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If you have sold or transferred all your shares in Thelloy Development Group Limited, you should at once hand this circular to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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THELLOY DEVELOPMENT GROUP LIMITED
德 萊 建 業 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1546)

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF GRANDWAY INC. DEVELOPMENT LIMITED

Financial Adviser to the Company

雋匯國際金融有限公司
Jun Hui International Finance Limited

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

The Company has obtained the written Shareholders' approval for the Acquisition pursuant to Rule 14.44 of the Listing Rules from Cheers Mate Holding Limited who holds more than 50% of the issued Shares giving the right to attend and vote at a general meeting. Accordingly, no Shareholders' meeting will be held to approve the Acquisition pursuant to Rule 14.44 of the Listing Rules. This circular is being despatched to the Shareholders for information only.

17 December 2019

CONTENTS

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

"Acquisition"	the proposed acquisition of the Sale Share and the Sale Loan by the Purchaser from the Vendor pursuant to the terms and conditions of the Acquisition Agreements
"Acquisition Agreements"	the Provisional Agreement and the Formal Agreement
"Announcement"	the announcement of the Company dated 20 September 2019 in relation to the Acquisition
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day(s)"	a day other than a Saturday or Sunday, on which banks are open in Hong Kong to the general public for business
"Company"	Thelloy Development Group Limited, a company incorporated in the Cayman Islands with limited liability, whose issued Shares are listed and traded on the Main Board of the Stock Exchange (stock code: 1546)
"Completion"	completion of the Acquisition
"Completion Date"	the date on which Completion shall take place, which shall be on or before 17 January 2020
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	HK$90,629,000, being the aggregate consideration for the Sale Share and the Sale Loan under the Acquisition
"controlling shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group and the Target upon Completion
"Formal Agreement"	the formal agreement for sale and purchase of the Sale Share and the Sale Loan entered into between the Purchaser and the Vendor on 22 October 2019
"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 People's Republic of China
"Independent Third Party(ies)"	third party(ies) independent of and not connected to the Company and any of its connected persons
"Independent Valuer"	CHFT Advisory And Appraisal Ltd., an independent professional valuer appointed by the Company for the purpose of the Acquisition
"Latest Practicable Date"	11 December 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
"Property"	Offices A, B, C, D, E and F on 19th Floor, The Globe, No. 79 Wing Hong Street, Kowloon, Hong Kong
"Provisional Agreement"	the provisional agreement for sale and purchase of the Sale Share and the Sale Loan entered into between the Purchaser and the Vendor on 20 September 2019
"Purchaser"	Thelloy Assets Holding Limited, a company incorporated in the British Virgin Islands with limited liability, an indirect wholly-owned subsidiary of the Company
"Sale Loan"	being all such sum of money advanced by way of loan by the Vendor to the Target and due and owing by the Target to the Vendor as at Completion, while the outstanding amount of which was approximately HK$50,860,686 as at the date of the Formal Agreement
"Sale Share"	one ordinary share of the Target, representing the entire issued share capital of the Target at Completion
"Shareholder(s)"	holder(s) of the ordinary share(s) of the Company
"Share(s)	ordinary share(s) of HK$0.01 each in the share capital of the Company

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target"	Grandway Inc. Development Limited (創威興業發展有限公司), a property holding company with the sole purpose of holding 100% of the legal and beneficial interest of the Property situated at The Globe, No. 79 Wing Hong Street, Kowloon, Hong Kong
"Vendor"	Tang Lai Ping, a natural person and an Independent Third Party
"sq. ft."	square feet
"%"	per cent.

THELLOY DEVELOPMENT GROUP LIMITED
德萊建業集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1546)

Executive Directors:
Mr. Lam Kin Wing Eddie *(Chairman)*
Mr. Shut Yu Hang
Mr. Chung Koon Man

Independent non-executive Directors:
Mr. Tang Chi Wang
Mr. Tse Ting Kwan
Mr. Wong Kwong On

Registered office:
PO Box 309
Ugland House
Grand Cayman
Cayman Islands, KY1-1104

Head office and principal place of business in Hong Kong:
2/F, Centre 600
82 King Lam Street, Lai Chi Kok
Kowloon, Hong Kong

17 December 2019

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF GRANDWAY INC. DEVELOPMENT LIMITED

INTRODUCTION

Reference is made to the Announcement and the announcements of the Company dated 15 October 2019 and 29 November 2019.

On 20 September 2019 (after trading hours), the Purchaser, an indirect wholly-owned subsidiary of the Company, and the Vendor entered into the Provisional Agreement, pursuant to which the Purchaser has conditionally agreed to purchase, and the Vendor has conditionally agreed to sell, the Sale Share and the Sale Loan at the Consideration of HK$90,629,000.

On 22 October 2019, the Purchaser and the Vendor entered into the Formal Agreement, which has incorporated terms and conditions contained in the Provisional Agreement. The material terms of the Acquisition Agreements are set out in this circular below.

To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, no Shareholder or any of their respective associates have any material interest in the Acquisition. As such, no Shareholder would be required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition. Written approval of the Acquisition has been obtained from Cheers Mate Holding Limited, being the controlling Shareholder holding 580,000,000 Shares (representing approximately 72.50% of the issued share capital of the Company) as at the Latest Practicable Date, and such written approval is accepted in lieu of holding a general meeting pursuant to Rule 14.44 of the Listing Rules. As such, the Company is not required to convene an extraordinary general meeting for approving the Acquisition.

The purpose of this circular is to provide you with, among others, (i) further details of the Acquisition; (ii) the financial information of the Group; (iii) the unaudited pro forma financial information of the Enlarged Group; (iv) the financial information of the Target and valuation of the Property; and (v) other information as required under the Listing Rules.

THE PROVISIONAL AGREEMENT AND THE FORMAL AGREEMENT

The principal terms of the Acquisition Agreements are summarised as follows:

Dates

20 September 2019 (the Provisional Agreement) and 22 October 2019 (the Formal Agreement)

Parties

(i) The Purchaser

(ii) The Vendor

To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, the Vendor is an Independent Third Party.

Assets to be acquired

The Purchaser has conditionally agreed to purchase, and the Vendor has conditionally agreed to sell, the Sale Share, representing the entire issued share capital of the Target, and the Sale Loan, with all the benefits thereof together with all rights attached thereto free from all encumbrances and third party rights.

The Target is a property holding company with the sole purpose of holding 100% of the legal and beneficial interest of the Property situated at The Globe, No. 79 Wing Hong Street, Kowloon, Hong Kong.

Consideration

The Consideration for the sale and purchase of the Sale Share and the Sale Loan shall be HK$90,629,000, and shall be paid in cash by the Purchaser to the Vendor in the following manner:

(i) an initial deposit of HK$4,531,450 shall be paid upon signing of the Provisional Agreement;

(ii) a further deposit of HK$4,531,450 shall be paid on or before 18 October 2019; and

(iii) the remaining balance of the Consideration in the amount of HK$81,566,100 shall be paid upon Completion.

As at the Latest Practicable Date, the initial deposit and the further deposit have been settled by the Purchaser in cash.

The Consideration of HK$90,629,000 comprises the aggregate consideration for the Sale Share and the Sale Loan of the Target, while the Sale Loan represents all such sum of money advanced by way of loan by the Vendor to the Target and due and owing by the Target to the Vendor as at Completion with the outstanding amount of which was approximately HK$50,860,686 as at the date of the Formal Agreement.

The Consideration was determined after arm's length negotiations between the Purchaser and the Vendor with reference to the market price of comparable properties in nearby locations. A valuation report of the Property has been prepared by the Independent Valuer using direct comparison method of valuation whereby comparisons based on transactions of comparable properties have been made, which is set out in Appendix V to this circular. The market value of the Property as at 1 October 2019 as appraised by the Independent Valuer was HK$91.8 million. To further ascertain the fairness and reasonableness of the Consideration, the net liabilities of the Target of approximately HK$5.6 million as at 30 June 2019 was adjusted by taking into account of the appraised market value of the Property as at 1 October 2019 of approximately HK$91.8 million, but excluding the effects from (i) the amount due to a director of approximately HK$50.9 million (being the Sale Loan under the Acquisition); and (ii) bank borrowing of approximately HK$26.4 million (which was the mortgage loan with respect to the Property, and the Vendor shall procure repayment of all such amounts if any on or before the Completion Date) to facilitate comparison purpose (the "**Adjusted Net Assets**"), and compared to the amount of the Consideration. It is noted that the Adjusted Net Assets were approximately HK$92.0 million, which represented a premium of approximately 1.6% to the amount of the Consideration. The Directors are therefore of the view that the Consideration is fair and reasonable.

The Consideration was and will be financed by internal resources of the Group.

Conditions precedent

Completion shall be subject to and conditional upon the fulfilment of the following:

(i) the Purchaser having completed its due diligence investigation on the business, financial, legal and all other aspects of the Target and reasonably satisfied with the results thereof;

(ii) the Vendor, shall at the Vendor's own cost, procure the Target to prove and give a good title to the Property in accordance with Sections 13 and 13A of the Conveyancing and Property Ordinance (Cap.219 of the Laws of Hong Kong);

(iii) there is no adverse change in the physical condition of the Property (fair, wear and tear excepted);

(iv) all the representations, undertakings and warranties given by the Vendor under the Acquisition Agreements are and shall remain true, accurate, correct and complete and not misleading in all respects up to Completion; and

(v) the small claim proceedings against a company and an individual in relation to the terminated tenancy agreement of a vacant unit in the Property shall have been concluded (including any counter claim, review or appeal on the decision of the Small Claims Tribunal) or withdrawn at least ten Business Days prior to Completion.

The Purchaser may at its absolute discretion at anytime waive in writing for all or any of the above conditions precedent. The Vendor cannot waive any of the conditions precedent. As at the Latest Practicable Date, no conditions precedent has been waived and the Purchaser has no intention to waive any of the conditions precedent. The Directors are of the view that waiving any of the conditions precedent will not affect the substance of the Acquisition, including but not limited to the transfer of legal title of the Property.

If any of the foregoing conditions is not fulfilled (or waived by the Purchaser) on or before the Completion Date, the Purchaser shall be entitled to (i) postpone the Completion Date to a date (being a Business Day) falling not more than ten Business Days after the date set for Completion; or (ii) cancel the transaction under the Acquisition Agreements whereupon the Vendor shall return all the deposit paid to the Purchaser within two Business Days and thereafter neither party shall have any claim against each other.

As at the Latest Practicable Date, none of the above conditions precedent has been fulfilled.

Completion

Subject to satisfaction of the conditions precedent to the Acquisition Agreements, Completion shall take place on or before the Completion Date.

INFORMATION OF THE TARGET AND THE PROPERTY

The Target is a company incorporated in Hong Kong with limited liability on 18 March 2017, and its principal business activity is property investment. The Vendor is the legal and beneficial owner of the entire issued share capital of the Target. The Target is a property holding company with the sole purpose of holding 100% of the legal and beneficial interest of the Property situated at The Globe, No. 79 Wing Hong Street, Kowloon, Hong Kong.

The Property is situated in the Cheung Sha Wan district in Kowloon. It comprises six units in a commercial building at The Globe, No. 79 Wing Hong Street, Kowloon, Hong Kong with a total gross floor area of approximately 7,490 sq. ft.. As disclosed in the Announcement, five of the six units of the Property were leased to four tenants who are all Independent Third Parties with the lease terms to be ended in 2020 or 2021 (as the case may be), while one unit was vacant. As at the Latest Practicable Date, the Company was informed by the Vendor that, at the request from an independent tenant, the Target has mutually agreed with the independent tenant to early terminate the tenancy with respect to a leased unit of the Property (i.e. one of the five leased units aforementioned). As at the Latest Practicable Date, the Property had four leased units which will end in July 2020, January 2021, July 2021 and July 2021 respectively, and had two vacant units. The Company has no intention to lease out or renew the existing tenancies upon the end of the respective lease terms after the Acquisition, and the Company intends to acquire the Property for office use. Save and except the aforementioned tenancies, the Target has not carried on any business since its incorporation. The audited financial information of the Target for the period from 18 March 2017 (the date of its incorporation) to 31 March 2018, the year ended 31 March 2019 and the three months ended 30 June 2019 is set out in Appendix II to this circular, while summarised below are certain key financial information of the Target extracted from Appendix II to this circular:

	For the period from 18 March 2017 to 31 March 2018	For the year ended 31 March 2019	For the three months ended 30 June	
			2018	2019
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Loss before taxation	(2,876)	(2,291)	(799)	(426)
Loss after taxation	(2,876)	(2,291)	(799)	(426)

As at 30 June 2019, the total assets of the Target were approximately HK$71,963,000, and its net liabilities were approximately HK$5,593,000.

The Vendor shall procure repayment of all amounts owing by the Target under the existing mortgage (if any) on or before the Completion Date. As at 30 June 2019, the amounts owing by the Target under the existing mortgage were approximately HK$26.4 million.

According to the valuation report of the Property prepared by the Independent Valuer, the appraised market value of the Property as at 1 October 2019 was HK$91.8 million.

Pursuant to the Acquisition Agreements, the Vendor shall warrant to the Purchaser that, among others, the Target shall on Completion have no indebtedness or liabilities of any nature, whether actual or contingent, other than the Sale Loan and any rental deposit received, prepayment received (including but not limited to rental received in advance) and accrued accounts payable as shown in the accounts of the Target made up to the Completion Date.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target will become an indirect wholly-owned subsidiary of the Company and the financial results of the Target will be consolidated into the financial statements of the Group.

Earnings

The Group expects that there will be an increase in the annual depreciation expenses by approximately HK$3.3 million relating to the Property after Completion. However, the impact could be offset in long run by the combined effect of an annual rental saving of approximately HK$1.3 million with respect to the Group's current leased office and the expected larger rental expenses to be incurred for a larger space of leased office to cater for the growing demand of the Group's businesses with strengthening manpower in the event that the Acquisition does not proceed. It is also expected that, after Completion, the Group will recognise the total monthly rental income (as other income) from the existing four leased units of the Property of approximately HK$112,000 before end of the relevant lease terms.

Assets and liabilities

The amount of acquisition cost of the Property is approximately HK$91.7 million comprising the amount of the Consideration of HK$90,629,000 and other transaction costs directly relating to the Acquisition including professional fees and other expenses being capitalised. As at 30 September 2019, the Group settled approximately HK$4.5 million being the initial deposit to the Vendor. Upon Completion, the non-current assets of the Group are expected to be further increased by approximately HK$87.2 million being the outstanding balance of the aforesaid acquisition cost. Meanwhile, the current assets of the Group are expected to be decreased by approximately HK$87.8 million, principally as a matter of the decrease in its bank balances and cash for settling the outstanding balance of the Consideration and other transaction costs directly relating to the Acquisition. While the current liabilities of the Group are expected to be slightly increased by approximately HK$0.3 million which were other payables and accrued expenses of the Target. As the result, the financial effect on the Group's net asset value is expected to be generally offset.

Save as disclosed above, there will be no immediate material effect on the earnings and assets and liabilities of the Group associated with the Acquisition.

According to the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to this circular, had the Acquisition been completed on 30 September 2019, the total assets of the Enlarged Group would have been decreased by approximately HK$0.6 million from approximately HK$233.4 million as at 30 September 2019 to approximately HK$232.8 million, and the total liabilities of the Enlarged Group would have been increased by approximately HK$0.3 million from approximately HK$96.8 million as at 30 September 2019 to approximately HK$97.1 million.

INFORMATION OF THE GROUP

The Group is principally engaged in providing building construction services, and repair, maintenance, alteration and addition (RMAA) works services in Hong Kong as a main contractor.

INFORMATION OF THE VENDOR

To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, the Vendor is an Independent Third Party.

REASONS AND BENEFITS OF THE ACQUISITION

The Purchaser is a limited liability company incorporated under the laws of the British Virgin Islands and is an indirect wholly-owned subsidiary of the Company. The Purchaser is principally engaged in investment holding.

To cater for the growing demand of its businesses with strengthening manpower, the Group has been identifying suitable office premises to cope with its operational needs in long run, and it intends to acquire the Property through the Target as its self-owned office after Completion and relocate its staff to the new office in phases. The Directors consider that the Acquisition is beneficial to the Group as the Property is expected to provide more office space to accommodate the Group's future development and allow it to save costs relating to rental from a long-term perspective.

Having considered the valuation of the Property prepared by the Independent Valuer of which the appraised value of the Property as at 1 October 2019 (being HK$91.8 million) is comparable to the amount of the Consideration, the market price of comparable properties of the Property in nearby locations and the reasons and benefits of the Acquisition described above, the Directors (including the independent non-executive Directors) consider that the terms of the Acquisition Agreements are on normal commercial terms and are fair and reasonable, and the Acquisition is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio (as defined under the Listing Rules) for the Acquisition exceeds 25% but all of the applicable percentage ratios are less than 100%, the Acquisition 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.

To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, no Shareholder or any of their respective associates have any material interest in the Acquisition. As such, no Shareholder would be required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition. Written approval of the Acquisition has been obtained from Cheers Mate Holding Limited, being the controlling Shareholder holding 580,000,000 Shares (representing approximately 72.50% of the issued share capital of the Company) as at the Latest Practicable Date, and such written approval is accepted in lieu of holding a general meeting pursuant to Rule 14.44 of the Listing Rules. As such, the Company is not required to convene an extraordinary general meeting for approving the Acquisition.

As the Directors (including the independent non-executive Directors) are of the view that the Acquisition Agreements are on normal commercial terms and are fair and reasonable, and the Acquisition is in the interests of the Company and the Shareholders as a whole, the Directors would recommend the Shareholders to vote in favour of the resolution if the Company were to convene a general meeting for the approval of the Acquisition.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of
Thelloy Development Group Limited
Lam Kin Wing Eddie
Chairman and Executive Director

1. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial information of the Group for the years ended 31 March 2017, 2018 and 2019 and the unaudited condensed consolidated results of the Group for the six months ended 30 September 2019, together with the relevant notes thereto are disclosed in the following documents, which have been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.thelloy.com):

- the annual report of the Company for the year ended 31 March 2017 (pages 54 to 95):

  https://www1.hkexnews.hk/listedco/listconews/gem/2017/0629/gln20170629083.pdf

- the annual report of the Company for the year ended 31 March 2018 (pages 56 to 95):

  https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0703/ltn201807032194.pdf

- the annual report of the Company for the year ended 31 March 2019 (pages 54 to 105):

  https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0711/ltn20190711287.pdf

- the interim report of the Company for the six months ended 30 September 2019 (pages 2 to 25):

  https://www1.hkexnews.hk/listedco/listconews/sehk/2019/1128/2019112800504.pdf

2. STATEMENT OF INDEBTEDNESS

(a) Borrowings

As at the close of business on 31 October 2019, being the latest practicable date for the purpose of ascertaining information relating to this indebtedness statement prior to the printing of this circular, the Group had no bank borrowings and had lease liabilities amounting to approximately HK$2,281,000 which were secured by rental deposits amounting to approximately HK$201,100.

As at the close of business on 31 October 2019, the Target had borrowings of approximately HK$77,027,000, comprising bank borrowing of approximately HK$25,866,000, which was secured by (i) first legal mortgage of the Property; (ii) floating charge over the rental income derived from the Property; (iii) guarantee from a company controlled by the Vendor; and (iv) guarantee from the Vendor in her personal capacity; and unsecured and unguaranteed amount due to a director of approximately HK$51,161,000.

(b) Disclaimer

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and trade-related liabilities, as at the close of business on 31 October 2019, the Group and the Target did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, lease obligations, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

After due and careful enquiry, taking into account the internal financial resources available to the Group including internally generated funds and available banking facilities, the Directors are of the opinion that the Enlarged Group will have sufficient working capital for its requirements for at least the next 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is principally engaged in providing building construction services, and repair, maintenance, alteration and addition (RMAA) works services in Hong Kong as a main contractor.

As disclosed in the management discussion and analysis in the Company's interim report for the six months ended 30 September 2019, the Group will keep focusing on its existing business and looking for appropriate projects that cope with the overall strategy of the Group. The Group will strengthen its market position in the industry and increase its market shares by (i) further expanding into the private customers segment; (ii) further developing business opportunities in design and build segment as well as in modular construction segment especially as the Hong Kong Government has reserved HK$5 billion budget on building transitional housing; and (iii) strengthening its manpower in order to cater for the growing demand for the businesses of the Group.

Upon Completion, the Target will become an indirect wholly-owned subsidiary of the Company and the Enlarged Group will continue focusing on its existing business. The Company has no intention to lease out or renew the existing tenancies upon the end of the respective lease terms after the Acquisition, and the Company intends to use the Property as its office premises. The Directors consider that upon Completion, the Property is expected to provide more office space to accommodate the Group's future development and allow it to save costs relating to rental from a long-term perspective.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

The following is the text of the accountants' report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, for the purpose of inclusion in this circular.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF GRANDWAY INC. DEVELOPMENT LIMITED
TO THE DIRECTORS OF THELLOY DEVELOPMENT GROUP LIMITED

Introduction

We report on the historical financial information of Grandway Inc. Development Limited (the ''Target Company'') set out on pages II-5 to II-38, which comprises the statements of financial position of the Target Company as at 31 March 2018, 31 March 2019 and 30 June 2019, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Target Company for the period from 18 March 2017 (date of incorporation) to 31 March 2018, the year ended 31 March 2019, and the three months ended 30 June 2019 (the ''Relevant Periods'') and a summary of significant accounting policies and other explanatory information (together, the ''Historical Financial Information''). The Historical Financial Information set out on pages II-5 to II-38 forms an integral part of this report, which has been prepared for inclusion in the circular of Thelloy Development Group Limited (the ''Company'') dated 17 December 2019 (the ''Circular'') in connection with the proposed acquisition of the entire issued share capital of the Target Company.

Director's responsibility for the Historical Financial Information

The director of the Target Company is responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2 to the Historical Financial Information, and for such internal control as the director of the Target Company determines is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of this Circular in which the Historical Financial Information of the Target Company is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Company's financial position as at 31 March 2018, 31 March 2019 and 30 June 2019, and of the Target Company's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation set out in note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the three months ended 30 June 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The director of the Target Company is responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Historical Financial Statements as defined on page II-4 have been made.

Dividends

We refer to note 9 to the Historical Financial Information which states that no dividend was paid or declared by the Target Company since its incorporation.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
17 December 2019

HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on audited financial statements for the period from 18 March 2017 (date of incorporation) to 31 March 2018 and for the year ended 31 March 2019 respectively and the management accounts of the Target Company for the three months ended 30 June 2019 (the "Underlying Financial Statements"). The Underlying Financial Statements have been prepared in accordance with the accounting policies which conform with the Small and Medium-sized Entity Financial Reporting Standard ("SME-FRS") issued by the HKICPA and were audited by C. K. Liu, certified public accountants registered in Hong Kong, in accordance with Hong Kong Standards on Auditing and with reference to Practice Note 900 (Revised) "Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard" issued by the HKICPA ("Historical Financial Statements").

The Historical Financial Information is presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Target Company, and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	**18.3.2017 to 31.3.2018** *HK$'000*	**1.4.2018 to 31.3.2019** *HK$'000*	**1.4.2018 to 30.6.2018** *HK$'000* (unaudited)	**1.4.2019 to 30.6.2019** *HK$'000*
Revenue	*5*	–	1,206	–	481
Other operating expenses		(2,686)	(2,817)	(658)	(662)
Impairment loss on financial assets		–	–	–	(61)
Finance costs – interest expense on bank borrowing		(190)	(680)	(141)	(184)
Loss before taxation	*7*	(2,876)	(2,291)	(799)	(426)
Income tax expense	*8*	–	–	–	–
Loss and total comprehensive expense for the period/year		(2,876)	(2,291)	(799)	(426)

STATEMENTS OF FINANCIAL POSITION

		As at 31 March		As at 30 June
		2018	2019	2019
	NOTES	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Investment properties	*11*	74,642	72,068	71,424
Current assets				
Trade receivables	*12*	–	51	–
Other receivables and deposits	*13*	103	163	159
Bank balances	*14*	527	561	380
		630	775	539
Current liabilities				
Other payables and accrued expenses	*15*	9	351	300
Amount due to a director	*16*	49,711	50,861	50,861
Bank borrowing	*17*	28,428	26,798	26,395
		78,148	78,010	77,556
Net current liabilities		(77,518)	(77,235)	(77,017)
Net liabilities		(2,876)	(5,167)	(5,593)
Capital and reserve				
Share capital	*18*	–*	–*	–*
Accumulated losses		(2,876)	(5,167)	(5,593)
Total equity		(2,876)	(5,167)	(5,593)

* *Amount less than HK$1,000*

STATEMENTS OF CHANGES IN EQUITY

	Share capital	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 18 March 2017 (date of incorporation)	–*	–	–*
Loss and total comprehensive expense for the period	–	(2,876)	(2,876)
At 31 March 2018	–*	(2,876)	(2,876)
Loss and total comprehensive expense for the year	–	(2,291)	(2,291)
At 31 March 2019	–*	(5,167)	(5,167)
Loss and total comprehensive expense for the period	–	(426)	(426)
At 30 June 2019	–*	(5,593)	(5,593)
At 1 April 2018	–*	(2,876)	(2,876)
Loss and total comprehensive expense for the period	–	(799)	(799)
At 30 June 2018 (unaudited)	–*	(3,675)	(3,675)

* *Amount less than HK$1,000*

STATEMENTS OF CASH FLOWS

	18.3.2017 to 31.3.2018 *HK$'000*	1.4.2018 to 31.3.2019 *HK$'000*	1.4.2018 to 30.6.2018 *HK$'000* (unaudited)	1.4.2019 to 30.6.2019 *HK$'000*
OPERATING ACTIVITIES				
Loss before taxation	(2,876)	(2,291)	(799)	(426)
Adjustments for:				
Depreciation	2,574	2,574	644	644
Impairment loss on financial assets	–	–	–	61
Finance costs	190	680	141	184
Operating cash flows before movements in working capital	(112)	963	(14)	463
Increase in trade receivables	–	(51)	–	(61)
(Increase) decrease in other receivables and deposits	(103)	(60)	–	4
Increase in other payables and accrued expenses	9	342	–	–
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(206)	1,194	(14)	406
CASH USED IN INVESTING ACTIVITY				
Purchase of investment properties	(77,216)	–	–	–
FINANCING ACTIVITIES				
New bank borrowing raised	28,984	–	–	–
Repayment of bank borrowing	(556)	(1,630)	(418)	(403)
Advance from a director	51,160	1,150	600	–
Repayment to a director	(1,449)	–	–	–
Interests paid	(190)	(680)	(141)	(184)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	77,949	(1,160)	41	(587)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	527	34	27	(181)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	–	527	527	561
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD, represented by bank balances	527	561	554	380

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. General information

Grandway Inc. Development Limited ("the Target Company") is a limited liability company incorporated in Hong Kong. The controlling shareholder of the Target Company is Ms. Tang Lai Ping ("Ms. Tang"), who is also the sole director of the Target Company. The address of the registered office and principal place of business is located at Flat C, 36th Floor, Tower 3, The Harbourside, 1 Austin Road West, Tsim Sha Tsui, Kowloon, Hong Kong.

The Target Company is engaged in property investment.

The Historical Financial Information is presented in HK$, which is also the functional currency of the Target Company.

2. Basis of preparation of historical financial information

Notwithstanding that the Target Company recorded a net current liabilities of HK$77,017,000 and net liabilities of HK$5,593,000 as at 30 June 2019, the Historical Financial Information has been prepared on a going concern basis as the sole director of the Target Company has agreed not to demand for any repayment of amount due from the Target Company of HK$50,861,000 as at 30 June 2019 for a further period of at least twelve months from the issuance of this report up to the completion of the proposed acquisition of the Target Company. In addition, Thelloy Development Group Limited, the ultimate holding Company of the purchaser of the Target Company, has agreed to provide adequate funds for the Target Company as is necessary to enable the Target Company to meet in full its financial obligations and agreed not to demand for any repayment of amount due from the Target Company for a further period of at least twelve months from the issuance of this report upon the completion of the proposed acquisition of the Target Company.

The Historical Financial Information has been prepared based on the accounting policies set out in note 4 which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

3. Application of new and amendments HKFRSs and interpretations

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, the Target Company has consistently applied the accounting policies which conform with HKFRSs, which are effective for the accounting period beginning 1 April 2019 throughout the Relevant Periods except that the Target Company has adopted i) HKFRS 9 "Financial Instruments'" and HKFRS 15 "Revenue from Contracts with Customers" starting from 1 April 2018 and applied Hong Kong Accounting Standard ("HKAS") 39 "Financial Instruments: Recognition and Measurement" and HKAS 18 "Revenue" for the period from 18 March 2017 (date of incorporation) to 31 March 2018; and ii) HKFRS 16 "Leases" starting from 1 April 2019 and applied HKAS 17 "Leases" for the period from 18 March 2017 (date of incorporation) to 31 March 2018 and the year ended 31 March 2019. Comparative information is not restated. Accordingly, certain comparative information is not comparable. The impact of these new and amendments to HKFRSs are described below.

HKFRS 9 "Financial Instruments"

The Target Company has applied HKFRS 9 for the first time during the year ended 31 March 2019. HKFRS 9 superseded HKAS 39 and the related consequential amendments to other HKFRSs.

The Target Company has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities, (ii) expected credit losses ("ECL") for financial assets and lease receivables; and (iii) general hedge accounting.

The Target Company has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 April 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 April 2018. The difference between carrying amounts as at 31 March 2018 and the carrying amounts as at 1 April 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 4.

Classification and measurement of financial instruments

All financial assets and financial liabilities continue to be measured on the same basis as were previously measured under HKAS 39.

Impairment of financial assets

At 1 April 2019, the management of the Target Company reviewed and assessed the Target Company's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9.

The Target Company applies simplified approach to measure ECL which uses a lifetime ECL for all trade receivables (representing lease receivables). To measure the ECL, all trade receivables have been assessed individually.

ECL for other financial assets at amortised cost, mainly comprise of other receivables and deposits and bank balances, are measured on 12-month ECL basis and there had been no significant increase in credit risk since initial recognition.

In the opinion of the director of the Target Company, the ECL on financial assets is insignificant as at 1 April 2018.

HKFRS 16 "Leases"

The Target Company has applied HKFRS 16 for the first time during the three months ended 30 June 2019. HKFRS 16 superseded HKAS 17 and the related interpretations.

Accounting policies resulting from application of HKFRS 16 are disclosed in note 4.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Target Company is not required to make any adjustment on transition for leases in which the Target Company is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition. The director of the Target Company considers such adjustment has no material impact to the Historical Financial Information.

New and amendments to HKFRSs that are mandatorily effective for the current year

The Target Company has not early applied the following new and amendments to HKFRSs which are not yet effective:

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 3	Definition of a Business[3]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an investor and its Associate or Joint Venture[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]

[1] *Effective for annual periods beginning on or after 1 January 2020.*

[2] *Effective for annual periods beginning on or after 1 January 2021.*

[3] *Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.*

[4] *Effective for annual periods beginning on or after a date to be determined.*

Except as mentioned below, the director of the Target Company anticipates that the application of the other new and amendments to HKFRSs will have no material impact on the Historical Financial Information in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all HKFRSs and will be mandatorily effective for the annual period beginning on 1 April 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Target Company but may affect the presentation and disclosures in the Historical Financial Information.

4. Significant accounting policies

The Historical Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Target Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in this Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17/HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Revenue from contracts with customers

The Target Company recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and the revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Target Company's performance as the Target Company performs;
- the Target Company's performance creates or enhances an asset that the customer controls as the Target Company performs; or
- the Target Company's performance does not create an asset with an alternative use to the Target Company and the Target Company has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Leasing (before application of HKFRS 16 on 1 April 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Target Company as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset. Other than investment properties measured under fair value model, such costs are recognised as an expense on a straight-line basis over the lease term.

Rental income which are derived from the Target Company's ordinary course of business are presented as revenue.

Leasing (upon application of HKFRS 16 on 1 April 2019)

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Target Company assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessor

The Target Company enters into lease agreements as a lessor with respect to its investment properties.

Leases for which the Target Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Allocation of consideration to components of a contract

Effective on 1 April 2019, the Target Company applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Taxation represents the sum of the income tax expense currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target Company expects, at the end of each reporting period, to recover or settle the carrying amounts of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Target Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Impairment on non-financial assets

At the end of each reporting period, the Target Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of non-financial assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Target Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated to the assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised on the statements of financial position when the Target Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 April 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 April 2018)

Financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables and deposits and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of HKFRS 9 on 1 April 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period. They are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

The amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 on 1 April 2018)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Target Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Target Company may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Impairment of financial assets (upon application of HKFRS 9 on 1 April 2018)

The Target Company recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, other receivables and deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after each reporting date. Assessment is done based on the Target Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at each reporting date as well as the forecast of future conditions.

The Target Company always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually.

For all other instruments, the Target Company measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target Company recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Target Company compares the risk of a default occurring on the financial instrument as at each reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Target Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether the credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicator of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Target Company presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Target Company has reasonable and supportable information that demonstrates otherwise.

The Target Company regularly monitors the effectiveness of the criteria used to identify whether there has been significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Target Company considers the followings as constituting events of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or

- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Company, in full (without taking into account any collaterals held by the Target Company).

The Target Company considers that default has occurred when the instrument is more than 90 days past due unless the Target Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have been occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer of the borrower;

- a breach of contract, such as a default or past due event;

- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

- it is becoming probably that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Target Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Target Company's recovery procedures, taking into account legal advice when appropriate. A write-off constitutes a derecognition event. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the effective interest rate determined at initial recognition.

The Target Company recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Target Company derecognises a financial asset only when the contractual rights to the cash flows from the assets expire.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Target Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities, including other payables and accrued expenses, amount due to a director and bank borrowing are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Target Company derecognises a financial liability when, and only when, the Target Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. Revenue and segment information

Revenue

Revenue represents rental income from operating leases, which is recognised in profit or loss on a straight-line basis over the term of the relevant leases.

Segment information

The Target Company determines its operating segments based on the reports reviewed by the director of the Target Company, being the chief operating decision maker (the "CODM"), that are used to make strategic decisions. For the purpose of resource allocation and performance assessment, the CODM reviews the overall results and financial position of the Target Company as a whole. Accordingly, only entity-wide disclosures, major customers and geographic information are presented.

Geographical information

All of the Target Company's revenue is derived from activities and customers located in Hong Kong and the Target Company's non-current assets are all located in Hong Kong.

Information about major customers

Revenue from customers of the corresponding year contributing over 10% of the total sales of the Target Company are as follows:

	18.3.2017 to 31.3.2018	**1.4.2018 to 31.3.2019**	**1.4.2018 to 30.6.2018**	**1.4.2019 to 30.6.2019**
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Customer A	–	196	–	76
Customer B	–	154	–	61
Customer C	–	253	–	87
Customer D	–	545	–	187
Customer E	–	N/A#	–	70

The customer did not contribute over 10% of total sales of the Target Company during the relevant year.

6. Director's remuneration

The sole director did not receive any fees or emoluments in respect of the services rendered to the Company during the Relevant Periods.

7. Loss before taxation

	18.3.2017 to 31.3.2018 *HK$'000*	1.4.2018 to 31.3.2019 *HK$'000*	1.4.2018 to 30.6.2018 *HK$'000* (unaudited)	1.4.2019 to 30.6.2019 *HK$'000*
Loss before taxation has been arrived at after charging (crediting):				
Auditor's remuneration	9	9	–	–
Depreciation of investment properties	2,574	2,574	644	644
Gross rental income from investment properties	–	(1,206)	–	(481)
Less: Direct operating expenses incurred for investment properties that generated rental income during the period/year	–	46	–	18
Direct operating expenses incurred for investment properties that did not generate rental income during the period/year	46	–	12	–
	46	(1,160)	12	(463)

8. Income tax expense

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year/period.

No provision for Hong Kong Profits Tax has been made in the Historical Financial Information as the Target Company has no assessable profits during the Relevant Periods.

The income tax expense for the year/period can be reconciled to the loss before taxation per the statements of profit or loss and other comprehensive income as follows:

	18.3.2017 to 31.3.2018 *HK$'000*	1.4.2018 to 31.3.2019 *HK$'000*	1.4.2018 to 30.6.2018 *HK$'000* (unaudited)	1.4.2019 to 30.6.2019 *HK$'000*
Loss before taxation	(2,876)	(2,291)	(799)	(426)
Tax at Hong Kong Profits Tax rate of 16.5%	(475)	(378)	(132)	(70)
Tax effect of expenses not deductible for tax purpose	226	226	56	56
Tax effect of estimated tax losses not recognised	249	152	76	14
Income tax expense	–	–	–	–

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the Relevant Periods:

	Tax losses	Accelerated tax depreciation	Total
	HK$'000	*HK$'000*	*HK$'000*
At 18 March 2017	–	–	–
Credit (charge) to profit or loss	40	(40)	–
At 31 March 2018	40	(40)	–
Credit (charge) to profit or loss	40	(40)	–
At 31 March 2019	80	(80)	–
Credit (charge) to profit or loss	10	(10)	–
At 30 June 2019	90	(90)	–

The Target Company has estimated unused tax losses of approximately HK$1,751,000, HK$2,917,000 and HK$3,063,000, which is subject to the agreement with the Hong Kong Inland Revenue Department, available for offset against future profits as at 31 March 2018, 31 March 2019 and 30 June 2019, respectively. A deferred tax asset has been recognised in respect of approximately HK$242,000, HK$483,000 and HK$543,000 of such losses during the respective years. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$1,509,000, HK$2,434,000 and HK$2,520,000 due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

9. Dividends

No dividend was paid or declared by the Target Company in respect of the Relevant Period.

10. Loss per share

No loss per share information is presented for the purpose of this report as its inclusion is not considered meaningful having regard to the proposed transaction.

11. Investment properties

	HK$'000
COST	
At 18 March 2017 (date of incorporation)	–
Addition	77,216
At 31 March 2018, 31 March 2019 and 30 June 2019	77,216
ACCUMULATED DEPRECIATION	
At 18 March 2017	–
Charge for the period	2,574
At 31 March 2018	2,574
Charge for the year	2,574
At 31 March 2019	5,148
Charge for the period	644
At 30 June 2019	5,792
CARRYING AMOUNT	
At 31 March 2018	74,642
At 31 March 2019	72,068
At 30 June 2019	71,424

Investment properties are depreciated on a straight-line basis over the remaining lease term.

The fair value of the investment properties at 31 March 2018, 31 March 2019 and 30 June 2019 was HK$89,392,000, HK$98,710,000 and HK$98,710,000, respectively. The fair value has been arrived at based on a valuation carried out by the director of the Target Company. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

All of the Target Company's investment properties have been pledged to secure banking facilities granted to the Target Company.

12. Trade receivables

	As at 31 March		As at 30 June
	2018	2019	2019
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	–	51	61
Less: Provision for credit losses	–	–	(61)
	–	51	–

Rents from leasing of investment properties are normally received in advance. At 31 March 2018, 31 March 2019 and 30 June 2019, trade receivables represent rents receipts in arrears, aged less than 90 days.

The Target Company always measures the loss allowance for trade receivables at an amount equal to lifetime ECL.

At 31 March 2019, all trade receivables are past due but not impaired as these receivables are fully covered by the deposits from corresponding tenants.

At 30 June 2019, all trade receivables are past due and fully impaired. Details are set out in note 22.

13. Other receivables and deposits

	As at 31 March		As at 30 June
	2018	2019	2019
	HK$'000	*HK$'000*	*HK$'000*
Accrued rents	–	60	44
Deposits	103	103	115
	103	163	159

14. Bank balances

Bank balances carry interest at prevailing market rate.

15. Other payables and accrued expenses

	As at 31 March		As at 30 June
	2018	2019	2019
	HK$'000	*HK$'000*	*HK$'000*
Deposits from tenants	–	342	291
Accrued expenses	9	9	9
	9	351	300

During the three months ended 30 June 2019, HK$51,000 of deposits from tenants has been forfeited.

16. Amount due to a director

The amount is unsecured, interest-free and has no fixed repayment term.

17. Bank borrowing

	As at 31 March		As at 30 June
	2018	2019	2019
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount repayable based on scheduled repayment dates set out in loan agreement:			
Within one year	1,696	1,728	1,737
More than one year, but not exceeding two years	1,728	1,762	1,770
More than two years, but not exceeding five years	5,387	5,491	5,517
More than five years	19,617	17,817	17,371
	28,428	26,798	26,395
Less: Carrying amount of bank borrowing that contain a repayment on demand clause and shown under current liabilities	(28,428)	(26,798)	(26,395)
Amount shown under non-current liabilities	–	–	–

Bank borrowing carries interest at 1.1% per annum over 1 month Hong Kong Interbank Offered Rate or the bank's Cost of Funds, whichever is higher. At 31 March 2018, 31 March 2019 and 30 June 2019, the effective interest rates are 2.02%, 2.67% and 3.54%, respectively.

The bank borrowing is secured by:

(i) first legal mortgage over the investment properties as set out in note 11;

(ii) floating charge over the rental income derived from the investment properties;

(iii) guarantee from Full Metro Investments Limited, a company controlled by the sole director and shareholder of the Target Company, Ms. Tang Lai Ping ("Ms. Tang"); and

(iv) guarantee from Ms. Tang in her personal capacity.

18. Share capital

The share capital at 18 March 2017 (date of incorporation), 31 March 2018, 31 March 2019 and 30 June 2019 represented one issued share of the Target Company.

19. Related party transactions

Save as disclosed elsewhere in the Historical Financial Information, details of the Target Company's balances with related parties are set out in note 16 and the statements of financial position on page II-6.

20. Operating lease commitments

At the end of each reporting period, the Target Company as lessor had contracted with tenants for the following future minimum lease payments:

	As at 31 March		**As at 30 June**
	2018	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	–	2,054	1,748
In second to fifth year inclusive	–	1,484	918
	–	3,538	2,666

Operating lease payments represent rentals receivable by the Target Company from leasing of its investment properties. Leases are negotiated and rentals are fixed for lease term of two to three years.

21. Capital risk management

The Target Company manages its capital to ensure that the Target Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Target Company's overall strategy remains from prior year.

The capital structure of the Target Company consists of debt, which includes amount due to a director and bank borrowing, and equity, comprising share capital and accumulated losses.

The management of the Target Company reviews the capital structure on an on-going annual basis. As part of this review, the management of the Target Company considers the cost of capital and the risks associated with the capital. Based on recommendations of the management of the Target Company, the Target Company will balance its overall capital structure through raise of new borrowings or repayment of existing borrowings.

22. Financial instruments

Categories of financial instruments

	As at 31 March		As at 30 June
	2018	**2019**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Loans and receivables (including cash and cash equivalent)	630	–	–
Amortised cost	–	775	539
Financial liabilities			
Amortised cost	78,148	78,010	77,556

Financial risk management objectives and policies

The Target Company's financial instruments include trade receivables, other receivables and deposits, bank balances, other payables and accrued expenses, amount due to a director and bank borrowing. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

Interest rate risk

The Target Company is exposed to cash flow interest rate risk in relation to its bank balances (note 14) and variable-rate bank borrowing (note 17).

The Target Company currently does not have interest rate hedging policy. However, the management of the Target Company closely monitors its exposure to future cash flow interest rate risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

Sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for the variable-rate bank borrowing, assuming that outstanding balances at the end of each reporting period are outstanding for the whole year, and interest rate swaps. A 50 basis points increase or decrease represents management's assessment of the reasonably possible change in interest rate.

At 31 March 2018, 31 March 2019 and 30 June 2019, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Target Company's post-tax loss for the year would increase/decrease by approximately HK$119,000, HK$112,000 and HK$110,000, respectively.

No sensitivity analysis is provided on bank balances as the management of the Target Company considers that the interest rate fluctuation on bank balances is minimal.

Credit risk and impairment assessment

The Target Company's maximum exposure to credit risk which will cause a financial loss to the Target Company due to failure to discharge an obligation by the counterparties is arising from the financial assets whose carrying amounts best represent the maximum exposure to credit risk.

Trade receivables

In order to minimise the credit risk, the Target Company has monitoring procedures for ensuring that follow up actions are taken to recover overdue debts. In this regard, the director of the Target Company considers that the Group's credit risk is significantly reduced.

Trade receivables represent lease receivables. Tenants of the rental properties is required to settle the demand note on demand. Rental is payable in advance.

The director of the Target Company reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment loses are made for the recoverable amounts, and considers the ECL on not credit-impaired trade receivables is insignificant as at 31 March 2019 and 30 June 2019.

The Target Company's trade receivables with aggregate gross carrying value of HK$51,000 and HK$61,000 as at 31 March 2019 and 30 June 2019, respectively, are credit-impaired. The Target Company has not provided for impairment loss during the year ended 31 March 2019 as the trade receivables are fully covered by the deposits received from the corresponding tenants, while full impairment has been provided during the three months ended 30 June 2019.

The Target Company has no significant concentration of credit risk in relation to trade receivables because the exposure is spread over a number of counterparties and customers.

Other receivables and deposits

For other receivables and deposits, the director of the Target Company makes individual assessment on the recoverability of these balances based on historical settlement records, past experience, and also available reasonable and supportive forward-looking information, to ensure that adequate provisions for impairment losses are made for irrecoverable amounts. In this regard, the director of the Target Company considers that the Group's credit risk is significantly reduced, and ECL on these balances is considered insignificant.

Bank balances

The credit risk on bank balances is low because the counterparty is reputable bank with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of liquidity risk, the Target Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Target Company to finance its operations and mitigates the effects of fluctuations in cash flows.

At 30 June 2019, the Target Company recorded a net current liabilities of HK$77,017,000 and net liabilities of HK$5,593,000. The sole director of the Target Company has agreed not to demand for any repayment of amount due from the Target Company of HK$50,861,000 as at 30 June 2019 for a further period of at least twelve months from the issuance of this report up to the completion of the proposed acquisition of the Target Company, and accordingly, the director of the Target Company considers the liquidity risk is insignificant.

The following tables detail the Target Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Company can be required to pay. Specifically, bank borrowing with a repayment on demand clause is included in the earliest time band regardless of the probability of the bank choosing to exercise the rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. To the extent that interest flows are at floating rate, the undiscounted amount is derived from prevailing interest rate at the end of each reporting period.

The table includes both interest and principal cash flows.

	Weighted average effective interest rate	Repayable on demand	Within 1 year	Total undiscounted cash flows	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2018					
Non-derivative financial liabilities					
Other payables and accrued expenses	N/A	–	9	9	9
Amount due to a director	N/A	49,711	–	49,711	49,711
Bank borrowing	2.02	28,428	–	28,428	28,428
		78,139	9	78,148	78,148
At 31 March 2019					
Non-derivative financial liabilities					
Other payables and accrued expenses	N/A	–	351	351	351
Amount due to a director	N/A	50,861	–	50,861	50,861
Bank borrowing	2.67	26,798	–	26,798	26,798
		77,659	351	78,010	78,010
At 30 June 2019					
Non-derivative financial liabilities					
Other payables and accrued expenses	N/A	–	300	300	300
Amount due to a director	N/A	50,861	–	50,861	50,861
Bank borrowing	3.54	26,395	–	26,395	26,395
		77,256	300	77,556	77,556

The table below follows the maturity analysis of bank borrowing based on agreed scheduled repayment set out in the loan agreement irrespective of whether the terms of the bank borrowing contain a repayment on demand clause. The amounts include interest payments computed using contractual rates. As a result, these amounts are greater than the amounts disclosed in the "repayable on demand" time band in the maturity analysis above. Taking into account the Target Company's financial position, the director of the Target Company does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The director of the Target Company believes that such bank borrowing will be repaid in accordance with the scheduled repayment dates set out in the loan agreement.

	Weighted average interest rate	**Within 1 year**	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 March 2018	2.02	2,271	2,268	6,786	21,667	32,992	28,428
31 March 2019	2.67	2,444	2,429	7,196	20,027	32,096	26,798
30 June 2019	3.54	2,671	2,641	7,733	20,150	33,195	26,395

The amounts included above for variable-rate instrument for non-derivative financial liabilities is subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of each reporting period.

Fair value measurement

The management of the Target Company considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values.

23. Movement on target company's liabilities arising from financing activities

The table below details changes in the Target Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statements of cash flows as cash flows from financing activities.

	Amount due to a director	**Bank borrowing**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 18 March 2017	–	–	–
Financing cash flows	49,711	28,238	77,949
Finance costs recognised	–	190	190
At 31 March 2018	49,711	28,428	78,139
Financing cash flows	1,150	(2,310)	(1,160)
Finance costs recognised	–	680	680
At 31 March 2019	50,861	26,798	77,659
Financing cash flows	–	(587)	(587)
Finance costs recognised	–	184	184
At 30 June 2019	50,861	26,395	77,256

24. Subsequent financial information

No audited financial statements of the Target Company have been prepared in respect of any period subsequent to 30 June 2019.

*Set out below is the management discussion and analysis of the Target for the period from 18 March 2017 (the date of its incorporation) to 31 March 2018, the year ended 31 March 2019 and the three months ended 30 June 2019 (collectively as the "**Relevant Periods**"), which is based on the financial information of the Target as set out in Appendix II to this circular.*

BUSINESS AND FINANCIAL REVIEW

The Target is a company incorporated in Hong Kong with limited liability on 18 March 2017, and its principal business activity is property investment. The Target is a property holding company with the sole purpose of holding 100% of the legal and beneficial interest of the Property situated at The Globe, No. 79 Wing Hong Street, Kowloon, Hong Kong.

The Target comprises six units in a commercial building with a total gross floor area of approximately 7,490 sq. ft.. As disclosed in the Announcement, five of the six units of the Property were leased to four tenants who are all Independent Third Parties, with the lease terms to be ended in 2020 or 2021 (as the case may be), while one unit was vacant. As at the Latest Practicable Date, the Company was informed by the Vendor that, at the request from an independent tenant, the Target has mutually agreed with the independent tenant to early terminate the tenancy with respect to a leased unit of the Property (i.e. one of the five leased units aforementioned). As at the Latest Practicable Date, the Property had four leased units which will end in July 2020, January 2021, July 2021 and July 2021 respectively, and had two vacant units. Save and except the aforementioned tenancies, the Target has not carried on any business since its incorporation.

According to the financial information of the Target set out in Appendix II to this circular, revenue of the Target for the Relevant Periods was nil, approximately HK$1.2 million and HK$0.5 million respectively, which was mainly the rental income relating to the tenancies aforementioned. The net loss of the Target for the Relevant Periods was approximately HK$2.9 million, HK$2.3 million and HK$0.4 million respectively, mainly as a matter of depreciation expenses relating to the Property.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2018 and 2019 and 30 June 2019, total assets of the Target were approximately HK$75.3 million, HK$72.8 million and HK$72.0 million respectively, which mainly relate to the Property, and its total liabilities were approximately HK$78.1 million, HK$78.0 million and HK$77.6 million respectively comprising mainly (i) amount due to a director (being the Vendor); and (ii) bank borrowing which was the mortgage loan with respect to the Property. As at 31 March 2018 and 2019 and 30 June 2019, the Target had bank balances of approximately HK$527,000, HK$561,000 and HK$380,000 respectively.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

During the Relevant Periods, the Target did not have any significant investments, material acquisitions and disposals.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

As at 31 March 2018 and 2019 and 30 June 2019, the Target did not have any material contingent liabilities and capital commitment.

FOREIGN EXCHANGE EXPOSURE

The Target's transactions were denominated in Hong Kong dollars, and there was no foreign exchange exposure during the Relevant Periods. As at the Latest Practicable Date, the Target did not have a foreign currency hedging policy.

PLEDGE OF ASSETS

As at 31 March 2018 and 2019 and 30 June 2019, the Target pledged the Property to secure a bank mortgage loan of approximately HK$28.4 million, HK$26.8 million and HK$26.4 million respectively. Save as the said mortgage loan, the Target did not pledge any of its assets.

NUMBER OF EMPLOYEES

During the Relevant Periods, the Target did not have any employees.

BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following unaudited pro forma financial information of the Company and its subsidiaries (collectively referred to as the ''Group'') and Grandway Inc. Development Limited (the ''Target Company'') (collectively hereinafter referred to as the ''Enlarged Group'') (the ''Unaudited Pro Forma Financial Information'') is prepared by the directors of the Company (the ''Directors''), in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for the purpose of illustrating the effect of the proposed acquisition of the entire issued share capital of the Target Company (the ''Acquisition''), as if the Acquisition had been completed on 30 September 2019.

The Unaudited Pro Forma Financial Information is prepared based on (i) the unaudited consolidated statement of financial position of the Group as at 30 September 2019, which has been extracted from the published interim report of the Group for the six months ended 30 September 2019; and (ii) the audited statement of financial position of the Target Company as at 30 June 2019, which has been extracted from the accountants' report thereon set out in Appendix II to this circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the Acquisition; and (ii) factually supportable, as if the Acquisition had been completed 30 September 2019.

The Unaudited Pro Forma Financial Information has been prepared by the Directors based on a number of assumptions, estimates and uncertainties for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the financial position of the Enlarged Group that would have been attained had the transactions been completed on 30 September 2019, nor purport to predict the future financial position of the Enlarged Group.

UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	The Group As at 30 September 2019	The Target Company As at 30 June 2019	Pro forma adjustments		The Enlarged Group As at 30 September 2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note (1)	*Note (2)*	*Note (3)*	*Note (4)*	
Non-current assets					
Property, plant and equipment	2,302	–	27,443	328	30,073
Investment properties	–	71,424	(8,238)	756	63,942
Right-of-use assets	2,252	–			2,252
Interest in a joint venture	1,595	–			1,595
Deposits and prepayments	4,531	–	(4,531)		–
	10,680	71,424			97,862
Current assets					
Trade receivables	37,547	–			37,547
Other receivables, deposits and prepayments	2,343	159			2,502
Contract assets	16,589	–			16,589
Tax recoverable	4,241	–			4,241
Pledged bank deposits	6,206	–			6,206
Bank balances and cash	155,818	380	(86,337)	(2,049)	67,812
	222,744	539			134,897
Current liabilities					
Trade payables	26,610	–			26,610
Other payables and accrued expenses	62,241	300			62,541
Contract liabilities	5,709	–			5,709
Amount due to a director	–	50,861	(50,861)		–
Lease liabilities	1,640	–			1,640
Bank borrowing	–	26,395	(26,395)		–
	96,200	77,556			96,500
Net current assets (liabilities)	126,544	(77,017)			38,397
Total assets less current liabilities	137,224	(5,593)			136,259
Non-current liabilities					
Lease liabilities	641	–			641
Net assets (liabilities)	136,583	(5,593)			135,618

Notes:

(1) The balances are extracted from the published interim report of the Group for the six months ended 30 September 2019.

(2) The balances are extracted from the accountants' report of the Target Company as set out in Appendix II to this circular. For the purpose of preparing the Unaudited Pro Forma Financial Information of the Enlarged Group, the pro forma values of the identifiable assets and liabilities of the Target Company as at 30 June 2019 are assumed to be the same as their carrying amounts as at 30 September 2019 as if the Acquisition had been completed as at 30 September 2019.

(3) On 22 October 2019, Thelloy Assets Holding Limited, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Ms. Tang Lai Ping (the "Vendor"), in relation to the acquisition of the entire issued share capital of the Target Company and the shareholder's loan owning by the Target Company by the Vendor as at completion date, at a consideration of HK$90,629,000.

(a) Pursuant to the sale and purchase agreement, the Vendor agreed to assign the outstanding amount of the shareholder's loan of the Target Company to the Group at the date of completion of the Acquisition. For the purpose of the Unaudited Pro Forma Financial Information, the shareholder's loan of the Target Company as at 30 June 2019 of HK$50,861,000 will be adjusted as amount due to the Group, and eliminated at consolidation level.

In addition, the consideration payable will be utilised to repay the bank borrowing at completion of the Acquisition. For the purpose of the Unaudited Pro Forma Financial Information, the bank borrowing of the Target Company as at 30 June 2019 of HK$26,395,000 will be repaid.

Upon completion of the Acquisition, the consideration payable will be subject to upward adjustment if the net asset value (i.e. the amount by which the total assets of the Target Company, other than the investment properties, exceeds its total liabilities, other than the shareholder's loan, as at completion of the Acquisition) of the Target Company is more than nil, or downward adjustment if the net asset value of the Target Company is less than nil.

For the purpose of the Unaudited Pro Forma Financial Information, the consideration payable is approximately HK$90,868,000, comprises of (i) consideration of HK$90,629,000 and (ii) positive net asset value of the Target Company as at 30 June 2019 of approximately HK$239,000.

Analysis of net asset value of the Target Company as at 30 June 2019:

	HK$'000
Other receivables and deposits	159
Bank balances	380
Other payables and accrued expenses	(300)
	239

Initial deposit of HK$4,531,000, which included in long-term deposits and prepayments at 30 September 2019, paid by the Group for the Acquisition will be utilised to settle the purchase consideration on completion of the Acquisition.

(b) The investment properties held by the Target Company (the "Property") will be held by the Group for office use, while the Group has no intention to lease out or renew the existing tenancies upon the end of the lease terms after the Acquisition. As at the latest practicable date prior to the printing of this circular, four units of the Property have been leased out while the remaining two are vacant units. For the purpose of the Unaudited Pro Forma Financial Information, the four lease units are classified as investment properties and the two vacant units are classified as property, plant and equipment. Accordingly, the aggregate carrying amount of the two vacant units amounting to HK$21,628,000 will be reclassified to property, plant and equipment.

Under Hong Kong Financial Reporting Standard ("HKFRS") 3 "Business Combination", a business consists of inputs and processes applied to those inputs that have the ability to create outputs. In view that the Target Company does not have any processes to its business, the Acquisition will be accounted for as asset acquisition of the Target Company. Accordingly, adjustment of HK$5,815,000 and HK$13,390,000 will be recognised to property, plant and equipment and investment properties, respectively.

In accordance with HKFRS 3, the fair value of the Target Company's Property should be measured at its fair value on the completion date of the Acquisition. As such, the fair value of the Target Company's Property is subject to change and accordingly, the adjustment so calculated may be materially different.

The actual cash consideration payable by the Group and the actual purchase cost allocation of net assets to be acquired is subject to change and will be determined as of the completion date and may differ materially from the amount disclosed above in the Unaudited Pro Forma Financial Information.

(4) The adjustment represents the estimated transaction costs (including professional fees to legal adviser, financial adviser, reporting accountants, properties valuer, agent commission and other expenses) directly attributable to the Acquisition of approximately HK$2,049,000, of which acquisition-related agency commission and stamp duty amounting to HK$1,084,000 is capitalised and included in property, plant and equipment and investment properties, respectively.

(5) Other than the above adjustments, no other adjustment had been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions that the Enlarged Group and the Target Company entered into subsequent to 30 September 2019 and 30 June 2019, respectively.

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the unaudited pro forma financial information of the Enlarged Group prepared for the purpose of incorporation in this circular.

Deloitte. 德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Thelloy Development Group Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Thelloy Development Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 30 September 2019 and related notes as set out on pages IV-1 to IV-4 of the circular issued by the Company dated 17 December 2019 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages IV-1 to IV-4 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of the entire issued share capital of Grandway Inc. Development Limited on the Group's financial position as at 30 September 2019 as if the transaction had taken place at 30 September 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's interim financial statements for the six months ended 30 September 2019, on which no auditor's report or review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 September 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
17 December 2019

The following is the text of a letter and valuation report prepared for the purpose of incorporation in this circular received from CHFT Advisory And Appraisal Ltd., an independent professional valuer appointed by the Company, in connection with its valuation as at 1 October 2019 of the Property.

華坊諮詢評估有限公司
CHFT Advisory and Appraisal Ltd.

華坊諮詢評估有限公司
CHFT ADVISORY AND APPRAISAL LTD.
香港上環文咸東街 40 號 15 樓 1502 室
1502, 15/F, 40 Bonham Strand, Sheung Wan, HK
電話 Main +852 2301 4080
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Date of Report: 17 December 2019

The Board of Directors

Thelloy Development Group Limited
2/F, Centre 600
82 King Lam Street
Lai Chi Kok
Kowloon, Hong Kong

Dear Sir/Madam,

Re: Valuation of Offices A, B, C, D, E and F on 19th Floor, The Globe, No. 79 Wing Hong Street, Kowloon, Hong Kong (the "Property")

In accordance with an instruction from Thelloy Development Group Limited (the "**Company**") to appraise the value of the Property, we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing our opinion of the market value of the Property as at 1 October 2019 (the "**Date of Valuation**") for the purpose of incorporation in the circular of the Company dated 17 December 2019 only.

Valuation Basis and Considerations

Our valuation is carried out on a market value basis, which is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

This valuation complies with "The HKIS Valuation Standards (2017 Edition)" published by The Hong Kong Institute of Surveyors ("**HKIS**"), the "International Valuation Standards" published by the International Valuation Standards Council as well as the requirements set out in Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Valuation Assumptions

Our valuation has been made on the assumption that the owner sells the Property on the open market in its existing state without the benefit or burden of a deferred term contract, leaseback, joint venture, or any similar arrangement, which would serve to affect the value of the Property.

No allowance has been made in our valuation neither for any charges, mortgages or amounts owing on the Property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of onerous nature which could affect its value.

Valuation Methodology

We have applied direct comparison method of valuation whereby comparisons based on transactions of comparable properties have been made. Comparable properties with similar character, location, condition and so on are analysed and carefully weighed against all respective advantages and disadvantages of each property in order to arrive at the fair comparison of value.

Direct comparison method is considered the best method of valuation if relevant comparable properties are available. This method rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

Source of Information and Title Investigation

We have caused searches at the Land Registry. We have not, however, searched the original documents to verify ownership or any amendment which did not appear on the copies handed to us. All documents have been used for reference only.

We have relied to a considerable extent on information given by the Company, in particular, but not limited to statutory notices, easements, tenancies, etc.. We have taken every reasonable care both during inspecting the information provided to us and in making relevant enquiries.

Site inspection of the Property was carried on 27 September 2019 by Mr. Harry Sung (BEng), who has over one year property valuation experience in Hong Kong. We have inspected the exterior and, where possible, certain common parts of the Property. We have not inspected those parts of the Property which are covered, unexposed or inaccessible and such parts have been assumed to be in reasonable condition. We have not carried out detailed measurements to verify the correctness of the floor areas. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

In the course of our inspection, we did not notice any serious defects. However, we have not carried out any structural survey or any tests on the building services. Therefore, we are not able to report whether the Property is free of rot, infestation or any other structural defects. We have not carried out investigations on the site to determine the suitability of the ground conditions, the services, etc. for redevelopment. We have not carried out any investigation into past or present uses, either of the Property or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the Property from these uses or sites, and have therefore assumed that none exists.

Limitation of Liabilities

We have had no reason to doubt the truthfulness and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

The responsible valuer is in a position to provide an objective and unbiased valuation and is competent to undertake the valuation assignment. Our findings and conclusion of value of the Property in this report are valid only for the stated purpose and at the Date of Valuation, and for the sole use of the Company. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and the valuer accepts no responsibility whatsoever to any other person.

Our liability for loss or damage shall be limited to such sum as we ought reasonably to pay having regard to our responsibility for the same on the basis that all other consultants and specialists, where appointed, shall be deemed to have provided to the Company contractual undertakings in respect of their services and shall be deemed to have paid to the Company such contribution as may be appropriate having regard to the extent of their responsibility for such loss or damage.

Our liability for any loss or damage arising out of the action or proceedings aforesaid shall, notwithstanding the preceding provisions, in any event be limited to ten times of our agreed fee or HK$500,000, whichever is the lower. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, loss of profits, opportunity cost, etc.), even if it has been advised of their possible existence. For the avoidance of doubt our liability shall never exceed the lower of the sum calculated in accordance with the preceding provisions and the sum provided for in this clause.

The Company is required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our engagement except to the extent that any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence, misconduct, willful default or fraud of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

We have valued the Property in Hong Kong Dollars (HK$) and enclose herewith the valuation report.

Yours faithfully,
For and on behalf of
CHFT Advisory And Appraisal Ltd.

Alex PW Leung MHKIS
Senior Director

Note: Mr. Alex PW Leung is a member of the Hong Kong Institute of Surveyors. He has over 20 years' post-qualified property valuation experience in Hong Kong.

VALUATION REPORT

Property	Description and Tenure	Occupancy Details	Market Value as at the Date of Valuation
Offices A, B, C, D, E and F on 19th Floor, The Globe, No. 79 Wing Hong Street, Kowloon, Hong Kong 486/15000 equal and undivided shares of and in Section A, Section B and the Remaining Portion of New Kowloon Inland Lot No. 2812	The Property comprises all the six units on a mid-floor of a 29-storey office building with retail and parking spaces on the lowest four floors. The building was completed in 1998 and was converted into a composite retail/ office block by 2015. The gross floor area and saleable area of the Property are about 7,490 sq.ft. and 5,276 sq. ft. respectively. The Property is held under Government Lease for a term of 75 years renewable for 24 years commenced from 1 July 1898. The lease has been extended by the New Territories Leases (Extension) Ordinance until 30 June 2047. The annual Government Rent payable is 3% rateable value of the Property for the time being.	As advised by the Company, as at the Date of Valuation, portion of the Property with a saleable area of about 4,494 sq. ft. is leased to various tenants with the latest term expiring on 9 July 2021. The total monthly rent is HK$145,628, inclusive of management fee, government rates and government rent, but exclusive of utility charges. The remaining portion of the Property was vacant.	**HK$91,800,000** (HONG KONG DOLLARS NINETY-ONE MILLION EIGHT HUNDRED THOUSAND)

Notes

a) The registered owner of the Property is Grandway Inc. Development Limited.

b) As per recent land searches, the Property is subject to the following encumbrances:

i) Wavier Letter from Chief Estate Surveyor/Headquarters registered under Memorial No. 14071001920028 dated 23 June 2014;

ii) Relaxation Letter from District Lands Officer, Kowloon West registered under Memorial No. 16091500790205 dated 9 August 2016;

iii) Retrospective Approval Letter from District Lands Office, Kowloon West Lands Department registered under Memorial No. 17032302100012 dated 13 March 2017;

iv) Deed of Change of Name of Building and Redesignation of Floor Numbering registered under Memorial No. 17041002030168 dated 5 April 2017;

v) Deed of Mutual Covenant and Management Agreement with Plans in flavour of Hang Yick Properties Management Limited (as Manager) registered under Memorial No. 17111302210039 dated 6 November 2017; and

vi) Mortgage and Rental Assignment in flavour of Hang Seng Bank Limited registered under Memorial Nos. 17112702120132 and 17112702120143 respectively both dated 8 November 2017.

c) The subject building lies within an area zoned as "Other Specified Uses (Business)" under Approved Cheung Sha Wan Outline Zoning Plan No. S/K5/37 dated 16 December 2016.

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

(a) Directors' and chief executive's interests

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") which (i) were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required to be entered in the register referred to therein pursuant to section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

Name	Nature of interests	Number of Shares held	Approximate percentage of the issued share capital of the Company
Mr. Lam Kin Wing Eddie ("**Mr. Lam**")	Interest in controlled corporation *(Note)*	580,000,000 (L)	72.50%
Mr. Chung Koon Man	Beneficial owner	2,000,000 (L)	0.25%

(L) denotes long position.

Note: Mr. Lam beneficially owns 100% of the issued share capital of Cheers Mate Holding Limited. By virtue of the SFO, Mr. Lam is deemed to be interested in 580,000,000 Shares held by Cheers Mate Holding Limited.

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

(b) Substantial shareholders' interests

So far as the Directors and chief executive of the Company are aware, as at the Latest Practicable Date, the following persons (not being a Director or chief executive of the Company) had interests and/or short positions in the Shares or the underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under Section 336 of the SFO, and/or who are directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name	Nature of interests	Number of Shares held	Approximate percentage of the issued share capital of the Company
Cheers Mate Holding Limited *(Note 1)*	Beneficial owner	580,000,000 (L)	72.50%
Ms. Cheng Pui Wah Theresa ("**Ms. Cheng**") *(Note 2)*	Interest of spouse	580,000,000 (L)	72.50%

(L) denotes long position.

Notes:

(1) Mr. Lam beneficially owns 100% of the issued share capital of Cheers Mate Holding Limited. By virtue of the SFO, Mr. Lam is deemed to be interested in 580,000,000 Shares held by Cheers Mate Holding Limited. As at the Latest Practicable Date, Mr. Lam is a director of Cheers Mate Holding Limited, a company which had an interest in the Shares or the underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(2) Ms. Cheng is the spouse of Mr. Lam. By virtue of the SFO, Ms. Cheng is deemed to be interested in the same number of the Shares in which Mr. Lam is deemed to be interested under the SFO.

3. DIRECTORS' SERVICE CONTRACTS

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

4. COMPETING BUSINESS

To the best knowledge of the Directors, none of the Directors or their respective close associates (as defined in the Listing Rules) were considered to have any interests in a business which competed or was likely to compete, either directly or indirectly, with the business of the Group and/or caused, or was likely to cause any other conflicts of interest with the Group, that requires to be disclosed under the Listing Rules.

5. INTEREST IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have been, since 31 March 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, Mr. Lam has a material interest in a tenancy agreement dated 13 March 2019 entered into between Popstate Limited (a company wholly-owned by Mr. Lam) ("**Popstate**") and Techoy Construction Company Limited (a wholly-owned subsidiary of the Company) ("**Techoy**"), pursuant to which Popstate (as landlord) agreed to lease a premise to Techoy (as tenant) for a term from 13 March 2019 to 12 March 2021 at a monthly rental of HK$108,500.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group, subsisting as at the Latest Practicable Date, which is significant in relation to the businesses of the Group.

6. LITIGATION

In June 2019, the Target filed a claim in the Small Claims Tribunal against a company and an individual for failure to repay outstanding rental fees at an amount of approximately HK$69,000. The claim of which is considered immaterial.

As at the Latest Practicable Date, the Group was involved in arbitration proceedings with a customer (the "**Client**") relating to the release of retention monies and/or retention in lieu of performance bond (collectively, the "**Retention**") and the settlement of the outstanding trade receivables by the Client to Techoy Construction Company Limited, a wholly-owned subsidiary of the Company ("**Techoy**"). After the completion of a sub-contract (the "**Sub-contract**") for Hong Kong – Zhuhai – Macao Bridge Hong Kong Boundary Crossing Facilities – Passenger Clearance Building awarded to Techoy in April 2018, the Client failed to release the Retention and persisted in the under-certification of Techoy's claim under the Sub-contract, and resulted in the record of an impairment loss on financial assets and contract assets in the amount of approximately HK$14.4 million for the year ended 31 March 2019.

Save as disclosed above, neither the Group nor the Target was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Group or the Target as at the Latest Practicable Date.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Enlarged Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 March 2019, being the date to which the latest audited consolidated financial statements of the Group were made up) within two years immediately preceding to and including the Latest Practicable Date and were or might be material:

(i) an agreement dated 8 April 2019 between Techoy Modular Construction Co., Ltd., Nova Deko Modular Building Co., Ltd. ("**Nova Deko**") and Nova Techoy Modular Construction Company Limited in relation to a formation of a joint venture between the Group and Nova Deko;

(ii) the Provisional Agreement;

(iii) the Formal Agreement; and

(iv) a surrender agreement dated 8 November 2019 between the then tenant (as tenant) and the Target (as landlord) in relation to the surrender of Unit A on 19th Floor of the Property on 9 November 2019.

8. EXPERTS AND CONSENTS

The following are the qualifications of the experts whose names, opinions and/or reports are contained in this circular:

Name	Qualification
CHFT Advisory And Appraisal Ltd.	Independent professional valuer
Deloitte Touche Tohmatsu	Certified Public Accountants

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, report and/or opinion and reference to its name in the form and context in which it appears.

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

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

9. GENERAL

(i) The registered office of the Company is PO Box 309, Ugland House, Grand Cayman, Cayman Islands, KY1-1104. Its head office and principal place of business in Hong Kong is 2/F, Centre 600, 82 King Lam Street, Lai Chi Kok, Kowloon, Hong Kong.

(ii) The Hong Kong branch share registrar of the Company is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(iii) The company secretary of the Company is Mr. Fung Nam Shan, who is a member of the Hong Kong Institute of Certified Public Accountants and a CPA member of the Australian Institute of Certified Public Accountants.

(iv) In case of inconsistency, the English text of this circular shall prevail over its Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's head office and principal place of business in Hong Kong at 2/F, Centre 600, 82 King Lam Street, Lai Chi Kok, Kowloon, Hong Kong for a period of 14 days from the date of this circular:

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

(ii) the material contracts referred to in the paragraph headed "7. Material contracts" in this appendix;

(iii) the letter of consent from each of the expert referred to in the paragraph headed "8. Experts and consents" in this appendix;

(iv) the accountant's report of the Target, the text of which is set out in Appendix II to this circular;

(v) the property valuation report prepared by CHFT Advisory And Appraisal Ltd. as disclosed in Appendix V to this circular;

(vi) the unaudited pro forma financial information of the Enlarged Group prepared by Deloitte Touche Tohmatsu as disclosed in Appendix IV to this circular;

(vii) the annual reports of the Company for the years ended 31 March 2018 and 2019;

(viii) the interim report of the Company for the six months ended 30 September 2019; and

(ix) all circulars of the Company issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which have been issued since the date of the latest published audited accounts (if any).