, respectively.

However, the Remaining Business recorded net loss for the six months ended 30 June 2019 which is attributable to substantial provisions that are made against the Group's direct investments in loans and receivables and the unrealised losses arising from the adverse fair value change of the financial assets at fair value through profit or loss. The six months ended 30 June 2019 witnessed the Group's initiatives to strengthen risk management, improve corporate governance and optimize the existing portfolio, in each case in response to the adverse impacts by various internal and external factors, including the increasing uncertainty and volatility in the global financial markets. As a result, to consolidate its business foundation and maintain a stable development, the Company has employed a more prudent approach in evaluating and capturing new business opportunities for the Remaining Business.

Although the Remaining Business reported weaker financial results for the six month ended 30 June 2019, the Foundation Business has shown a consistent deterioration in financial performance since 2016 and the Remaining Business has been the key source of revenue for the Group over the last two full financial years. It has been the Company's vision and strategic direction to pursue the Remaining Business as part of its developmental transformation, especially after China Huarong, through its indirect wholly-owned subsidiary, Right Select, increased its shareholding to 50.99% of the total issued shares of the Company in February 2017, which has brought to the Group an immediate and substantial stride forward in stacking up the Remaining Business, and has in turn boosted its business transformation, financial position as well as results of operations.

As the Foundation Business has been continuously loss-making for the past two years while the Group has established a robust and expanding footprint in terms of the Remaining Business, the Directors are of the opinion that the Disposal would enable the Group to (i) deepen business segment consolidation and optimisation that in turn spur the Remaining Business; and (ii) generate one-off net gain on Disposal to improve the Company's financial results and reduce its gearing ratio.

Upon Completion, the Group will cease to engage in the Foundation Business. This will enable the Group to focus on the Remaining Business and stand better positioned to capitalize on China Huarong's extensive experience, strong brand name and expansive network across the financial sector, and achieve synergy through onshore and offshore collaboration in greater China, so as to further strengthen the Group's brand awareness and competitiveness across the financial industry and generate better return to the Shareholders.

Having taken into account the above factors, the Directors (including the independent non-executive Directors) are of the view that the Disposal is carried out on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole. None of the Directors has any material interest in the Share Purchase Agreement and the Disposal contemplated thereunder and hence no Director was required to abstain from voting on the Board resolutions of the Company approving the Share Purchase Agreement and the Disposal contemplated thereunder.

7. LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Disposal exceeds 25% but is less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Furthermore, the Purchaser is owned as to (a) 50% by Mr. Kwan Wai Ming, an ex-executive Director in the last 12 months and a director of the Target Company and its subsidiaries; and (b) 50% by Mr. Leung Kam Chuen, a director of the Target Company and its subsidiaries, and is therefore a connected person of the Company. As such, the Disposal also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, none of the Shareholders or their associates have any material interest in the Disposal, thus no Shareholder is required to abstain from voting if the Company were to convene a general meeting to approve the Disposal. The Company has obtained a written shareholder's approval in respect of the Disposal from Right Select, the controlling Shareholder of the Company holding 926,042,000 shares of the Company (representing approximately 50.99% of the total issued shares of the Company) as at the Latest Practicable Date, in lieu of convening a general meeting to approve the Disposal in accordance with Rule 14.44 of the Listing Rules. In addition, the Company has applied for, and the Stock Exchange has granted, a waiver from the requirement to convene a general meeting for the purpose of approving the Disposal under Rule 14A.37 of the Listing Rules, such that the written shareholder's approval from Right Select would also be accepted in lieu of convening a general meeting under Chapter 14A of the Listing Rules.

As such, no general meeting will be convened by the Company for the purpose of approving the Disposal.

8. RECOMMENDATION

Although no general meeting will be convened for the purpose of approving the Disposal, the Directors consider that the Share Purchase Agreement is entered into on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, if a general meeting were to be convened by the Company, the Directors would have recommended the Shareholders to vote in favour of the resolution to approve the Share Purchase Agreement and the Disposal contemplated thereunder.

9. ADDITIONAL INFORMATION

The Independent Board Committee comprising all independent non-executive Directors has been formed to advise the Shareholders in respect of the Share Purchase Agreement and the Disposal contemplated thereunder. Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in this regard. Accordingly, your attention is drawn to the letter from the Independent Board Committee set out on page 13 of this circular, which contains its recommendation to the Shareholders, and the letter from Somerley set out on pages 14 to 32 of this circular, which contains its advice to the Independent Board Committee and the Shareholders. Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By order of the Board
Huarong Investment Stock Corporation Limited
Yu Meng
Chairman

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Shareholders in respect of the Share Purchase Agreement and the Disposal contemplated thereunder.

華融投資股份有限公司
HUARONG INVESTMENT STOCK CORPORATION LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2277)

2 December 2019

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION
DISPOSAL OF THE ENTIRE INTEREST IN THE TARGET COMPANY

We refer to the circular of the Company dated 2 December 2019 (the "**Circular**") to the Shareholders of which this letter forms part. Unless otherwise specified, terms defined in the Circular shall have the same meanings in this letter.

We have been appointed by the Board to advise the Shareholders as to whether, in our opinion, the terms of the Disposal are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole, and in the ordinary and usual course of business of the Group. In this connection, Somerley has been appointed as the Independent Financial Adviser to advise the Shareholders and us in this regard.

We wish to draw your attention to the letter from the Board set out on pages 4 to 12 of the Circular, and the letter from Somerley to the Shareholders and us set out on pages 14 to 32 of the Circular which contains its advice in respect of the Share Purchase Agreement and the Disposal contemplated thereunder.

Having taken into account the advice of Somerley and its recommendation in relation thereto, we consider that the Share Purchase Agreement and the Disposal contemplated thereunder are entered into on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned. Although the entering into of the Share Purchase Agreement is not in the ordinary and usual course of business of the Company, we consider that it is in the interests of the Company and the Shareholders as a whole. Accordingly, we would have recommended the Shareholders to vote in favour of the resolution to approve the Share Purchase Agreement and the Disposal contemplated thereunder if a general meeting were to be convened by the Company.

Yours faithfully,
For and on behalf of
Independent Board Committee

Mr. Chan Kee Huen Michael	**Mr. Tse Chi Wai**	**Dr. Lam Lee G.**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text of a letter of advice from Somerley Capital Limited prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Disposal and the transactions contemplated thereunder.

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

2 December 2019

To: The Independent Board Committee and the Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION
DISPOSAL OF THE ENTIRE INTEREST IN THE TARGET COMPANY

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the Disposal, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 2 December 2019 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 27 September 2019 (after trading hours), the Company and the Purchaser entered into the Share Purchase Agreement in relation to the Disposal, pursuant to which the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire issued share capital of the Target Company at the Consideration of HK$290,000,000.

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Disposal exceeds 25% but is less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and Shareholders' approval requirements.

As the Purchaser is owned as to (a) 50% by Mr. Kwan Wai Ming, an ex-executive Director in the last 12 months and a director of the Target Company and its subsidiaries; and (b) 50% by Mr. Leung Kam Chuen, a director of the Target Company and its subsidiaries, and is therefore a connected person of the Company, the Disposal also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As disclosed in the Circular, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, none of the Shareholders or their associates have any material interest in the Disposal, thus no Shareholder is required to abstain from voting if the Company were to convene a general meeting to approve the Disposal. In this respect, the Company has obtained a written shareholder's approval in respect of the Disposal from Right Select, the controlling Shareholder of the Company holding 926,042,000 shares of the Company (representing approximately 50.99% of the total issued shares of the Company) as at the Latest Practicable Date, in lieu of convening a general meeting to approve the Disposal in accordance with Rule 14.44 of the Listing Rules. In addition, the Company has applied for, and the Stock Exchange has granted, a waiver from the requirement to convene a general meeting for the purpose of approving the Disposal under Rule 14A.37 of the Listing Rules, such that the written shareholder's approval from Right Select would also be accepted in lieu of convening a general meeting under Chapter 14A of the Listing Rules. As such, no general meeting will be convened by the Company for the purpose of approving the Disposal.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Dr. Lam Lee G., Mr. Chan Kee Huen Michael, and Mr. Tse Chi Wai, has been established to advise the Shareholders as to whether the terms of the Disposal are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole, and in the ordinary and usual course of business of the Group. We, Somerley Capital Limited, have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Shareholders on the Disposal. Details of the Disposal are set out in the Circular.

We are not associated or connected with the Company, the Purchaser or their respective substantial shareholders or associates and, accordingly, are considered eligible to give independent advice on the Disposal. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Purchaser or their respective substantial shareholders or associates.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company (collectively, the "**Management**"), which we have assumed to be true, accurate, complete and not misleading as at the date of this letter. We have reviewed the published information on the Company, including the annual report of the Company for the year ended 31 December 2017 (the "**2017 Annual Report**"), annual report of the Company for the year ended 31 December 2018 (the "**2018 Annual Report**"), interim report of the Company for the six months ended 30 June 2019 (the "**2019 Interim Report**") and other information contained in the Circular. We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed by them. We consider that the information we have received is sufficient for us to reach our opinion and advice as set out in this letter. We have no reason to doubt the truth, accuracy or completeness of the information provided to us or to believe that any material facts have been omitted or withheld. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Disposal, we have taken into account the following principal factors and reasons:

1. Information on the Group

1.1 Background information of the Group

The Company is a limited liability company incorporated in Cayman Islands. The Shares have been listed on the Stock Exchange since 29 December 2014.

The Group is an investment holding company. Together with its subsidiaries, the Company operates its businesses through three segments; (1) the direct investment segment which is mainly engaged in direct investments in equities, bonds, funds, derivative instruments and other financial products; (2) the financial services and others segment which is mainly engaged in the provision of business consulting, financing services and other related services businesses; and (3) the foundation and substructure construction services segment (the "**Foundation Business**") which is engaged in the excavation and lateral support works, pile cap construction and substructure construction for residential, commercial and infrastructure projects and rental of relevant equipment.

1.2 Financial performance of the Group

Set out below is key financial information on the Group as extracted from the consolidated income statement for the nine months ended 31 December 2016 ("**9M2016**"), the two years ended 2017 ("**FY2017**") and 2018 ("**FY2018**"), and the six months periods ended 30 June 2018 ("**1H2018**") and 2019 ("**1H2019**") (together, the "**Period**"), details of which are set out in the 2017 and 2018 Annual Reports, and the 2019 Interim Report:

	For the six months period ended 30 June		**For the financial year ended 31 December**		**For the nine months period ended 31 December**
	2019	**2018**	**2018**	**2017**	**2016**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Note 1)*
Revenue	599,401	820,960	1,496,102	909,683	649,921
Segment revenue:–					
– Direct investments	175,597	308,434	607,835	229,216	93,443
– Financial services and others	75,495	192,171	302,811	376,903	86,614
– Foundation and substructure construction services	348,309	320,355	585,456	303,564	469,864
Segment results:–					
– Direct investments	(260,679)	(44,840)	80,622	212,715	157,906
– Financial services and others	(27,351)	119,381	69,971	274,345	83,620
– Foundation and substructure construction services	(29,719)	4,263	(23,396)	(49,544)	46,642

	For the six months period ended 30 June		For the financial year ended 31 December		For the nine months period ended 31 December
	2019	2018	2018	2017	2016
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Note 1)*
Net unrealized (losses)/gains on financial investments	(202,279)	(126,887)	(172,158)	162,330	59,372
Net realised gains/(losses) on financial investments	23,364	(725)	4,890	104,795	7,954
Net (recognition) reversal of impairment losses	(102,323)	55,274	42,044	(86,003)	–
Material and subcontractor costs	(261,198)	(244,877)	(449,168)	(182,548)	(282,756)
Other operating expenses	(92,069)	(124,727)	(237,473)	(151,007)	(31,771)
Finance costs	(161,901)	(221,855)	(410,000)	(229,845)	(49,504)
Other (expenses)/income	(113,014)	(95,902)	(219,081)	(133,200)	(174,863)
Profit/(Loss) before tax	(310,019)	61,261	55,156	394,205	178,353
Income tax (expense)/credit	(5,520)	(2,776)	17,337	(124,609)	(22,536)
Profit/(Loss) for the year/period	(315,539)	58,485	72,493	269,596	155,817
Attributable to:					
Ordinary shareholders of the Company	(347,177)	26,680	9,250	269,596	155,817
Holder of the perpetual bond instruments	31,638	31,805	63,243	–	–
	(315,539)	58,485	72,493	269,596	155,817

Note 1: Starting from the financial period ended 31 December 2016, the reporting period end date of the Group changed from 31 March to 31 December. The amounts shown cover a nine-month period from 1 April 2016 to 31 December 2016 and therefore may not be comparable with amounts shown for FY2017 and FY2018. The presentation of the 9M2016 figures have been modified to conform with the FY2017 and FY2018's presentation.

Revenue

Revenue of the Group has demonstrated a steady growth trend between 2016 and 2018. The Group's total revenue was reported as approximately HK$649.9 million for 9M2016. Total revenue of the Group grew to approximately HK$909.7 million for FY2017, and further increased by around 64.5% to approximately HK$1,496.1 million for FY2018, mainly due to significant increase in revenue from direct investment segment and the Foundation Business. However, revenue of the Group recorded a decrease by around 27.0% from approximately HK$821.0 million for 1H2018 to approximately HK$599.4 million for 1H2019, as a result of the drop in revenue from segments of direct investments and financial services and others during the period.

As shown in the table above, the Foundation Business was the Group's biggest revenue contributor among all segments which contributed over 70% of the total revenue for 9M2016. Since FY2017, the Remaining Business overtook the Foundation Business as the key revenue contributor of the Group and its revenue accounted for approximately 66.6% and 60.9% of total revenue for FY2017 and FY2018 respectively, whilst revenue of the Foundation Business accounted for approximately 33.4% and 39.1% of the total revenue for the corresponding financial years.

Direct investments segment

The direct investments segment recorded a significant growth between 2016 and 2018. The Group's revenue from direct investments segment was approximately HK$93.4 million for 9M2016, and it soared to approximately HK$229.2 million in FY2017 and further increased by around 165.2% to approximately HK$607.8 million in FY2018, due to substantial new investments made during the period. However, during 1H2019, the Group's revenue from the direct investments segment recorded a drop by approximately 43.1% to approximately HK$175.6 million in 1H2019 as compared to approximately HK$308.4 million for 1H2018.

Segment results of the direct investment segment was reported as approximately HK$157.9 million for 9M2016. It amounted to approximately HK$212.7 million for FY2017 and then experienced a drop by around 62.1% to approximately HK$80.6 million for FY2018 mainly due to the significant increase in unrealised loss on financial assets. The direct investment segment recorded segment loss of approximately HK$260.7 million for 1H2019, which was enlarged by around 481.9% as compared to that of approximately HK$44.8 million for 1H2018. As disclosed in the 2019 Interim Report, such deterioration was mainly due to substantial provisions made against the Group's direct investments in loans and receivables and the unrealised losses arising from the adverse fair value change of the financial assets at fair value through profit or loss.

Financial services and others segment

The financial services and others segment of the Group recorded a segment revenue of approximately HK$86.6 million for 9M2016. Revenue contributed by this segment further increased to approximately HK$376.9 million for FY2017, but then down by around 19.7% to approximately HK$302.8 million for FY2018 due to decrease in the number of new projects. The Group's revenue from such segment for 1H2019 also showed a decrease of around 60.7% to approximately HK$75.5 million as compared to 1H2018. Segment results was reported as approximately HK$83.6 million for 9M2016, and then demonstrated an overall downturn trend since 2017, with a drop by around 74.5% from approximately HK$274.3 million for FY2017 to approximately HK$70.0 million for FY2018, mainly due to the increase in recognition of impairment losses. During 1H2019, a further drop to a loss of approximately HK$27.4 million for 1H2019 from a profit of approximately HK$119.4 million for 1H2018, which was mainly due to increase in the provision for impairment losses.

Foundation Business segment

Revenue from the Foundation Business segment for 9M2016 amounted to approximately HK$469.9 million, representing around 72.3% of the total revenue of the Group. Revenue from the Foundation Business segment for FY2017 dropped to approximately HK$303.6 million and then rebounded by around 92.9% to approximately HK$585.5 million in for FY2018. Revenue from the Foundation Business segment for 1H2019 of approximately HK$348.3 million was relatively comparable to that for 1H2018 with a small increase by around 8.7%.

The Foundation Business recorded segment loss of approximately HK$29.7 million for 6M2019. Corresponding to the drop in revenue in FY2017, the Foundation Business recorded a segment loss of approximately HK$49.5 million for FY2017, which was mainly due to the decrease in revenue and increase in the construction costs. However, the segment loss narrowed down by around 52.8% to approximately HK$23.4 million for FY2018. As disclosed in the 2018 Annual Report and the 2019 Interim Report, despite the increase in total amount of projects and revenue during FY2018 and 1H2019, the keen peer competition and increase in related costs had led to losses in such segment during the respective periods. As shown in the table above, the Foundation Business recorded a segment loss of approximately HK$29.7 million for 1H2019 as compared to a segment profit of approximately HK$4.3 million for 1H2018.

Profit/(Loss) for the year/period

The Group recorded net profit of approximately HK$155.8 million for 9M2016. Net profit of the Group has demonstrated a decreasing trend from approximately HK$269.6 million in FY2017 to approximately HK$72.5 million in FY2018. As disclosed in the 2018 Annual Report, the decrease in profit for FY2018 was mainly due to unrealised loss on financial assets. The Group further recorded a net loss of approximately HK$315.5 million for 1H2019, as compared to a net profit of approximately HK$58.5 million for 1H2018, as a result of the substantial provisions that are made against the Group's direct investments in loans and receivables and the unrealised losses arising from the adverse fair value change of the financial assets at fair value through profit or loss. As disclosed in the 2019 Interim Report, during 1H2019, the Group has recognized approximately HK$102 million of net impairment losses which was mainly caused by the deterioration of the loan investment performance in 1H2019 (as compared to the net reversal of impairment losses of approximately HK$55 million in the corresponding period), and the unrealised loss on financial investments of approximately HK$202 million (as compared to the loss of approximately HK$127 million in the corresponding period). The relevant losses were mainly due to the decrease in fair value of different investments which include listed stocks, convertible bond and funds.

Net profit margin of the Group was approximately 29.6% in FY2017, which increased from approximately 24.0% in 9M2016 but represented a decrease by around 83.8% to approximately 4.8% in FY2018.

Net loss attributable to ordinary shareholders of the Company

The Group reported a net profit attributable to ordinary shareholders of the Company for 9M2016 and FY2017 of approximately HK$155.8 million and HK$269.6 million respectively. Following the issue of the perpetual bonds in December 2017 and due to the aforesaid reasons attributable to the drop in net profit of the Group in FY2018 and 1H2019, the Group's net profit attributable to ordinary shareholders of the Company dropped correspondingly (a) by around 96.6% to approximately HK$9.3 million for FY2018 as compared to FY2017; and (b) from a profit attributable to ordinary shareholders of the Company of approximately HK$26.7 million for 1H2018 to a net loss attributable to ordinary shareholders of the Company of approximately HK$347.2 million for 1H2019.

1.3 Financial position of the Group

Set out below is a summary of the condensed consolidated balance sheet of the Group as at 31 December 2018 and 30 June 2019 as extracted from the 2019 Interim Report:

	As at	
	30 June 2019	**31 December 2018**
	HK$'000	*HK$'000*
Non-current assets		
Financial investments	1,046,175	1,746,740
Finance lease receivables	732,963	988,144
Loan and debt instruments	1,265,278	1,268,288
Other non-current assets	405,816	107,435
	3,450,232	4,110,607
Current assets		
Financial investments	3,483,454	2,975,962
Loan and debt instruments	1,081,335	1,568,867
Bank balances and cash	1,222,972	738,955
Other current assets	1,121,599	1,023,845
	6,909,360	6,307,629
Current liabilities		
Trade and other payables	330,186	331,651
Interest-bearing borrowings	2,676,149	2,221,381
Financial assets sold under repurchase agreements	378,440	511,853
Other current liabilities	366,559	303,972
	3,751,334	3,368,857
Net current assets	3,158,026	2,938,772
Total assets less current liabilities	6,608,258	7,049,379

	As at 30 June 2019	As at 31 December 2018
	HK$'000	*HK$'000*
Non-current liabilities		
Interest-bearing borrowings	4,472,351	4,784,454
Lease liabilities	209,747	–
Other non-current liabilities	28,560	49,146
	4,710,658	4,833,600
Net Assets	1,897,600	2,215,779
Capital and reserves		
Share capital	18,160	18,160
Perpetual capital instruments	1,361,214	1,329,576
Reserves	518,226	868,043
Total Equity	1,897,600	2,215,779

Non-current assets of the Group as at 31 December 2018 and 30 June 2019 mainly comprised, among other things, financial investments, finance lease receivables and loan and debt instruments. Balance of total non-current assets decreased from approximately HK$4,110.6 million as at 31 December 2018 to approximately HK$3,450.2 million as at 30 June 2019. Such decrease of approximately 16.1% was mainly due to a significant drop in non-current financial investments of approximately HK$700.6 million primarily resulted from a drop in the non-current unlisted fund investments. Non-current finance lease receivables recorded a drop of around 25.8% to approximately HK$733.0 million as at 30 June 2019 from approximately HK$988.1 million as at 31 December 2018. For loan and debt instruments, the balance of approximately HK$1,265.3 million as at 30 June 2019 was comparable to that of approximately HK$1,268.3 million as at 31 December 2018.

Current assets of the Group as at 31 December 2018 and 30 June 2019 mainly comprised, among other things, financial investments, loan and debt instruments and bank balances and cash. The increase in current assets between 31 December 2018 and 30 June 2019 was mainly attributable to, among others, (i) a growth of current financial investments of approximately HK$507.5 million primarily resulted from an increment in the unlisted debt investments and listed debt instruments; and (ii) the increase in bank balances and cash of the Group from approximately HK$739.0 million as at 31 December 2018 to approximately HK$1,223.0 million as at 30 June 2019, mainly as a result of new interest-bearing borrowings raised and the capital return of different investments during the period.

Current liabilities of the Group as at 31 December 2018 and 30 June 2019 mainly comprised, among other things, trade and other payables, interest-bearing borrowings and financial assets sold under repurchase agreements. Interest-bearing borrowings increased by around 20.5% to approximately HK$2,676.1 million as at 30 June 2019 from approximately HK$2,221.4 million as at 31 December 2018, which was mainly due to increase in new interest-bearing borrowing raised. The balance of financial assets sold under repurchase agreements as at 30 June 2019 amounted to approximately HK$378.4 million and represented a decrease of approximately 26.1% as compared with the balance as at 31 December 2018 of approximately HK$511.9 million.

The non-current portion of the interest-bearing borrowings, representing majority of the total non-current liabilities, decreased from approximately HK$4,784.5 million as at 31 December 2018 to approximately HK$4,472.4 million as at 30 June 2019.

The gearing ratio of the Group, which was measured by total interest-bearing liabilities divided by the total equity, increased from approximately 3.2 times as at 31 December 2018 to approximately 3.8 times as at 30 June 2019, which was mainly attributable to the higher borrowing and a drop in equity balance due to the loss made during 1H2019.

Net assets decreased by around 14.4% to approximately HK$1,897.6 million as at 30 June 2019 from approximately HK$2,215.8 million as at 31 December 2018, mainly due to the net loss incurred during 1H2019. Net assets of the Company per Share, based on the total number of issued Shares of 1,816,000,000 as at the Latest Practicable Date, was approximately HK$1.04 as at 30 June 2019.

2. Information on the Disposal Group

2.1 Background information of the Disposal Group

As stated in the letter from the Board, the Target Company is an investment holding company incorporated in the British Virgin Islands on 8 February 2016 and is wholly owned by the Company as at the Latest Practicable Date. It is owned as to (a) 50% by Mr. Kwan Wai Ming, an ex-executive Director in the last 12 months and a director of the Target Company and its subsidiaries; and (b) 50% by Mr. Leung Kam Chuen, a director of the Target Company and its subsidiaries. The Target Company, through its operating subsidiaries incorporated in Hong Kong, is principally engaged in the Foundation Business including but not limited to, excavation and lateral support works, pile cap construction and substructure construction for residential, commercial and infrastructure projects and rental of relevant equipment in Hong Kong.

2.2 Financial information of the Disposal Group

Set out below is the key financial information on the Disposal Group for FY2017 and FY2018 as reproduced from the letter from the Board in the Circular:

	For the financial year ended	
	31 December 2018	**31 December 2017**
	HK$ million	*HK$ million*
	(unaudited)	*(unaudited)*
Loss before taxation	23.6	14.5
Loss after taxation	20.1	13.4

As disclosed in the 2018 Annual Report and as discussed with the Management, despite the increase in total amount of projects and revenue during FY2018, the keen peer competition and increase in related costs had led to the enlarged loss before taxation in the Foundation Business of approximately HK$23.6 million in FY2018 as compared to approximately HK$14.5 million for FY2017.

As stated in the letter from the Board in the Circular, unaudited total assets and unaudited net assets of the Disposal Group as at 30 June 2019 were approximately HK$566.9 million and approximately HK$22.1 million, respectively. As discussed with the Management, total assets of the Disposal Group mainly consisted of, among others, the Intra-Group Loan of a total amount of approximately HK$311.8 million, contract assets of approximately HK$104.1 million, property, plant and equipment ("**PPE**") of approximately HK$56.0 million and trade and other receivables of approximately HK$47.8 million as at 30 June 2019. We are also advised that the relatively small net assets of the Disposal Group of approximately HK$22.1 million as at 30 June 2019 correspond to the aforesaid total assets was mainly due to the relatively high level of total liabilities of the Disposal Group of approximately HK$544.8 million which comprised of, among other things, loan from a related company of approximately HK$250.0 million, trade and other payables of approximately HK$195.9 million and amount due to directors of approximately HK$51.0 million as at 30 June 2019.

3. Reasons for and benefits of the Disposal

As stated in the letter from the Board in the Circular, for the two years ended 31 December 2017 and 2018, the Target Company recorded net losses of approximately HK$13.4 million and HK$20.1 million, respectively, and its revenue for the same periods amounted to approximately HK$303.6 million and HK$585.5 million, respectively, representing approximately 33.37% and 39.13% of the Group's revenue for the respective periods. In addition, as at 31 December 2017 and 2018, the total assets of the Target Company amounted to approximately HK$582.8 million and HK$600.2 million respectively, representing approximately 4.2% and 5.8% of the Group's total assets, respectively.

As further disclosed in the letter from the Board in the Circular, the net losses from the Foundation Business are mainly attributable to (i) intensive peer competition; (ii) increase in related costs; and (iii) fluctuations of the market condition, in each case in the foundation and substructure construction industry, associated with substantial uncertainties in terms of the overall local economic landscape in Hong Kong. The Directors are of the view that, as disclosed in the letter from the Board, the foregoing adverse effects will continue with no sight of recovery in the near future.

On the other hand, the Group has developed and focused on the Remaining Business. As at 31 December 2017 and 2018, the assets of the Remaining Business (including the unallocated corporate assets) amounted to approximately HK$13,676 million and HK$10,159 million, respectively, representing approximately 98% and 98% of the Group's total assets, respectively. For the years ended 31 December 2017 and 2018, its revenue amounted to approximately HK$606 million and HK$911 million, respectively, representing approximately 67% and 61% of the Group's revenue of the respective periods. The total segment result of the Remaining Business for the same periods amounted to approximately HK$487 million and HK$151 million, respectively.

However, the Remaining Business recorded net loss for the six months ended 30 June 2019 which was attributable to substantial provisions that were made against the Group's direct investments in loans and receivables and the unrealised losses arising from the adverse fair value change of the financial assets at fair value through profit or loss. The six months ended 30 June 2019 witnessed the Group's initiatives to strengthen risk management, improve corporate governance and optimize the existing portfolio, in each case in response to the adverse impacts by various internal and external factors, including the increasing uncertainty and volatility in the global financial markets. As a result, to consolidate its business foundation and maintain a stable development, the Company has employed a more prudent approach in evaluating and capturing new business opportunities for the Remaining Business.

Although the Remaining Business reported weaker financial results for the six month ended 30 June 2019, the Foundation Business has shown a consistent deterioration in financial performance since 2016 and the Remaining Business has been the key source of revenue for the Group over the last two full financial years. It is stated in the letter from the Board in the Circular that it has been the Company's vision and strategic direction to pursue the Remaining Business as part of its developmental transformation, especially after China Huarong, through its indirect wholly-owned subsidiary, Right Select, increased its shareholding to 50.99% of the total issued shares of the Company in February 2017, which has brought to the Group an immediate and substantial stride forward in stacking up the Remaining Business, and has in turn boosted its business transformation, financial position as well as results of operations.

As such, and as disclosed in the letter from the Board in the Circular that since the Foundation Business has been continuously loss-making for the past two years while the Group has established a robust and expanding footprint in terms of the Remaining Business, the Directors are of the opinion that the Disposal would enable the Group to (i) deepen business segment consolidation and optimization that in turn spur the Remaining Business; and (ii) generate one-off net gain on Disposal to improve the Company's financial results and reduce its gearing ratio.

Upon Completion, the Group will cease to be engaged in the Foundation Business. This will enable the Group to focus on the Remaining Business and stand better positioned to capitalize on China Huarong's extensive experience, strong brand name and expansive network across the financial sector, and achieve synergy through onshore and offshore collaboration in greater China, so as to further strengthen the Group's brand awareness and competitiveness across the financial industry and generate better return to the Shareholders.

As further disclosed in the letter from the Board in the Circular, having taken into account the above factors, the Directors (including the independent non-executive Directors) are of the view that the Disposal is carried out on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

To evaluate the prospect of the Foundation Business and the reasons for the Disposal, we have reviewed statistics relating to the building and construction industry in Hong Kong. According to the Reports on the Quarterly Survey of Construction Output for the fourth quarter of 2016, 2017 and 2018 published by Census and Statistics Department ("**CSD**"), Hong Kong Special Administrative Region, total gross value of construction works performed in nominal terms by main contractors showed an overall decreasing growth trend of around 5.6% in 2016, 5.7% in 2017 and 0.9% in 2018 over the respective prior year. It was also reported that, in particular, gross value of piling and related foundation works in nominal terms performed by main contractors at construction sites also decreased by around 7.4% and 19.2% in 2016 and 2017 over their respectively prior year, with a rebound of around 8.9% in 2018 over 2017. However, the Reports on the Quarterly Survey of Construction Output for the first quarter and second quarter of 2019 published by CSD in 2019 have lately reported decreases in total gross value of construction works performed in nominal terms by main contractors in the first and second quarter of 2019 of around 13.0% and 8.0% respectively as compared with the corresponding periods in 2018. Meanwhile, gross value of piling and related foundation works in nominal terms performed by main contractors at construction sites in the first quarter and second quarter of 2019 also showed a more substantial decrease of around 30.2% and 35.0% respectively as compared with the corresponding periods in 2018. Furthermore, it was disclosed in a press release issued by The Government of the Hong Kong Special Administrative Region on 16 August 2019 that, the Hong Kong economy continued to face significant downward pressure, expanding only modestly by 0.5% in the second quarter of 2019 over a year earlier, slightly slower than the 0.6% growth in the preceding quarter. The economic conditions in the first half of the year were the weakest since the recession in 2009. External demand contracted in the second quarter amid softening global economic growth, intensifying US-Mainland trade and technology tensions and the resultant slowdown in manufacturing and trading activities in Asia. Domestic demand stayed sluggish as subdued economic conditions and various headwinds weighed on local economic sentiment. On a seasonally adjusted quarter-to-quarter comparison, real Gross Domestic Product ("**GDP**") decreased by 0.4% in the second quarter after an expansion of 1.3% in the preceding quarter. It was also forecasted in the press release that while the global economic growth should soften further in the near term and the domestic private consumption and investment sentiments will continue to be affected by subdued economic conditions and the recent local social incidents, the real GDP growth forecast for 2019 as a whole is revised downwards from 2-3% in the May round of review to 0-1% in the current round. Based on the data above and the latest general economic environment in Hong Kong, it is not unreasonable to believe that the overall building and construction industry in Hong Kong would continue to face much challenges and uncertainties in the near future.

As disclosed in the letter from the Board in the Circular, the Group (excluding the Disposal Group) owes to the Disposal Group the Intra-Group Loan of a total amount of HK$311,797,945 as at the date of the Share Purchase Agreement, which is repayable on demand. As further disclosed in the Circular, the Company has repaid HK$21,797,945 of the Intra-Group Loan to the Disposal Group as of the Latest Practicable Date. The Consideration for the Disposal is HK$290 million which is equivalent to the outstanding amount of the

Intra-Group Loan and therefore, no proceeds in cash will be received by the Group from the Disposal as the Consideration shall be settled by way of setting off the Assigned Intra-Group Loan Balance in full pursuant to the terms of the Share Purchase Agreement. As further discussed in the section headed "*6. Financial effects of the Disposal*" below, the Disposal is not expected to have any material adverse effect on the financial position of the remaining Group whilst a one-off gain on Disposal will also be recorded by the remaining Group upon Completion.

Having considered, in particular,

(i) as discussed in the sections headed "*1.2 Financial performance of the Group*" and "*2.2 Financial information of the Disposal Group*", the Foundation Business has been loss-making in the last two financial years and the latest six months ended 30 June 2019 and, whether the performance of the Foundation Business could turnaround is uncertain given the economic outlook as discussed in the paragraphs above. As such, we are of the view that the Disposal will not only represent an opportunity for the Company to manage its business risks by divesting its loss-making business segment, but also allow the Group to focus its resources on the development of the Remaining Business under such volatile economic environment;

(ii) the Remaining Business and Foundation Business are totally different in nature. Although the Remaining Business reported weaker financial results for the six months ended 30 June 2019, however, as discussed in detail under the section headed *"1.2 Financial performance of the Group"*, the Foundation Business has shown a consistent deterioration in financial performance since 2016, and since FY2017, the Remaining Business has been the key source of revenue and profit for the Group over the last two full financial years. Consequently, the Disposal is not expected to have any material adverse impact on the operation as well as financial performance and position of the Remaining Business;

(iii) as further discussed in the section headed "*5. Evaluation of the Consideration"* below, the Consideration is considered fair and reasonable,

we consider that the entering into of the Disposal is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

4. Principal terms of the Share Purchase Agreement

4.1 Consideration

The Consideration for the Disposal is HK$290 million. No proceeds in cash will be received by the Group from the Disposal as the Consideration shall be settled by way of setting off the Assigned Intra-Group Loan Balance in full pursuant to the Share Purchase Agreement.

The Consideration for the Disposal was arrived at after arm's length negotiation between the Company and the Purchaser, and was determined with reference to, among others:

(i) the Target Company's financial position, results of operation and prospects: For the two years ended 31 December 2017 and 2018, the Target Company recorded net losses of approximately HK$13.4 million and HK$20.1 million, respectively. The net losses from the Foundation Business are mainly attributable to (i) intensive peer competition; (ii) increase in related costs; and (iii) fluctuations of the market condition, in each case in the foundation and substructure construction industry, associated with substantial uncertainties in terms of the overall local economic landscape in Hong Kong. The Directors are of the view that the foregoing adverse effects will continue with no sight of recovery in the near future;

(ii) the prevailing market conditions and economic landscape: According to the statistics on the building and construction industry published by CSD, total gross value of construction works performed in nominal terms by main contractors showed a decreasing growth. In particular, gross value of piling and related foundation works in nominal terms performed by main contractors at construction sites decreased by around 7.4% and 19.2% in 2016 and 2017 over their respectively prior year, with a rebound of around 8.9% in 2018 over 2017. However, recent statistics have shown that gross value of piling and related foundation works in nominal terms performed by main contractors at construction sites in the first quarter and second quarter of 2019 substantially decreased by around 30.2% and 35.0% respectively as compared with the corresponding periods in 2018. Based on the above industry data and the latest general economic environment and recent local social incidents in Hong Kong, the overall building and construction industry in Hong Kong is expected to face much challenges and uncertainties in the near future;

(iii) the lack of interest from independent third parties to acquire the Target Company: The Company has approached, through its financial adviser, an aggregate of 40 potential investors ranging from leading Chinese private equity firms to renowned international and local asset manages in Hong Kong in relation to the disposal of the Target Company, but no indicative proposal was received from such potential investors;

(iv) the Consideration offered by the Purchaser, being HK$290,000,000, is substantially higher than the unaudited net asset value of the Target Company as at 30 June 2019 of approximately HK$22.1 million; and

(v) the information set out under the section headed *"Reasons for and benefits of the Disposal"* in the letter from the Board in the Circular.

4.2 Conditions precedent

Completion is subject to the satisfaction of the following conditions precedent:

(a) the Share Purchase Agreement and the Disposal having been approved by the independent Shareholder(s) in accordance with the Listing Rules and the applicable laws and regulations by way of written approval from the independent Shareholders or otherwise by passing the requisite resolution(s) at a general meeting of the Company;

(b) the repayment of HK$21,797,945 of the Intra-Group Loan by the Company to the Disposal Group; and

(c) all necessary approvals, confirmations, waiver or consents from the relevant authorities (including, without limitation, the Stock Exchange) or any third parties (including but not limited to consents from any creditors of the Group, if necessary) which are required for the execution and performance of the Share Purchase Agreement and the Disposal having been obtained, and such approvals, confirmations, waiver or consents not having been revoked or withdrawn.

For avoidance of doubt, such approvals, confirmations, waiver or consents as described in condition (c) above include (i) the no comment letter from the Stock Exchange with respect to this Circular, and (ii) the consent from a creditor regarding change of control that is required under the financial arrangement involving such creditor and the Group.

The conditions (b) and (c) above are waivable in whole or in part to the extent legally permissible. If any of the above conditions precedent is not fulfilled or waived (where applicable) by 6:00 p.m. on the Long Stop Date, the Share Purchase Agreement shall lapse and be of no further effect, unless the Company and the Purchaser agree in writing to extend the Long Stop Date.

As at the Latest Practicable Date, all of the above conditions precedent have been fulfilled.

4.3 Completion

Completion shall take place on the tenth business day after the fulfillment of all conditions precedent set out in the Share Purchase Agreement.

5. Evaluation of the Consideration

For comparison purposes, we have, on best effort basis, identified 13 companies whose shares are primarily listed on the Main Board of the Stock Exchange which are principally engaged in foundation works and related services, and are loss-making in their respective latest financial year. We consider the selected companies (the "**Comparable Companies**"), in general, would serve as a fair and representative sample for the purpose of drawing a meaningful comparison to the Foundation Business based on the Consideration.

The table below illustrates the price-to-book ratio ("**P/B Ratio(s)**") of each of the Comparable Companies.

Stock code	Company name	Principal business	Market capitalisation *(note 1)* *HK$*	Net assets *(note 1)* *HK$*	P/B Ratios *(note 2)*
577	South Shore Holdings Limited	Building construction and civil engineering, development management, project management and facilities and asset management services, investment in properties and hotel operation with ancillary facilities	99,269,464	(1,303,341,000)	–
784	Ling Yui Holdings Limited	Foundation works and other ancillary services for foundation projects	1,136,000,000	105,481,000	10.77
1499	LEAP Holdings Group Limited	Foundation works and ancillary services, construction wastes handling services, money lending business and investment in securities	1,552,349,000	341,682,000	4.54
1557	K.H. Group Holdings Limited	Foundation services and leasing of machinery	504,000,000	91,407,000	5.51
1591	Shun Wo Group Holdings Limited	Foundation work services	184,000,000	130,937,000	1.41
1633	Sheung Yue Group Holdings Limited	Foundation works and ancillary services	171,187,500	168,215,000	1.02
1718	Wan Kei Group Holdings Limited	Foundation construction, ground investigation services and financial services	633,600,000	268,280,500	2.36
1735	Central Holding Group Co. Ltd. *(formerly known as Wang Yang Holdings Limited)*	Foundation works and superstructure building works	1,726,560,000	173,499,000	9.95
1757	Affluent Foundation Holdings Limited	Services related to foundation works and provision of construction machinery rental	223,200,000	102,926,000	2.17
2113	Century Group International Holdings Limited	Site formation works	273,615,000	77,840,000	3.52

Stock code	Company name	Principal business	Market capitalisation *(note 1)* *HK$*	Net assets *(note 1)* *HK$*	P/B Ratios *(note 2)*
2221	New Concepts Holdings Limited	Foundation works, civil engineering contractual service and general building works, sales of construction materials, environmental protection projects and industrial fluids system services	263,534,062	383,712,000	0.69
3822	Sam Woo Construction Group Limited	Foundation works and ancillary services	210,000,000	629,722,000	0.33
6080	Wing Chi Holdings Limited	Foundation and site formation works and machinery leasing	443,531,250	165,469,000	2.68
				Average	**3.75**
				Median	**2.52**
				Highest	**10.77**
				Lowest	**0.33**
	Foundation Business		290,000,000 *(note 3)*	22,146,418 *(note 4)*	**13.09** *(note 5)*

Notes:

(1) The market capitalisation of the Comparable Companies are calculated based on their share price and number of issued shares as at the Latest Practicable Date. The consolidated net assets attributable to owners are extracted from the respective latest annual reports/interim reports of the Comparable Companies.

(2) The historical P/B Ratio of the Comparable Companies is calculated based on their latest consolidated net assets attributable to owners and their market capitalisations based on the closing price of the respective Comparable Companies as at the Latest Practicable Date and the number of respective shares in issue as at the Latest Practicable Date.

(3) The theoretical market capitalisation of the Foundation Business is the Consideration of HK$290 million.

(4) Being the unaudited consolidated net assets of the Disposal Group as at 30 June 2019.

(5) The P/B Ratio of the Foundation Business is calculated based on (i) its theoretical market capitalisation as illustrated in note 3 above; and (ii) the unaudited consolidated net assets of the Disposal Group as at 30 June 2019 as illustrated in note 4 above.

In selecting a suitable valuation methodology, we note that both the price-to-earnings ratio and price-to-book ratio are financial multiples commonly used for valuation. As discussed in the section headed *"2.2 Financial information of the Disposal Group"* above, the Foundation Business recorded net loss before and after taxation for the financial year ended 31 December 2018. Accordingly, price-to-earnings ratio analysis is not applicable in this case for comparison purposes. In such circumstances, we consider a comparison using P/B Ratio analysis as a suitable alternative because the P/B Ratio analysis takes into account assets and liabilities attributable to the values of construction companies such as the Disposal Group, including the carrying value of construction project contracts on hand, PPE and outstanding liabilities. As shown in the table above, the P/B Ratios of the Comparable Companies ranged from 0.33 times to 10.77 times with an average of 3.75 times and a median of 2.52 times. The P/B Ratio of the Foundation Business of around 13.09 times is higher than all the P/B Ratios of the Comparable Companies, which is considered favourable to the Group.

6. Financial effects of the Disposal

As discussed in the letter from the Board in the Circular, upon Completion, the Target Company will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the financial statements of the Company, and the Group will cease to be engaged in the Foundation Business.

6.1 Earnings

As disclosed in the letter from the Board in the Circular, upon Completion, the Company is expected to record a gain from the Disposal of approximately HK$268 million, being the difference between the Consideration and the unaudited net assets of the Target Company as at 30 June 2019. The earnings of the Group will increase by an amount equivalent to such gain from the Disposal. The final amount of the gain from the Disposal is subject to the review by the auditor of the Company.

6.2 Net asset value

As disclosed in the letter from the Board in the Circular, upon Completion, the Group's total assets would decrease by approximately HK$277 million and the Group's total liabilities would decrease by HK$545 million. It is expected that the net assets of the Group would increase by approximately HK$268 million upon Completion as at 30 June 2019.

6.3 Working capital

Given that the Consideration shall be settled by way of setting off the Assigned Intra-Group Loan Balance in full, no proceeds in cash will be received by the Group from the Disposal.

Based on the above, we are of the view that the Disposal will not have any material adverse effect on the Group's earnings, net assets and working capital immediately upon Completion. It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position or results of the Group will be upon Completion.

OPINION AND RECOMMENDATION

In summary, in reaching our opinion and recommendation, we have considered the above principal factors and reasons, in particular,

(i) as discussed in the section headed *"2.2 Financial information of the Disposal Group"*, the Foundation Business has been loss-making over the last two financial years. Coupled with the reasons outlined in the section headed *"3. Reasons for and benefits of the Disposal"* above, we are of the view that the Disposal will, therefore, not only represent an opportunity for the Company to manage its business risks by divesting one of the loss-making business segments with no profitability guaranteed, but also allow the Group to focus its resources on the development of the Remaining Business;

(ii) the Remaining Business and Foundation Business are vastly different and are operated independently of each other. Consequently, the Disposal is not expected to have any material adverse impact on the operation of the Remaining Business;

(iii) the use of net proceeds from the Disposal, which is to offset the Group's obligations to repay the Assigned Intra-Group Loan Balance, will improve the Group's gearing ratio;

(iv) as discussed in the section headed *"5. Evaluation of the Consideration"* above, the P/B Ratio represented by the Consideration, being higher than all the P/B Ratios of the Comparable Companies, is considered favourable to the Company; and

(v) as discussed in the section headed *"6. Financial effects of the Disposal"* above, the Disposal will not have any material adverse financial effect on the remaining Group immediately upon Completion.

Having taken into account the principal factors and reasons set out in our letter, we are of the view that the terms of the Share Purchase Agreement, including the Consideration, are on normal commercial terms, and fair and reasonable so far as the Company and the Shareholders are concerned. Although the entering into of the Share Purchase Agreement is not in the ordinary and usual course of business of the Company, we consider that it is in the interests of the Company and its Shareholders as a whole.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Lyan Tam
Director

Ms. Lyan Tam is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 17 years of experience in corporate finance industry.

1. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for the year ended 31 March 2016 is disclosed in the 2015/2016 annual report of the Company (pages 33 to 84) which is available on the following hyperlink:

http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0727/LTN20160727371.pdf

The financial information of the Group for the nine months ended 31 December 2016 is disclosed in the 2016 annual report of the Company (pages 49 to 139) which is available on the following hyperlink:

http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0420/LTN20170420314.pdf

The financial information of the Group for the year ended 31 December 2017 is disclosed in the 2017 annual report of the Company (pages 52 to 133) which is available on the following hyperlink:

https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0419/ltn20180419235.pdf

The financial information of the Group for the year ended 31 December 2018 is disclosed in the 2018 annual report of the Company (pages 64 to 173) which is available on the following hyperlink:

https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0430/ltn20190430179.pdf

The financial information of the Group for the six months ended 30 June 2019 is disclosed in the 2019 interim report of the Company (pages 13 to 54) which is available on the following hyperlink:

https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0927/ltn20190927163.pdf

2. INDEBTEDNESS

As at the close of business on 30 September 2019, being the latest practicable date for the purpose of this indebtedness statement prior to the publication of this circular, the Group had (a) secured and unguaranteed bank borrowings of approximately HK$211.2 million, (b) unsecured and unguaranteed bank borrowings of approximately HK$2,273.9 million, (c) unsecured and unguaranteed loan from related parties of approximately HK$300.0 million, (d) unsecured and unguaranteed loan from the immediate holding company of approximately HK$3,411.6 million, and (e) unsecured and unguaranteed loan from fellow subsidiaries of approximately HK$744.4 million. In addition, the Group had financial assets sold under repurchase agreements of approximately HK$385.3 million and lease liabilities of approximately HK$263.7 million as at that date.

The Group's secured bank borrowings and lease liabilities were secured by legal charges over the following assets of the Group:

(a) finance lease receivables of approximately HK$344.0 million;

(b) machinery and motor vehicles under finance leases with the carrying amounts of approximately HK$5.9 million.

Save as disclosed above, as at the close of business on 30 September 2019, the Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, other similar indebtedness, liabilities under acceptances or acceptances credits, debentures, mortgages, charges, lease liabilities, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, taking into account the cash flow generated from the operating activities, the financial resources available to the Group including cash and cash equivalent on hand, the internally generated funds and the available banking facilities, the Group has, in the absence of unforeseeable circumstances, sufficient working capital for its present requirement for the next twelve months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECT OF THE GROUP

Upon Completion, the Group will cease to engage in the Foundation Business which has been continuously loss-making for the past two years as described in the section headed "Reasons for and Benefits of the Disposal" in the letter from the Board of this circular.

The Group has developed and focused on the Remaining Business, including (i) direct investments, and (ii) financial services and others:

(i) The direct investment business of the Group is divided into four major categories, namely fixed returns investment, fund investment, equity investment and proprietary trading and treasury. Fixed returns investment mainly represents investment in private bonds, loans, convertible bonds and fixed income funds, which provide the Group with stable income and cash flow. Fund investment mainly represents investment in various funds investing in equity. Equity investment mainly comprises shares of listed companies and equity investment of unlisted companies with strong potential. Proprietary trading and treasury mainly invests in global bonds and conducts liquidity management and foreign exchange risk management for the Group through bond market, financing arrangement with banks and other financial instruments. For the six months ended 30 June 2019, fixed returns investment, fund investment, equity investment and proprietary trading and treasury accounted for approximately 42%, 23%, 7% and 28% of the total investment assets of the Group, respectively.

(ii) Financial services and others mainly include provision of finance lease services, business consulting services, and financing services and other related services. The Group has set up a professional financial leasing company with relevant licenses in the PRC. It is focusing on providing services to the basic industries which conform to the PRC's industrial policy and economic development trend, by way of introducing financial leasing to those industries, including the logistics, automobile, aviation, solar energy and wind power generation and liquefied natural gas, to obtain constant and stable rental income. In addition, based on the Group's domestic and overseas business network and the experience of investing in various industries, the Group also provides consulting and financing services on macro-economic, industry analysis, financial product design and other aspects for customers.

As at 31 December 2017 and 2018 and 30 June 2019, the assets of the Remaining Business (including the unallocated corporate assets) amounted to approximately HK$13,676 million, HK$10,159 million and HK$9,884 million, respectively, representing approximately 98%, 98% and 95% of the Group's total assets, respectively. For the years ended 31 December 2017 and 2018 and six months ended 30 June 2019, its revenue amounted to approximately HK$606 million, HK$911 million and HK$251 million, respectively, representing approximately 67%, 61% and 42% of the Group's revenue of the respective periods.

Upon Completion, the Group will continue to optimise its existing portfolio and capture favorable investment and business opportunities according to its strategic direction. The Company has been identifying various types of investment and business opportunities, including but not limited to corporate loans, fixed-income investments, fund investments, equity investments as well as provision of financial services and others. In particular, in order to realise the development approach of revitalising its principal business and the overall operating strategy of developing "businesses that orbit distressed asset management", the Group will attach importance to special situation investment opportunities arising out of distressed assets restructuring. Specifically, the Company will place debt, equity or mezzanine investments to bail out businesses that are promising yet under short-term liquidity distress, and realize investment gains by assisting these businesses in recovering their liquidity and the corresponding business operations and financial results; alternatively, the Company will seize investment opportunities contemplating listed companies with weaker performance, achieve synergy and value appreciation by injecting fresh assets and realize investment gains through the stock market; lastly, the Company will also invest in underpriced assets that are spun off from a lackluster business as a result of a meltdown situation, and achieve profits by disposing these assets with a more favorable valuation.

Special situation investment features counter-cyclicality. As a result, when the macro-economy is in an adjustment phase and enterprises have lower profitability and poor debt service capability, distressed assets start to emerge and their size as a percentage of the total assets in the overall market would typically increase, resulting in a more abundant supply of special situation investment opportunities. Therefore, in light of the more turbulent world economic landscape, the increasing uncertainty and volatility in the global financial markets as well as the latest general economic environment in Hong Kong as a result of the recent local social incidents, it is expected that the Company will be exposed to more abundant supply of special situation investment opportunities.

The financial services and others business is an integral component of the Remaining Business and represents a natural extension of the direct investments business. Based on the Group's expertise and synergizing with its capabilities to mobilize networks and resources for its direct investments business, the financial services and others business provides the clients with a range of financing and restructuring solutions in the formats of financial leasing and business consulting etc., which in turn broaden the business tools available to the direct investments business and increase the efficiency and return with which the Group realizes its direct investments. As discussed above, the financial services and others business is a natural extension of the direct investments business, and the direct investment business attaches importance to special situation investment opportunities that feature counter-cyclicality. As a result, the financial services and others business will likewise be exposed to more abundant supply of business opportunities as needs for restructuring and alternative financing solutions will typically surge in this time of more volatile and uncertain economic and financial prospects. After having established a more prudent approach in evaluating and capturing new business opportunities, the Group is currently proactively identifying promising clients that are seeking advice on restructuring or alternative financing solutions and endeavoring to provide them with our integrated services. The Group will further consolidate its resources by enhancing the interaction between the financial services and others business and the direct investments business, so as to continue generating synergetic dynamics within the Remaining Business and improve the overall profitability of the Group.

Besides, the Remaining Business has sustained a robust customer base, which comprises, inter alia, promising industry players in such capital-intensive sectors as transportation, logistics and renewable energy. These customers are more sensitive to the economic and financial cyclicality and the Company will identify and capture business opportunities in the course of addressing their financing needs in this time of more volatile and uncertain economic and financial prospects.

Amid the business development, the Group will continue to prioritize its risk prevention and control, promote the construction of quantitative analysis system for market risks, strengthen its corporate governance and mechanism for risk prevention and control, improve policies on comprehensive risk preference and risk limit management, clearly define project admission criteria, optimize business authorization and customer management policy, so as to enhance the effectiveness of risk control, improve the comprehensive system management to realize the Group's stable growth and development.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as adopted by the Company, to be notified to the Company and the Stock Exchange.

3. DIRECTORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the following Directors are also directors or employees of a company which has 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:

Name of Director	Name of substantial Shareholder of the Company	Position in the substantial Shareholder of the Company
YU Meng	China Huarong International Holdings Limited	Director and General Manager
ZHAO Yingxuan	China Huarong Asset Management Co., Ltd.	Assistant to General Manager of Integrated Planning and Collaborative Development Department

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into a service contract with any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. MATERIAL ADVERSE CHANGE

Save as disclosed in (i) the Company's announcement dated 9 August 2019 in relation to the profit warning for the six months ended 30 June 2019; and (ii) the Company's announcement dated 26 August 2019 in relation to the interim results for the six months ended 30 June 2019, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up.

6. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors nor their respective close associates had any interests in other business, which competes or may compete, either directly or indirectly, with the business of the Group.

7. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date:

(a) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement, which was significant in relation to the business of the Group; and

(b) none of the Directors nor their respective associates had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. LITIGATION

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, the Group was not engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

9. MATERIAL CONTRACTS

The following contracts have been entered into by members of the Group (not being contracts entered into in the ordinary course of business of the Group) within two years immediately preceding the Latest Practicable Date that are or may be material:

(a) the subscription agreement dated 23 November 2017 entered into between Bloom Right Limited (an indirect wholly-owned subsidiary of the Company) and Master Glory Group Limited (凱華集團有限公司) in respect of the subscription of notes in the principal amount of HK$300 million issued by Master Glory Group Limited;

(b) the asset management agreement dated 8 December 2017 entered into between Huarong Shengyuan (Beijing) Investment Co. Ltd. (華融晟遠(北京)投資有限公司) (a direct wholly-owned subsidiary of the Company), China Merchants Wealth Asset Management Co., Ltd. (招商財富資產管理有限公司) and Bank of Ningbo Co., Ltd. (寧波銀行股份有限公司) in respect of the deposit in an amount of up to RMB290 million placed by Huarong Shengyuan (Beijing) Investment Co. Ltd.;

(c) the loan agreement dated 11 December 2017 entered into between Clever Robust Limited (醒健有限公司) (an indirect wholly-owned subsidiary of the Company) and an independent third party in respect of the provision of financial assistance in the principal amount of HK$350 million;

(d) the credit framework agreement dated 21 December 2017 entered into between Zhongju (Shenzhen) Financial Leasing Co., Ltd. (中聚(深圳)融資租賃有限公司) (an indirect wholly-owned subsidiary of the Company), Shenzhen Yestock Automobile Service Co., Ltd. (深圳市贏時通汽車服務有限公司) and Yestock Automobile Service (Shenzhen) Co., Ltd. (贏時通汽車服務(深圳)有限公司), Yestock Technology (Shenzhen) Co., Ltd. (贏時通科技(深圳)有限公司), Mr. Wang Jen Tse and Ms. Lai Siu Chui in respect of the purchase of automobiles for a total consideration not more than RMB150 million;

(e) the rental agreements dated 27 December 2017 entered into between Zhongju (Shenzhen) Financial Leasing Co., Ltd. (中聚(深圳)融資租賃有限公司) (an indirect wholly-owned subsidiary of the Company) and Anhui Pacific Cable Group Co., Ltd. (安徽太平洋電纜集團有限公司) in respect of the lease of equipment back to Anhui Pacific Cable Group Co., Ltd. for 5 years for an estimated total amount of RMB133.9 million;

(f) the subscription agreement dated 29 December 2017 entered into between Star Lavish Limited (豐星有限公司) (an indirect wholly-owned subsidiary of the Company) and Superactive Group Company Limited (先機企業集團有限公司) in respect of the subscription of bonds in the principal amount of HK$300 million issued by Superactive Group Company Limited;

(g) the subscription agreement dated 16 January 2018 entered into between Atlantic Star Global Limited (an indirect wholly-owned subsidiary of the Company) and All-Stars General Partner I Limited in respect of the subscription for a limited liability partnership interest of US$30 million in a fund;

(h) the deed of undertaking dated 28 September 2018 entered into between Freeman FinTech Corporation Limited and Cheery Plus Limited (添樂有限公司) (an indirect wholly-owned subsidiary of the Company) in respect of the performance by Freeman FinTech Corporation Limited of certain obligations under the amended terms and conditions of the convertible bonds in the principal amount of HK$437 million issued by Freeman FinTech Corporation Limited and subscribed by Cheery Plus Limited;

(i) the deed of confirmation dated 30 August 2019 entered into between Intrend Ventures Limited, Big Thrive Limited (an indirect wholly-owned subsidiary of the Company), Mr. Xu Songqing (許松慶) and Haiyi Limited (海逸有限公司) in respect of the confirmation of validity of the guarantee given by Mr. Xu Songqing, and the share charges provided by Mr. Xu Songqing, Intrend Ventures Limited and Haiyi Limited, respectively, all in favour of Big Thrive Limited in connection with the senior secured bonds in the principal amount of HK$450 million issued by Intrend Ventures Limited and subscribed by Big Thrive Limited;

(j) the transfer form dated 20 September 2019 executed by Wise United Holdings Limited (an indirect wholly-owned subsidiary of the Company), as the transferor, and a company incorporated in Hong Kong with limited liability (an independent third party), as the transferee, in respect of the disposal of the senior secured guaranteed notes issued by Zhuguang Holdings Group Company Limited (珠光控股集團有限公司) in the outstanding principal amount of US$12 million at the consideration of US$12 million; and

(k) the Share Purchase Agreement.

10. EXPERT

The following is the qualification of the expert who has given its opinions or advice, which are contained or referred to in this circular:

Name	**Qualification**
Somerley	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO

As at the Latest Practicable Date, Somerley:

(a) did not have any shareholding in any member of the Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group;

(b) did not have any direct or indirect interests in any assets which had been acquired or disposed of by or leased to any member of the Group since 31 December 2018 (the date to which the latest published audited consolidated financial statements of the Group were made up) or proposed to be so acquired, disposed of or leased; and

(c) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name and logo in the form and context in which they respectively appear.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Room 3201, 32/F., Two Pacific Place, 88 Queensway, Hong Kong during normal business hours from 9:30 a.m. to 5:30 p.m. on any business days for a period of 14 days from the date of this circular:

(a) the articles and memorandum of association of the Company;

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

(c) the letter of advice from Somerley to the Independent Board Committee and the Shareholders, the text of which is set out on pages 14 to 32 of this circular;

(d) the annual report of the Company for the financial year ended 31 March 2016;

(e) the annual report of the Company for the financial period of nine months ended 31 December 2016;

(f) the annual report of the Company for the financial year ended 31 December 2017;

(g) the annual report of the Company for the financial year ended 31 December 2018;

(h) the interim report of the Company for the financial period of six months ended 30 June 2019;

(i) the Share Purchase Agreement;

(j) the circular of the Company dated 4 October 2019 in relation to the amendments of the terms and conditions of 8% bonds due 2019 issued by Intrend Ventures Limited; and

(k) this circular.

12. MISCELLANEOUS

(a) the registered office of the Company is located at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands;

(b) the head office and principal place of business of the Company is located at Room 3201, 32/F, Two Pacific Place, 88 Queensway, Hong Kong;

(c) the Company's Hong Kong branch share registrar is Tricor Investor Services Limited of Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong;

(d) the company secretary of the Company is Mr. Leung Chin Wan who is a member of Hong Kong Institute of Certified Public Accountants; and

(e) the English text of this circular prevails over the Chinese text in case of inconsistency.