THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in the Company, you should hand this circular together with the accompany form of proxy at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

SOUTH CHINA FINANCIAL HOLDINGS LIMITED

南 華 金 融 控 股 有 限 公 司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00619)

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ENTIRE ISSUED SHARE CAPITAL OF GENIUS YEAR LIMITED AND ISSUANCE OF CONVERTIBLE BONDS AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholder

第一上海
FIRST SHANGHAI GROUP

A notice convening an extraordinary general meeting (the "**EGM**") of South China Financial Holdings Limited (the "**Company**") to be held at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Wednesday, 11 January 2023 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular.

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

PRECAUTIONARY MEASURES FOR THE EGM

To safeguard the health and safety of the Shareholders and to prevent the spreading of the COVID-19 pandemic, the following precautionary measures will be implemented at the EGM: (i) compulsory temperature screening/checks; (ii) wearing of surgical face mask; and (iii) no provision of refreshments or drinks or souvenir. Attendees who do not comply with the precautionary measures referred to in (i) and (ii) above may be denied entry to the EGM venue, at the absolute discretion of the Company as permitted by law. Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the EGM venue. For the health and safety of the Shareholders, the Company would like to encourage Shareholders to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy and to return their proxy forms by the time specified above, instead of attending the EGM in person.

16 December 2022

CONTENTS

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

"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Bondholder(s)"	holder(s) of the Convertible Bonds
"Business Day"	a day (other than Saturday, Sunday, public holiday and days on which a tropical cyclone warning No. 8 or above or a "black rainstorm warning signal" is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks are open in Hong Kong for general banking business
"BVI"	the British Virgin Islands
"Company"	South China Financial Holdings Limited 南華金融控股有限公司, a company incorporated in Hong Kong, the issued Shares of which are listed on the Stock Exchange (stock code: 00619)
"Completion"	completion of the sale and purchase of the Genius Year Share in accordance with the terms and subject to the conditions of the Sale and Purchase Agreement
"Completion Date"	the date of Completion, which shall be a date falling within three (3) Business Days (or such other later period as mutually agreed by the Vendor and the Purchaser) after the fulfillment of all conditions precedent as specified in the Sale and Purchase Agreement
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the total consideration of HK$89,840,000 payable by the Purchaser to the Vendor for the Genius Year Share
"Conversion Price"	the initial conversion price of HK$0.32 per Conversion Share, which is subject to adjustment(s) pursuant to the terms and conditions of the Convertible Bonds
"Conversion Shares"	the Shares to be allotted and issued by the Company upon the exercise of the conversion right attaching to the Convertible Bonds
"Convertible Bonds"	convertible bonds in the total principal amount of HK$89,840,000 to be issued by the Company to the Vendor
"Director(s)"	director(s) of the Company

"EGM"	an extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Convertible Bonds and such other matters in relation thereto as may be required under the Listing Rules)
"Enlarged Group"	the Group as enlarged by the acquisition of the entire issued share capital of Genius Year
"Fung Shing"	Fung Shing Group Limited, a company incorporated in the BVI, which is wholly and beneficially owned by Mr. Ng
"Gangyang"	武漢港洋林業發展有限公司, a company incorporated in the PRC, which is a wholly-owned subsidiary of Genius Year as at the Latest Practicable Date
"Gangyang Sites"	16 sites of woods mainly in Chongyang County, Xianning City, Hubei Province, the PRC, having a total area of approximately 80,006 mu (approximately 53 million sq.m.), of which the title holder is Gangyang
"Genius Year"	Genius Year Limited, a company incorporated in the BVI, which is a wholly-owned subsidiary of the Vendor as at the Latest Practicable Date
"Genius Year Group"	Genius Year and its subsidiaries
"Genius Year Share"	one (1) share of US$1.00 in the share capital of Genius Year, representing 100% of its entire issued share capital
"Genius Year Sites"	the Gangyang Sites and the Huafeng Sites
"Group"	the Company and its subsidiaries
"Huafeng"	武漢華峰農林發展有限公司, a company incorporated in the PRC, which is a wholly-owned subsidiary of Genius Year as at the Latest Practicable Date
"Huafeng Sites"	12 sites of woods mainly in Chongyang County, Xianning City, Hubei Province, the PRC, having a total area of approximately 59,209 mu (approximately 39 million sq.m.), of which the title holder is Huafeng
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Independent Board Committee"	an independent board committee of the Board established by the Company, comprising of the independent non-executive Directors (namely Hon. Raymond Arthur William Sears, K.C. and Mr. Tung Woon Cheung Eric) to advise the Independent Shareholders with respect to the Sale and Purchase Agreement and the transactions contemplated thereunder (including the terms and conditions of the Convertible Bonds which are to be issued to settle the Consideration)
"Independent Financial Adviser"	First Shanghai Capital Limited, a licensed corporation carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders with respect to the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Convertible Bonds for settlement of the Consideration)
"Independent Shareholders"	shareholders of the Company, other than Mr. Ng, Mr. Paul Ng, Ms. Cheung and Mr. Richard Howard Gorges and their respective associates who are required to abstain from voting at the EGM pursuant to the Listing Rules
"Latest Practicable Date"	9 December 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information for the purpose of inclusion in this circular
"Listing Committee"	has the same meaning ascribed to it under the Listing Rules
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	13 January 2023 or such other date as the Vendor and the Purchaser may further agree in writing
"Ms. Cheung"	Ms. Cheung Choi Ngor, an executive director of each of the Company and SCH
"Ms. Jessica Ng"	Ms. Ng Yuk Mui Jessica, daughter of Mr. Ng, an executive director of the Company and a non-executive director of SCH
"Mr. Ng"	Mr. Ng Hung Sang, the chairman of the board of directors, an executive director and a substantial shareholder of each of the Company and SCH

"Mr. Paul Ng"	Mr. Ng Yuk Yeung Paul, son of Mr. Ng, a director of certain subsidiaries of the Company and an executive director of SCH
"Parkfield"	Parkfield Holdings Limited, a company incorporated in the BVI, which is wholly and beneficially owned by Mr. Ng
"Power On"	Power On Investments Limited 栢安投資有限公司, a company incorporated in Hong Kong, which is an indirect wholly-owned subsidiary of SCH as at the Latest Practicable Date
"Power Path"	Power Path Global Limited 廣環球有限公司, a company incorporated in the BVI, which is a wholly-owned subsidiary of the Company
"PRC"	the People's Republic of China, but excluding Hong Kong, the Macao Special Administrative Region and Taiwan for the purpose of this circular
"Purchaser"	Power Path
"RMB"	Renminbi, the lawful currency of the PRC
"Ronastar"	Ronastar Investments Limited, a company incorporated in the BVI, which is wholly and beneficially owned by Mr. Ng
"Sale and Purchase Agreement"	the sale and purchase agreement dated 13 September 2022 entered into between the Vendor and the Purchaser in relation to, among other matters, the sale and purchase of the Genius Year Share
"SCH"	South China Holdings Company Limited, an exempted company incorporated in the Cayman Islands, and its ordinary shares are being listed and traded on the Stock Exchange (stock code: 00413)
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the issued Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder"	has the meaning ascribed to it in the Listing Rules

"Takeovers Code"	The Code on Takeovers and Mergers and Share Buy-back
"Thousand China"	Thousand China Investments Limited, a company incorporated in the BVI, which is an indirect wholly-owned subsidiary of SCH
"Total Grace"	Total Grace Investments Limited, a company incorporated in the BVI, which is wholly and beneficially owned by Mr. Ng
"Uni-Spark"	Uni-Spark Investments Limited, a company incorporated in Hong Kong, which is wholly and beneficially owned by Mr. Ng
"Valuation Report"	the valuation report issued by Ravia Global Appraisal Advisory Limited in respect of Gangyang Sites and Genius Year Sites
"Vendor"	Thousand China
"Wealthy Key"	Wealthy Key Limited 富曼有限公司, a company incorporated in Hong Kong, which is an indirect wholly-owned subsidiary of SCH as at the Latest Practicable Date
"%"	per cent.
"sq.m."	square meter

For ease of reference and unless otherwise specified in this circular, the conversion rate of HK$ to RMB is set at the rate of RMB0.88 for HK$1.00. This does not mean that the above mentioned currency has been, could have been or may be converted at such exchange rate.

In case of any inconsistency between the English text and the Chinese text of this circular, the English text shall prevail.

SOUTH CHINA FINANCIAL HOLDINGS LIMITED
南 華 金 融 控 股 有 限 公 司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00619)

Executive Directors:
Mr. Ng Hung Sang
Ms. Cheung Choi Ngor
Ms. Ng Yuk Mui Jessica

Independent Non-executive Directors:
Hon. Raymond Arthur William Sears, K.C.
Mrs. Tse Wong Siu Yin Elizabeth
Mr. Tung Woon Cheung Eric

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

16 December 2022

To the Shareholders

Dear Sir and Madam,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ENTIRE ISSUED SHARE CAPITAL OF GENIUS YEAR LIMITED AND ISSUANCE OF CONVERTIBLE BONDS AND (2) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

References are made to the joint announcement of the Company and SCH dated 13 September 2022 and the announcements of the Company dated 31 October 2022 and 25 November 2022 in relation to, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder (including the terms and conditions of the Convertible Bonds).

The Board announced that on 13 September 2022 (after trading hours), Thousand China (an indirect wholly-owned subsidiary of SCH) and Power Path (a wholly-owned subsidiary of the Company) entered into the Sale and Purchase Agreement, pursuant to which Thousand China has conditionally agreed to dispose of the Genius Year Share to Power Path; and Power Path has conditionally agreed to purchase the Genius Year Share, at a total consideration of

HK$89,840,000 which is to be settled by way of the Convertible Bonds to be issued by the Company upon Completion. Details of the Sale and Purchase Agreement are set out in the section headed "The Sale and Purchase Agreement" hereinbelow.

The purposes of this circular are to provide you with, among other things, (i) details of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the terms and conditions of the Convertible Bonds); (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of, among other things, the Sale and Purchase Agreement and the transaction contemplated thereunder (including the terms and conditions of the Convertible Bonds); (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of, among other things, the Sale and Purchase Agreement and the transaction contemplated thereunder (including the terms and conditions of the Convertible Bonds); (iv) the financial information of the Group; (v) the financial information of the Genius Year Group; (vi) the unaudited pro forma consolidated statements of assets and liabilities of the Enlarged Group assuming Completion were taken place on 30 June 2022; (vii) the valuation report of the Genius Year Sites; and (viii) the notice convening the EGM.

THE SALE AND PURCHASE AGREEMENT

Date: 13 September 2022

Vendor: Thousand China

Purchaser: Power Path

As at the Latest Practicable Date, Mr. Ng, the chairman of the board of directors, an executive director and a substantial shareholder of each of the Company and SCH, had interests in Thousand China, an indirect wholly-owned subsidiary of SCH.

Sale and purchase of the Genius Year Share

Pursuant to the Sale and Purchase Agreement, the Vendor has agreed to sell and the Purchaser has agreed to purchase the Genius Year Share in accordance with the terms and subject to the conditions thereof.

Consideration

The total consideration for the Genius Year Share shall be a sum of HK$89,840,000 which is to be settled by the Convertible Bonds to be issued by the Company upon Completion.

Particulars of the Convertible Bonds are set out in the section headed "The Convertible Bonds" hereinbelow.

Basis of the Consideration

The Consideration of HK$89,840,000 in respect of the Genius Year Share was determined by amicable negotiations between the Vendor and the Purchaser on an arm's length basis with reference to, including without limitation, the adjusted net asset value of the Genius Year Group as at 30 June 2022 of approximately HK$12,280,000 (being (i) the net asset value of the Genius Year Group as at 30 June 2022 of approximately HK$11,790,000); and (ii) the elimination of the right of use of assets of approximately HK$3,660,000 and lease liability of approximately HK4,150,000 which arising from the land use right of certain farm lands to be assigned to a fellow subsidiary in fourth quarter of 2022) and the preliminary land valuation of the Genius Year Sites as at 31 August 2022 of approximately RMB78,400,000 (equivalent to approximately HK$89,090,000). The Consideration equals to the adjusted net asset value of the Genius Year Group , being (i) the net asset value of the Genius Year Group as at 30 June 2022 of approximately HK$11,790,000; (ii) the elimination of the right of use of assets of approximately HK$3,660,000 and lease liability of approximately HK4,150,000 which arising from the land use right of certain farm lands to be assigned to a fellow subsidiary in fourth quarter of 2022; and (iii) the appreciated value of the Genius Year Sites of approximately HK$77,560,000 (which is equivalent to the difference between the preliminary land valuation of the Genius Year Sites as at 31 August 2022 of approximately HK$89,090,000 and the book value of the Genius Year Sites as at 30 June 2022 of approximately HK$11,530,000).

Based on the information provided by the Vendor, (1) the investment costs (including the original acquisition cost of the land use rights of the Genius Year Sites amounted to approximately RMB10.88 million (equivalent to approximately HK$12.36 million)) for Genius Year was approximately HK$36,538,000 up to the Latest Practicable Date; and (2) the book value of the Genius Year Sites as at 30 June 2022 of approximately HK$11,530,000 was comprised of the cost in obtaining the land use rights related to the Gangyang Sites and the Huafeng Sites, which was incurred over 10 years ago, the Directors (including the independent non-executive Directors who have taken into account of the advice of the Independent Financial Adviser) consider that the Consideration, being taken into account of the latest financial position of the Genius Year Group and the current market value of the Genius Year Sites, which can fully reflect the fair value of the Genius Year Group, is fair and reasonable.

Conditions precedent

Completion is conditional upon the fulfillment of the following conditions:

(a) the Purchaser having completed its due diligence investigation in the Genius Year Group and the Genius Year Sites, and the Purchaser being satisfied with the results of the due diligence investigation;

(b) there having been no material breach of the Vendor's warranties set out in the Sale and Purchase Agreement from the date of the Sale and Purchase Agreement up to and inclusive of the Completion Date;

(c) no material adverse change on the operation of the Genius Year Group from the date of the Sale and Purchase Agreement up to and inclusive of the Completion Date;

(d) the granting of the approval for the listing of, and permission to deal in, the Conversion Shares by the Listing Committee (whether subject to conditions or not); and

(e) the approval by the Independent Shareholders of the Company at an EGM approving the execution and performance of the Sale and Purchase Agreement and other transaction documents (including the terms and conditions of the Convertible Bonds) and the transactions contemplated thereunder.

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

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

Completion

Completion shall take place at the principal place of business of the Purchaser at 10:00 a.m. (or at such other place or on such other time as the Vendor and the Purchaser may agree) on the Completion Date.

Upon Completion, the Genius Year Group (i) will be the indirect subsidiaries of the Company which will indirectly holds 100% interest in the Genius Year Sites; and (ii) will cease to be the subsidiaries of SCH.

THE CONVERTIBLE BONDS

Pursuant to the Sale and Purchase Agreement, the consideration for the Genius Year Share shall be satisfied by the issuance of the Convertible Bonds by the Company to the Vendor.

The principal terms of the Convertible Bonds are as follows:

Issuer:	the Company
Principal amount:	HK$89,840,000
Issue Price:	100% of the principal amount of the Convertible Bonds
Interest:	1% per annum

Conversion Price:	HK$0.32 per Conversion Share, which is subject to adjustments for, among other matters, consolidation, reduction or sub-division of the Shares, capitalisation of profits or reserves, rights issue, or issue of convertible securities, warrants or options carrying the right to subscribe for the Shares, but no adjustment shall be made for, among other matters, the issue of the Convertible Bonds; the issue and allotment of any Conversion Shares upon the exercise of the Conversion Rights attached to the Convertible Bonds; the grant of any options or the issue and allotment of any Shares pursuant to the exercise of any options granted under the share option scheme of the Company; and the issue and allotment of Shares to the public and/or any Shareholder for fund raising purposes.
Maturity date:	the date falling on three (3) years from the date of issue of the Convertible Bonds.
Redemption:	the Company may redeem any Convertible Bonds at any time which remain outstanding before 5:00 p.m. (Hong Kong time) on the maturity date at its principal amount.
Conversion rights:	subject to the terms and conditions of the Convertible Bonds, the Bondholder(s) shall have the right to convert the Convertible Bonds into the Shares subject to mutual agreement in writing between the Bondholder(s) and the Company at any time during the period commencing from the date of issue of the Convertible Bonds up to 5:00 p.m. (Hong Kong time) on the fifth (5th) Business Days prior to the maturity date by complying with the relevant procedures set out in the terms and conditions of the Convertible Bonds.
Transferability:	the Convertible Bonds shall be transferrable to any other person provided that the Convertible Bonds are not to be transferred to a connected person (as defined in the Listing Rules) of the Company and such transfer shall comply with the requirements under the Listing Rules and/or any other requirements imposed by the Stock Exchange (if any).

Status:	the Convertible Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Company and shall at all times rank *pari passu* and without any preference or priority among themselves, and the payment obligations of the Company shall, save for such exceptions as may be provided by mandatory provisions of the applicable law, at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Company.
Voting rights:	the Convertible Bonds do not confer any right to the Bondholder(s) to attend or vote at any shareholders' meeting of the Company.

CONVERSION SHARES

A total of 280,750,000 Conversion Shares will be issued to the Bondholder(s) upon full conversion of the Convertible Bonds at the initial Conversion Price of HK$0.32 per Conversion Share. Each of the Conversion Shares, when allotted and issued, shall rank *pari passu* in all respects with the Shares in issue on the effective date of conversion of the Convertible Bonds (as defined in the terms and conditions of the Convertible Bonds) as if the Conversion Shares issued on conversion had been issued on such date. Subject to the terms and conditions of the Convertible Bonds, the Bondholder(s) shall not be entitled to any rights attaching to it prior to the relevant conversion date.

The initial Conversion Price of HK$0.32 per Conversion Share (which is subject to adjustment(s) pursuant to the terms and conditions of the Convertible Bonds) represents:

(a) the closing price of HK$0.32 of a Share quoted on the Stock Exchange on 13 September 2022, being the date of the Sale and Purchase Agreement;

(b) a premium of approximately 0.63% to the average closing price of approximately HK$0.318 of a Share quoted on the Stock Exchange over the last five (5) consecutive trading days prior to the date of the Sale and Purchase Agreement;

(c) a premium of approximately 14.29% to the closing price of HK$0.28 as quoted on the Stock Exchange on the Latest Practicable Date; and

(d) a discount of approximately 76.4% to the unaudited consolidated net asset value per Share of approximately HK$1.356 (based on the unaudited consolidated statement of the financial position of the Company as at 30 June 2022 and the number of Shares in issue as at the Latest Practicable Date).

The Conversion Price was arrived at arm's length negotiations between the Company and the Vendor and equalled to the closing price of the Shares quoted on the Stock Exchange on the date of the Sale and Purchase Agreement.

The market price of the Share has been trading at significant discount to the net asset value per Share for many years and therefore the discount of the Conversion Price to the net asset value per Share is in line with the trend of discount between the market price of the Share and its net asset value.

The Directors (including the independent non-executive Directors who have taken into account of the advice of the Independent Financial Adviser) consider that the Conversion Price is fair and reasonable.

The Conversion Shares that are to be allotted and issued upon exercise of the conversion right attaching to the Convertible Bonds will be subject to a specific mandate to be sought at the EGM.

280,750,000 Conversion Shares represent approximately 93.19% of the existing issued share capital of the Company and will represent approximately about 48.24% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares (assuming that there is no other change in the issued share capital of the Company). The allotment and issue of the Conversion Shares to the Vendor upon exercise of the conversion right attached to the Convertible Bonds will not result in a change of the ultimate control of the Company given Mr. Ng and his associates held approximately 68.80% of the total issued share capital of SCH as at the Latest Practicable Date.

An application will be made by the Company to the Listing Committee for listing of, and permission to deal in, the Conversion Shares.

EFFECT ON THE SHAREHOLDING STRUCTURE

Assuming that there is no change in the Shares from the Latest Practicable Date, the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) after Completion and assuming full conversion of the Convertible Bonds at the Conversion Price; and (iii) after Completion and assuming full conversion of Convertible Bonds at the Conversion Price and assuming full conversion of convertible bonds issued by the Company to Total Grace Investments Limited ("**Total Grace**"), a company wholly-owned by Mr. Ng, as per the circular of the Company dated 2 June 2022; and (iv) after Completion and assuming full conversion of Convertible Bonds at the Conversion Price and assuming the maximum conversion shares to be issued upon the conversion of conversion bonds issued by the Company to the Total Grace as per the circular of the Company dated 2 June 2022 to meet the public float requirement as per the Listing Rules will be as follows:

	As at the Latest Practicable Date		After Completion and assuming full conversion of Convertible Bonds at the Conversion Price		After Completion and assuming full conversion of Convertible Bonds at the Conversion Price and assuming full conversion of convertible bonds issued by the Company as per the circular of the Company dated 2 June 2022		After Completion and assuming full conversion of Convertible Bonds at the Conversion Price and assuming the maximum conversion shares to be issued upon the conversion of conversion bonds issued by the Company to the Total Grace as per the circular of the Company dated 2 June 2022 to meet the public float as per the Listing Rules	
	No. of the Shares	*%*	*No. of the Shares*	*%*	*No. of the Shares*	*%*	*No. of the Shares*	*%*
Uni-Spark	7,178,761	2.38%	7,178,761	1.23%	7,178,761	0.89%	7,178,761	0.99%
Fung Shing	23,526,030	7.81%	23,526,030	4.04%	23,526,030	2.91%	23,526,030	3.24%
Parkfield	44,623,680	14.81%	44,623,680	7.67%	44,623,680	5.51%	44,623,680	6.15%
Ronastar	1,999,872	0.67%	1,999,872	0.34%	1,999,872	0.25%	1,999,872	0.28%
Total Grace	—	0.00%	—	0.00%	227,272,727	28.08%	143,900,000	19.82%
Mr. Ng	11,609,264	3.85%	11,609,264	1.99%	11,609,264	1.43%	11,609,264	1.60%
The Vendor	—	0.00%	280,750,000	48.24%	280,750,000	34.69%	280,750,000	38.67%
Mr. Ng and his close associates	88,937,607	29.52%	369,687,607	63.51%	596,960,334	73.76%	513,587,607	70.75%
Mr. Paul Ng	12,198,000	4.05%	12,198,000	2.10%	12,198,000	1.50%	12,198,000	1.68%
Ms. Cheung	13,598,311	4.51%	13,598,311	2.34%	13,598,311	1.68%	13,598,311	1.87%
Mr. Richard Howard Gorges	5,000,000	1.66%	5,000,000	0.86%	5,000,000	0.62%	5,000,000	0.69%
Parties acting in concert (Mr. Ng and his close associates, Mr. Paul Ng, Ms. Cheung and Mr. Richard Howard Gorges)	119,733,918	39.74%	400,483,918	68.81%	627,756,645	77.56%	544,383,918	74.99%
Hon. Raymond Arthur William Sears, K.C.	53,000	0.02%	53,000	0.01%	53,000	0.01%	53,000	0.01%
Public Shareholders	181,490,152	60.24%	181,490,152	31.18%	181,490,152	22.43%	181,490,152	25.00%
Total	301,277,070	100.00%	582,027,070	100.00%	809,299,797	100.00%	725,927,070	100.00%

It is expected that the Company will be able to maintain its public float following the full conversion of the Convertible Bonds.

For illustrative purpose only, the maximum number of Conversion Shares to be issued upon exercise of the conversion rights of the Convertible Bonds would be approximately 2,042,000 assuming there is no mandatory general offer being triggered by the Vendor under the Takeovers Code.

The Independent Shareholders should note that the number of Conversion Shares to be issued pursuant to such conversion shall be limited to the maximum number of Shares issuable by the Company which would not result in (i) a breach of the public float requirement under the Listing Rules; and (ii) a mandatory general offer being triggered under the Takeovers Code, and the balance number of the Conversion Shares attaching to the Convertible Bonds will not be issued until (i) the Company is able to comply with the aforesaid issues of public float and mandatory general offer; or (ii) a general offer is made by such Bondholder and parties acting in concert with it respectively; or (iii) a whitewash waiver is approved and granted by the SFC (as the case may be).

The Independent Shareholders should also note that the number of conversion shares to be issued (as per the circular of the Company dated 2 June 2022) pursuant to such conversion shall be limited to the maximum number of Shares issuable by the Company which would not result in (i) a breach of the public float requirement under the Listing Rules and (ii) a mandatory general offer being triggered under the Takeovers Code, and the balance number of the conversion shares attaching to the convertible bonds will not be issued until (i) the Company is able to comply with the aforesaid issues of public float and mandatory general offer; or (ii) a general offer is made by such bondholder and parties acting in concert with it respectively; or (iii) a whitewash waiver is approved and granted by the SFC (as the case may be).

REASONS FOR AND BENEFITS OF THE SALE AND PURCHASE OF THE GENIUS YEAR SHARE

The Company is an investment holding company. The Group's principal subsidiaries are engaged in broking, margin financing and money lending, asset and wealth management, corporate advisory and underwriting, trading and investment, media publications and financial public relation services, property investment and sale of jewellery products.

Given two of the Directors (i.e. Mr. Ng and Ms. Cheung) have over 10 years' experience in the forestry and leasing business (where Mr. Ng and Ms. Cheung have managed a land portfolio with over 1 million mu of agricultural and forestry lands which generated an average annual revenue of over HK$10 million in the past 3 years), and a team (currently has 2 team members, where the team leader has over 10 years' experience in carbon credit trading and related business in the PRC) has been formed to focus on the matters relating to carbon credit trading since July 2022, the Directors consider that (i) the Company has sufficient knowledge and expertise to operate the forestry and related business; and (ii) the investment in the Genius Year Group will provide a good opportunity for the Company to widen its businesses to the forestry business which is in line with the trend of the global environment, social and governance theme (the "**ESG**") and promulgation of reduction of carbon emission in the 14th

Five-Year Plan (2020–2025) for economic and social development in the PRC (the "**Five-Year Plan**"). The Board considers that the potential commercial activities of the Genius Year Sites to be conducted (being the direct leasing and carbon credit trading) could be practically matching with the theme of the ESG and the Five-Year Plan, and hence the investment in the Genius Year Group will be beneficial to the Company in terms of fulfillment of the Company's ESG responsibilities, improvement of the Company's corporate image and attraction of ESG investors. The Directors also consider that the investment in the Genius Year Group will allow the Company to reduce the reliance on the financial services business and media publications business which are highly competitive, and to improve its earning base.

The Company has preliminarily assessed the feasibility of the development of the business under the Genius Year Group. As per a PRC legal opinion the Genius Year Sites could be used for commercial purposes. Moreover, as per a feasibility study on the development of the Genius Year Sites conducted in early September 2022 by an independent consultant in PRC, namely Yuncai (Beijing) Financial Consultant Company Limited* (雲財(北京)財務顧問有限公司), the Genius Year Sites could be used for various commercial activities, such as poultry farming, agro-tourism, direct leasing and carbon credit trading. Without further substantial investment on the Genius Year Group, the Company expects that the Gangyang Sites and the Huafeng Sites will be suitable for various commercial purposes such as leasing to other parties and carbon credit trading. In addition, the Company has already got three letters of intent from three independent parties in relation to leasing of a total approximately 100,000 mu in the Genius Year Sites in about September 2022. Further in-depth negotiations (including but not limited to the actual areas and the terms of the leases and the rental) with those independent parties would commence upon the Completion. It is expected that the direct leasing could generate immediate cash inflow for the Group, which in turn would be able to improve its earning base. Meanwhile, approximately 40,000 mu of the Genius Year Sites, through the preliminary assessment conducted by the experienced staff of the Company, would be eligible for the certification of China Certified Emission Reduction ("**CCER**") and the initial accreditation cost is expected to be less than RMB1 million. It is expected that the CCER scheme would be re-launched in about 2023 since the scheme was halted in 2017 given the recognition of the importance of the ESG and the reduction of carbon emission under the Five-Year Plan, the Company (i) will commence the preparatory works for the application for certification of CCER upon Completion for fast capturing the benefits to be derived from the CCER scheme upon its re-launch; and (ii) will carry out detailed development plan upon the re-launch of the scheme and the release of new rules and regulations regarding the CCER market.

On 10 November 2022, Power On, a wholly-owned subsidiary of the Genius Year Group, entered into a deed of undertaking and memorandum with Wise Express Investment Limited ("**Wise Express**"), an indirect wholly-owned subsidiary of SCH. Pursuant to which Power On has agreed to assign and Wise Express has agreed to accept the assignment of, all the rights and obligations in relation to lease contracts of certain agricultural land with a total area of approximately 772.92 mu located in the PRC (the "**Leases**"), which had lease terms between 19 and 20 years and will be ended on 31 December 2028 with effect from the same date (collectively, the "**Lease Assignment**"). There is no consideration for the abovementioned assignment of the Leases. As at 30 June 2022, the right-of-use assets and lease liabilities of the

* *For identification purpose only*

Target Group relating to the Leases were HK$3,654,000 and HK$4,150,000, respectively which were derecognised upon the completion of the Lease Assignment. Given (1) the Lease Assignment was an internal assignment within the subsidiaries of SCH before the Completion and (2) the financial impact of the Lease Assignment has been taken into account of the Consideration (i.e. the elimination of the right of use of assets of approximately HK$3,660,000 and lease liability of approximately HK$4,150,000), the Directors consider that the Lease Assignment is fair and reasonable.

The issuance of Convertible Bonds allows the Company to preserve its cash resources in the challenging business environment in Hong Kong due to COVID-19 and provides protection to the Independent Shareholders from immediate shareholding dilution if new Shares are to be issued for settlement of the Consideration. The Directors considered that the issuance of Convertible Bonds is the most effective means for the settlement of the Consideration given a three (3)-year term and at one (1) per cent per annum interest, and the Company may use these three (3) years to develop this new business without having significant cash flow impact in acquiring it.

By taking into account of the benefits resulting from the purchase of the Genius Year Share as mentioned above, the Directors (including the independent non-executive Directors who have taken into account of the advice of the Independent Financial Adviser) are of the view that the terms and conditions of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Mr. Ng is considered to have material interests in the Sale and Purchase Agreement and the transactions contemplated thereunder given he and his associates are ultimate beneficial owners of the Purchaser and the Vendor by virtue of the substantial shareholder status in the Company and SCH and his common directorship in the Company and SCH. As such, Mr. Ng has abstained from voting on the Board resolutions approving the Sale and Purchase Agreement. Ms. Cheung, Ms. Jessica Ng and Mrs. Tse Wong Siu Yin Elizabeth are directors of both the Company and SCH, therefore, they are considered to have material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder by virtue of their common directorship. As such, Ms. Cheung, Ms. Jessica Ng and Mrs. Tse Wong Siu Yin Elizabeth have abstained from voting on the Board resolutions approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

INFORMATION OF THE COMPANY

The Company is an investment holding company. Its principal subsidiaries are engaged in broking, margin financing and money lending, asset and wealth management, corporate advisory and underwriting, trading and investment, media publications and financial public relation services, property investment and sale of jewellery products. As at the Latest Practicable Date, Mr. Ng and his associates (including Mr. Paul Ng) held approximately 33.57% of the total issued share capital of the Company.

INFORMATION OF THE PURCHASER

The Purchaser is a company incorporated in the BVI, whose principal business is investment holding. As at the Latest Practicable Date, the Purchaser was a wholly-owned subsidiary of the Company, therefore, Mr. Ng and his associates were the ultimate beneficial owners of the Purchaser.

INFORMATION OF SCH

SCH is a company incorporated in the Cayman Islands, whose principal business is investment holding. Its principal subsidiaries are engaged in trading and manufacturing (including OEM toys production, trading of footwear products and sales of branded ball products), property investment and development, and agriculture and forestry businesses. As at the Latest Practicable Date, Mr. Ng and his associates held approximately 68.80% of the total issued share capital of SCH.

INFORMATION OF THE VENDOR

The Vendor is a company incorporated in the BVI, whose principal business is investment holding. As at the Latest Practicable Date, the Vendor is an indirect wholly-owned subsidiary of SCH, therefore, Mr. Ng and his associates were the ultimate beneficial owners of the Vendor.

INFORMATION OF THE GENIUS YEAR GROUP

Genius Year is a company incorporated in the BVI, whose principal business is investment holding. It is a wholly-owned subsidiary of the Vendor as at the Latest Practicable Date.

Wealthy Key is a company incorporated in Hong Kong, whose principal business is investment holding. It is a wholly-owned subsidiary of Genius Year as at the Latest Practicable Date.

Gangyang is a company incorporated in the PRC and is a wholly-owned subsidiary of Wealthy Key as at the Latest Practicable Date. Gangyang currently holds the Gangyang Sites.

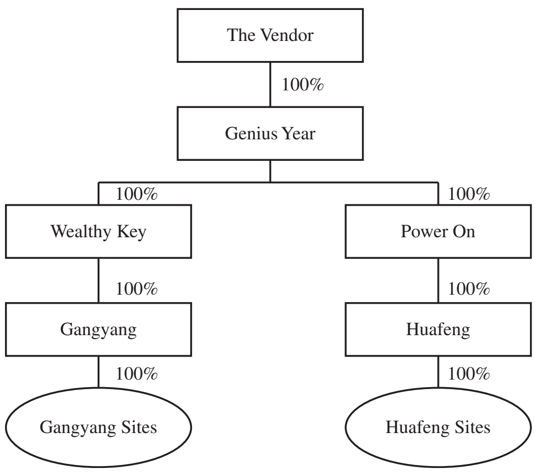
Power On is a company incorporated in Hong Kong, whose principal business is investment holding. It is a wholly-owned subsidiary of Genius Year as at the Latest Practicable Date.

Huafeng is a company incorporated in the PRC and is a wholly-owned subsidiary of Power On as at the Latest Practicable Date. Huafeng currently holds the Huafeng Sites.

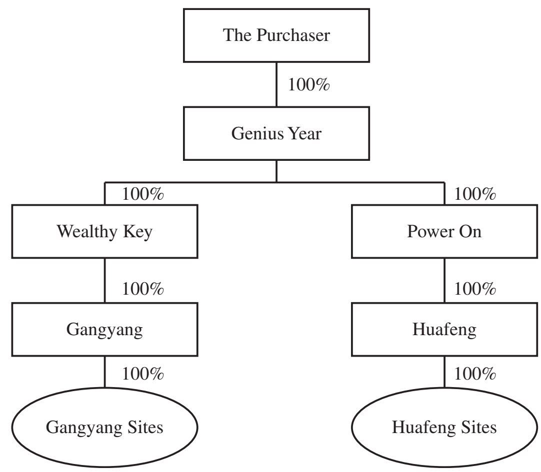
The group structure of the Genius Year Group

The shareholding structures of the Genius Year Group (a) before Completion; and (b) after Completion are as follows:

Before Completion:



After Completion:



The basic information of the Gangyang Sites is as follows:

Total number of sites:	16
Total area:	80,006 mu (approximately 53 million sq.m.)

The Gangyang Sites are woods and mainly located in Chongyang County, Xianning City, Hubei Province, the PRC. Gangyang holds title to each of the Gangyang Sites. Accordingly to a feasibility report of the Gangyang Sites, it may be used for various commercial purposes such as leasing to other parties and carbon credit trading.

The basic information of the Huafeng Sites is as follows:

Total number of sites:	12
Total area:	59,209 mu (approximately 39 million sq.m.)

The Huafeng Sites are woods and mainly located in Chongyang County, Xianning City, Hubei Province, the PRC. Huafeng holds title to each of the Huafeng Sites. Accordingly to a feasibility report of the Huafeng Sites, it may be used for various commercial purposes such as leasing to other parties and carbon credit trading.

Financial information of the Genius Year Group

Based on the consolidated financial accounts of the Genius Year Group as at 30 June 2022, the total assets were approximately HK$15,990,000 and net assets were approximately HK$11,787,000.

The consolidated net losses before taxation and after taxation for the two (2) years ended 31 December 2021, i.e. the two (2) financial years prior to the Latest Practicable Date, are as follows:

	Year ended 31 December	
	2020	**2021**
	HK$'000	*HK$'000*
	(approx.)	*(approx.)*
Consolidated loss before taxation	1,142	1,190
Consolidated loss after taxation	1,142	1,190

FINANCIAL EFFECTS OF THE PURCHASE OF THE GENIUS YEAR SHARE

Following the Completion, the Genius Year Group will become subsidiaries of the Purchaser and the results of the Genius Year Group will be consolidated in the consolidated financial statements of the Company.

(i) Assets and liabilities

The unaudited consolidated total assets and total liabilities of the Group as at 30 June 2022 (as extracted from the Company's interim report for the six (6) months ended 30 June 2022) were approximately HK$1,400,704,000 and HK$992,081,000 respectively. As set out in Appendix IV to this circular, assuming Completion had taken place on 30 June 2022, the unaudited pro-forma consolidated total assets and total liabilities of the Enlarged Group would have been increased to approximately HK$1,494,747,000 and approximately HK$1,087,324,000 respectively.

(ii) Gearing

The Group's gearing ratio as at 30 June 2022 was approximately 52.0%, which is defined as net debt divided by capital plus net debt. As at 30 June 2022, net debt included bank and other borrowings of approximately HK$423,058,000, convertible bonds of approximately HK$51,364,000, less cash and bank balances of approximately HK$32,530,000. Capital represented total equity of approximately HK$408,623,000. As at 30 June 2022, the Genius Year Group's cash and bank balances amounted to approximately HK$91,000 and other borrowings of approximately HK$4,150,000. Given the Group will finance the Consideration by way of issuance of the Convertible Bonds, the purchase of the Genius Year Group would increase the Enlarged Group's total borrowings by HK$89,840,000. Based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to this circular, assuming Completion had taken place on 30 June 2022, the gearing ratio would be increased to approximately 56.8%.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Mr. Ng and his associates (namely Mr. Paul Ng, Fung Shing, Parkfield, Ronastar and Uni-Spark) held approximately 33.57% of the total issued share capital of the Company and approximately 68.80% of the total issued share capital of SCH, therefore, each of the Company and SCH is an associate of Mr. Ng. Accordingly, the transactions contemplated under the Sale and Purchase Agreement constitute connected transactions for the Company under Chapter 14A of the Listing Rules.

Given that more than one of the highest of the applicable percentage ratios in respect of the purchase of the Genius Year Share under the Sale and Purchase Agreement are more than 25%, but less than 100%, it constitutes a major transaction of the Company, which is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

Given the transactions contemplated under the Sale and Purchase Agreement constitute connected transactions for the Company and SCH, Mr. Ng and his associates (namely Mr. Paul Ng, Fung Shing, Parkfield, Ronastar and Uni-Spark) and Ms. Cheung (a common director of the Company and SCH), held approximately 38.08% of the total issued share capital of the Company as at the Latest Practicable Date, have a material interest in such transactions, who will be required to abstain from voting on the resolution(s) to approve the transactions at the EGM.

EGM

A notice convening the EGM to be held at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Wednesday, 11 January 2023 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. Ordinary resolution will be proposed to the Independent Shareholders to consider and, if thought fit, to approve, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder (including the terms and conditions of the Convertible Bonds).

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

RECOMMENDATION

The Independent Board Committee, comprising two independent non-executive Directors, namely Hon. Raymond Arthur William Sears, K.C. and Mr. Tung Woon Cheung Eric (another independent non-executive Director, Mrs. Tse Wong Siu Yin Elizabeth, who is also an independent non-executive director of SCH, was not elected as a member of the Independent Board Committee for the purpose of maintaining the independence), has been formed to advise the Independent Shareholders in respect of, among other things, as to whether the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the terms and conditions of the Convertible Bonds) are fair and reasonable and how to vote in respect of the resolution to be proposed at the EGM for approving the Sale and Purchase Agreement and the transactions contemplated thereunder (including the terms and conditions of the Convertible Bonds) after taking into account of the recommendation of the Independent Financial Adviser. The Shareholders' attention is drawn to the letter from the Independent Board Committee set out on pages 22 and 23 of this circular which contains the recommendation to the Independent Shareholders as to voting at the EGM regarding the Sale and Purchase Agreement and the transactions contemplated thereunder (including the terms and conditions of the Convertible Bonds).

The Shareholders' attention is also drawn to the letter from Independent Financial Adviser set out on pages 24 to 46 of this circular which contains the advice to the Independent Board Committee and the Independent Shareholders regarding the Sale and Purchase Agreement and the transactions contemplated thereunder (including the terms and conditions of the Convertible Bonds).

The Directors (including members of the Independent Board Committee, who have taken into account the advice of the Independent Financial Adviser) consider the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the terms and conditions of the Convertible Bonds) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Therefore, the Directors (including members of the Independent Board Committee, who have taken into account the advice of the Independent Financial Adviser) recommended the Independent Shareholders to vote in favour of the proposed resolution approving, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder (including the terms and conditions of the Convertible Bonds).

Yours faithfully,
By order of the Board
South China Financial Holdings Limited
南華金融控股有限公司
Ng Yuk Mui Jessica
Executive Director

The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions as contemplated thereunder (including the terms and conditions of the Convertible Bonds which are to be issued to settle the Consideration):

SOUTH CHINA FINANCIAL HOLDINGS LIMITED

南華金融控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00619)

16 December 2022

To the Independent Shareholders

Dear Sirs or Madams,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ENTIRE ISSUED SHARE CAPITAL OF GENIUS YEAR LIMITED AND ISSUANCE OF CONVERTIBLE BONDS

We refer to the circular issued by the Company dated 16 December 2022 (the "**Circular**") to the Shareholders of which this letter forms part. Unless otherwise specified, terms defined in the Circular shall have the same meanings in this letter.

We have been appointed by the Board as members to constitute the Independent Board Committee and to advise the Independent Shareholders with respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the terms and conditions of the Convertible Bonds), details of which are set out in the "Letter from the Board" contained in the Circular.

First Shanghai Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the Sale and Purchase Agreement and the transactions contemplated thereunder (including the terms and conditions of the Convertible Bonds) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

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

After taking the advice of the Independent Financial Adviser as set out in the "Letter from the Independent Financial Adviser" in the Circular, we consider that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the terms and conditions of the Convertible Bonds) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

We, therefore, recommend that you vote in favour of the resolution relating to the Sale and Purchase Agreement and the transactions contemplated thereunder (including the terms and conditions of the Convertible Bonds) at the EGM.

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

Hon. Raymond Arthur William Sears, K.C.	**Tung Woon Cheung Eric**
Independent Non-executive Director	*Independent Non-executive Director*

The following is the text of a letter received from the Independent Financial Adviser setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Convertible Bonds for settlement of the Consideration) for inclusion in this circular.

第一上海
FIRST SHANGHAI GROUP

FIRST SHANGHAI CAPITAL LIMITED
19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

16 December 2022

To the Independent Board Committee and the Independent Shareholders

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

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF ENTIRE ISSUED SHARE CAPITAL OF GENIUS YEAR LIMITED AND ISSUANCE OF CONVERTIBLE BONDS

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Convertible Bonds for settlement of the Consideration), details of which are set out in the circular of the Company to the Shareholders dated 16 December 2022 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

On 13 September 2022 (after trading hours), Thousand China (an indirect wholly-owned subsidiary of SCH) as vendor and Power Path (a wholly-owned subsidiary of the Company) as purchaser entered into the Sale and Purchase Agreement, pursuant to which Thousand China has conditionally agreed to dispose of the Genius Year Share to Power Path; and Power Path has conditionally agreed to purchase the Genius Year Share, at a total consideration of HK$89,840,000 which is to be settled by way of the Convertible Bonds to be issued by the Company upon Completion, in accordance with the terms and subject to the conditions set out therein. Genius Year indirectly via Gangyang and Huafeng respectively holds 100% interest in the Gangyang Sites and the Huafeng Sites in the PRC. Upon Completion, the Genius Year Group (i) will be indirect subsidiaries of the Company which will indirectly hold 100% interest in the Genius Year Sites; and (ii) will cease to be the subsidiaries of SCH.

As at the Latest Practicable Date, Mr. Ng and his associates held approximately 68.80% of the total issued share capital of SCH and approximately 33.57% of the total issued share capital of the Company, therefore, each of SCH and the Company is an associate of Mr. Ng. Accordingly, the transactions contemplated under the Sale and Purchase Agreement constitute connected transactions for the Company under Chapter 14A of the Listing Rules, which is subject to, among other requirements, the approval from the Independent Shareholders under Chapter 14A of the Listing Rules by way of poll at the EGM.

The Independent Board Committee, comprising two of the three independent non-executive Directors, namely Hon. Raymond Arthur William Sears, K.C. and Mr. Tung Woon Cheung Eric (other than Mrs. Tse Wong Siu Yin Elizabeth who is also an independent non-executive director of SCH), has been established to advise the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Convertible Bonds for settlement of the Consideration). We, First Shanghai Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

The Independent Shareholders should note that, within the past two years prior to the Latest Practicable Date:

- we were engaged as independent financial adviser by the Company for one occasion regarding a connected transaction related to the proposed extension of the maturity date of certain convertible bonds as disclosed in the circular of the Company dated 2 June 2022; and

- we were engaged as independent financial adviser by South China Assets Holdings Limited (stock code: previously 8155 HK) (its listing was cancelled by GEM of the Stock Exchange on 7 March 2022) ("**South China Assets**"), where Mr. Ng. was a director and a controlling shareholder of South China Assets, for two occasions, regarding (i) a continuing connected transaction related to management services as disclosed in the circular of South China Assets dated 16 November 2020; and (ii) certain continuing connected transactions related to management services as disclosed in the circular of South China Assets dated 3 February 2021 (collectively, the "**Previous Engagements**").

Apart from normal professional fees paid or payable to us in connection with the Previous Engagements, we did not have any other relationships or interests with the Company within the past two years from the Latest Practicable Date. Given (i) our independent role in the Previous

Engagements; (ii) none of the members of our parent group is a direct party to the Sale and Purchase Agreement; and (iii) our fee for the current engagement with the Company, in addition to those for the Previous Engagements, represented an insignificant percentage of revenue of our parent group, we consider that the Previous Engagements would not affect our independence, and we consider ourselves independent, to provide our advice and form our opinion in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Convertible Bonds for settlement of the Consideration).

BASIS OF OUR OPINION

In putting forth our opinion and recommendation, we have relied on the accuracy of the information and representations included in the Circular and provided to us by the management of the Group (the "**Management**"), and have assumed that all such information and representations made or referred to in the Circular and provided to us by the Management were true at the time they were made and continued to be true up to the Latest Practicable Date. We have reviewed, among other documents, the Sale and Purchase Agreement, the financial statements of the Group and Genius Year Group and the valuation report as further elaborated in our letter. We have also assumed that all statements of belief, opinion and intention made in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Management and have been advised that no material facts have been withheld or omitted from the information provided and referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Management nor have we conducted any form of investigation into the business, affairs or future prospects of the Group and the Genius Year Group. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with note 1 to Rule 13.80 of the Listing Rules.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Convertible Bonds for settlement of the Consideration), we have taken into account the following principal factors and reasons:

1.1. Background information on the Group

The Group is principally engaged in broking, margin financing and money lending, asset and wealth management, corporate advisory and underwriting, trading and investment, media publications and financial public relation services, property investment and sale of jewellery products. According to the annual report of the Company for the year ended 31 December 2021 (the "**2021 Annual Report**"), (i) approximately 41% of the total revenue of the Group was derived from the financial business sector (including broking, trading and investment, margin financing and money lending, corporate advisory and underwriting and asset and wealth management) (the "**Financial Business**"); and (ii) approximately 28%, 22% and 9% of the total revenue of the Group was derived from the jewellery business segment, the media publications and financial public relation services segment and the property investment segment, respectively, for the year ended 31 December 2021.

1.2. Historical financial performance of the Group

The following table summarises the consolidated statement of profit or loss of the Group for each of the years ended 31 December 2019, 2020 and 2021 with reference to the published annual reports of the Company and for each of the six months ended 30 June 2021 and 2022 with reference to the interim report of the Company for the six months ended 30 June 2022 (the "**2022 Interim Report**"):

	For the year ended 31 December			For the six months ended 30 June	
	2019	**2020**	**2021**	**2021**	**2022**
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*
	(Audited)	*(Audited)*	*(Audited)*	*(Unaudited)*	*(Unaudited)*
Revenue	204	89	107	64	27
(Loss)/Profit from operating activities	(54)	(242)	(70)	10	(68)
(Loss)/Profit for the period attributable to equity holders of the Company from continuing operations	(78)	(268)	(77)	6	(72)

(a) Year ended 31 December 2020 compared with year ended 31 December 2019

With reference to the annual report of the Company for the year ended 31 December 2020, year 2020 was an extremely difficult year with the worldwide economy grossly hampered by the COVID-19 pandemic. Total revenue of the Group declined from approximately HK$204 million for the year ended 31 December 2019 to approximately HK$89 million for the year ended 31 December 2020, representing a decrease of approximately 56%, which was mainly attributable to the decrease in the revenue generated from the Financial Business by approximately HK$82 million, primarily due to the deterioration of revenue from the trading and investment segment by approximately HK$53 million. Accordingly, loss for the year attributable to equity holders of the Company from continuing operations also increased from approximately HK$78 million for the year ended 31 December 2019 to approximately HK$268 million for the year ended 31 December 2020.

(b) Year ended 31 December 2021 compared with year ended 31 December 2020

Total revenue of the Group increased from approximately HK$89 million for the year ended 31 December 2020 to approximately HK$107 million for the year ended 31 December 2021, representing an increase of approximately 20%, which was mainly attributable to the increase in the revenue generated from the Financial

Business by approximately HK$14 million, primarily due to the turnaround improvement of revenue from the trading and investment segment. Loss from operating activities narrowed from approximately HK$242 million for the year ended 31 December 2020 to approximately HK$70 million for the year ended 31 December 2021, which was mainly due to (i) the reduction of fair value losses on investment properties, financial assets and convertible bonds by an aggregate amount of approximately HK$58 million; (ii) the absence of impairment of goodwill for the year ended 31 December 2021, which amounted to approximately HK$39 million for the year ended 31 December 2020; and (iii) the reduction in the cost of media publications and financial public relation services by approximately HK$28 million. Accordingly, loss for the year attributable to equity holders of the Company from continuing operations also narrowed from approximately HK$268 million for the year ended 31 December 2020 to approximately HK$77 million for the year ended 31 December 2021.

(c) Six months ended 30 June 2022 compared with six months ended 30 June 2021

Total revenue of the Group decreased from approximately HK$64 million for the six months ended 30 June 2021 to approximately HK$27 million for the six months ended 30 June 2022, representing a decline of approximately 58%, which was mainly attributable to the decrease in the revenue generated from the Financial Business by approximately HK$34 million, primarily due to the net revenue loss on disposal of investments in trading and investment sector of approximately HK$15 million for the six months ended 30 June 2022 as compared with the net revenue gain of approximately HK$11 million for the six months ended 30 June 2021. The Group recorded a profit from operating activities of approximately HK$10 million for the six months ended 30 June 2021, but deteriorated to a loss from operating activities of approximately HK$68 million for the six months ended 30 June 2022. Apart from the aforementioned approximately HK$37 million decrease in revenue, such deterioration of operating performance was attributable to that the Group worsened from recording a fair value gain on financial assets at fair value through profit or loss of approximately HK$16 million for the six months ended 30 June 2021 to recording a fair value loss on financial assets at fair value through profit or loss of approximately HK$24 million for the six months ended 30 June 2022. Accordingly, the Group worsened from recording a profit for the period attributable to equity holders of the Company of approximately HK$6 million for the six months ended 30 June 2021 to a loss of approximately HK$72 million for the six months ended 30 June 2022.

1.3. Historical financial position of the Group

The following table summarises the consolidated balance sheet of the Group as at 31 December 2021 and 30 June 2022 with reference to the 2022 Interim Report:

	As at 31 December 2021 *HK$ million* *(Audited)*	**As at 30 June 2022** *HK$ million* *(Unaudited)*
Non-current assets	619	597
Current assets	993	804
Total assets	**1,612**	**1,401**
Current liabilities	945	866
Non-current liabilities	180	126
Total liabilities	**1,125**	**992**
Net assets attributable to equity holders of the Company	485	407
Non-controlling interests	2	2
Net assets	**487**	**409**

As at 30 June 2022, (i) the principal assets of the Group were investment properties, which amounted to approximately HK$529 million, and cash held on behalf of clients, which amounted to approximately HK$379 million; and (ii) the principal liabilities of the Group were interest-bearing bank and other borrowings, which amounted to approximately HK$423 million (including current portion of approximately HK$379 million and non-current portion of approximately HK$44 million). Net assets attributable to equity holders of the Company amounted to approximately HK$407 million as at 30 June 2022.

For further details of the financial information of the Group, please refer to the financial reports published by the Company.

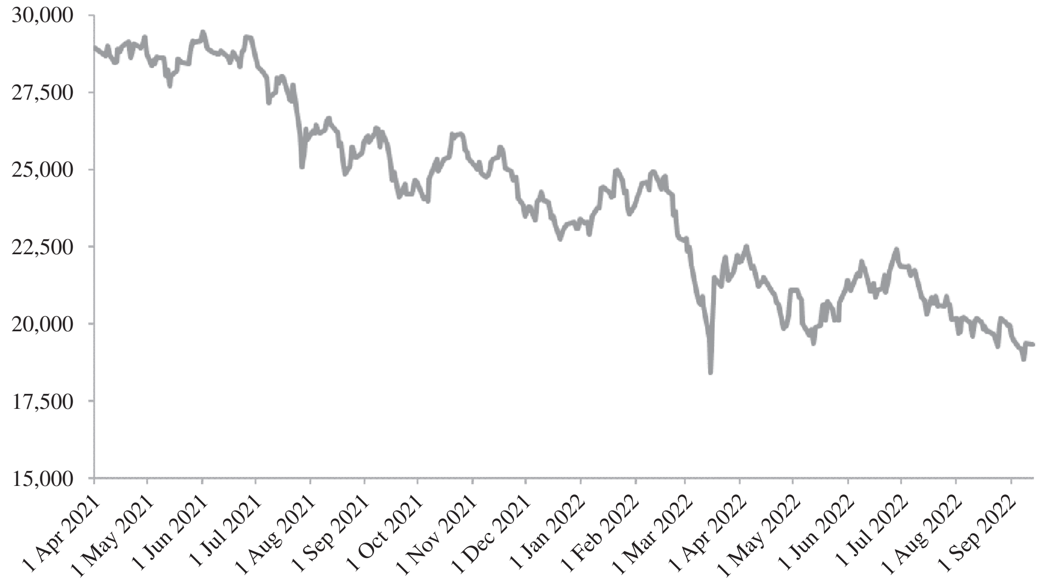
1.4. Prospects of the Group

As stated in the 2021 Annual Report, (i) with the emergence of Omicron variant and possible subsequent variants of the Coronavirus (also known as COVID-19), year 2022 is expected to be full of challenges and uncertainties; and (ii) apart from the COVID-19 pandemic, evolving global political and economic landscapes, geopolitical tensions of the Russia-Ukraine conflict, the US-China trade war, rising inflation and a necessity for higher interest rates, render the external financial and business environment more complex and uncertain. We also note from the 2021 Annual Report that the major risks and uncertainties that may affect the Group include, among other things, (i) fluctuations of fair value gain or loss on financial assets, foreign exchange and investment properties; (ii) changes in market interest rates may expose the Group to high interest expense on its net debt obligations carrying floating interest rates; and (iii) the uncertainties of fiscal, political and monetary policy developments would contribute partly to the high volatility of global markets which may directly or indirectly affect the performance of the Group.

As stated in the 2022 Interim Report, with the continuing impact of international factors, including interest rate hikes by the Federal Reserve in the United States, the tightening of monetary policies by various central banks, ongoing dispute between China and United States, as well as the Russia-Ukraine conflict that has led to sanctions on Russia imposed by the United States and Europe, the volatility of financial markets is likely to remain, adding to uncertainties regarding global economic development.

In respect of the aforesaid, we have reviewed information published on the website of the Hong Kong Monetary Authority in the recent months, from which we noted, among other things, in the second quarter of 2022, the already battered markets were further hit by a storm, which was a culmination of several factors including (i) lingering geopolitical tensions which disrupted the supply of energy and food; (ii) heightened concern about inflation as prices in several major economies were rising at the fastest rate in 40 years; (iii) central banks taking a firm stance on tightening monetary policies; (iv) concerns over recession dampening investor sentiment; and (v) lockdown measures to contain the outbreak of pandemic in the PRC, and, with uncertainties rising sharply in markets, investors rushed to sell off their assets, leading to a concurrent fall in equity and bond prices as well as currency exchange rates against the US Dollar, where the asset price declines were even more severe than those in the first quarter of 2022.

We have reviewed the historical price performance of the Hang Seng Index. The chart below depicts the closing prices of the Hang Seng Index from the second quarter of 2021, being around 18 months before the date of the Sale and Purchase Agreement, up to and including the date of the Sale and Purchase Agreement (the "**Review Period**"). Given the duration of the Review Period (i) can adequately reflect the recent market trend of the pricing of the Shares in view of the ever changing market environment, where the pricing dated a long time ago would be less comparable with that under the current prevailing environment; and (ii) is in line with the usual market practice for market pricing review of about one year, we consider such duration to be fair and representative.



With reference to the above chart, we note that the Hang Seng Index was on a declining trend during the Review Period, where the highest was approximately 29,491 recorded on 2 June 2021 and the lowest was approximately 18,235 recorded on 15 March 2022. The Hang Seng Index closed at approximately 19,327 on the date of the Sale and Purchase Agreement (i.e. 13 September 2022). We understand that the financial market of Hong Kong was not performing well.

Based on the aforesaid, we understand the macro-economic environment may not be favourable to the Group and, in view of the continuous unsatisfactory financial performance of the Group in the past few years, we consider the prospects of the Group to be clouded by uncertainties.

2.1. Background information on the Genius Year Group

Genius Year is a company incorporated in the BVI, whose principal business is investment holding. Genius Year indirectly (through its wholly-owned subsidiaries Gangyang and Huafeng) holds 100% interest in the Genius Year Sites (i.e. the Gangyang Sites and the Huafeng Sites) in the PRC.

The Genius Year Sites are woods and mainly located in Chongyang County, Xianning City, Hubei Province, the PRC. The Gangyang Sites, which covers 16 sites, has a total area of approximately 53 million m^2 and the Huafeng Sites, which covers 12 sites, has a total area of approximately 39 million m^2. The Genius Year Sites may be used for various commercial purposes such as leasing to other parties and carbon credit trading.

We are advised by the Management that the Genius Year Sites have been idle and not utilised. We also understand that no income was generated from the Genius Year Group in the last 10 years.

2.2. Historical financial performance of the Genius Year Group

The following table summarises the consolidated statements of profit or loss and other comprehensive income of the Genius Year Group for each of the years ended 31 December 2019, 2020 and 2021 and for each of the six months 30 June 2021 and 2022 with reference to Appendix II to the Circular:

	For the year ended 31 December			For the six months ended 30 June	
	2019	**2020**	**2021**	**2021**	**2022**
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*
	(Audited)	*(Audited)*	*(Audited)*	*(Unaudited)*	*(Audited)*
Revenue	—	—	—	—	—
Loss before tax	(2)	(1)	(1)	(1)	(1)
Loss for the period	(2)	(1)	(1)	(1)	(1)

The Genius Year Group did not record any revenue for each of the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022 because it had no business operation. The loss for each of the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022 was mainly attributable to general and administrative expenses.

2.3. Historical financial position of the Genius Year Group

The following table summarises the consolidated statements of financial position of the Genius Year Group as at 31 December 2021 and 30 June 2022 with reference to Appendix II to the Circular:

	As at 31 December 2021	**As at 30 June 2022**
	HK$ million	*HK$ million*
	(Audited)	*(Audited)*
Non-current assets	16	15
Current assets	4	1
Total assets	**20**	**16**
Current liabilities	40	1
Non-current liabilities	4	3
Total liabilities	**44**	**4**
Net (liabilities)/assets	**(24)**	**12**

As at 31 December 2021, (i) the principal assets of the Genius Year Group were right-of-use assets, which amounted to approximately HK$16 million and primarily related to the forestry lands of the Genius Year Sites as advised by the Management; and (ii) the principal liabilities of the Genius Year Group were amounts due to fellow subsidiaries, which amounted to approximately HK$40 million. The Genius Year Group recorded net liabilities of approximately HK$24 million as at 31 December 2021. As detailed in Appendix II to the Circular, on 30 June 2022, an aggregate of approximately HK$36 million of amounts due to fellow subsidiaries were novated to the immediate holding company of Genius Year (the "**Debt Novation**"), where the Genius Year Group was released from the payment obligation of such amounts due to fellow subsidiaries. Following the Debt Novation of approximately HK$36 million, the Genius Year Group recorded net assets of approximately HK$12 million as at 30 June 2022.

For further details of the financial information of the Genius Year Group, please refer to Appendix II to the Circular.

3.1. Background of and reasons for the Sale and Purchase Agreement

The Financial Business in Hong Kong was the largest business segment of the Group in the latest financial year, but the performance of the Group was dissatisfactory, where Group recorded operating losses for each of the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022 as aforementioned. With reference to the historical performance of the Group and the prevailing economic environment, the prospects of the existing business of the Group is highly uncertain.

On 13 September 2022 (after trading hours), Thousand China (an indirect wholly-owned subsidiary of SCH) as vendor and Power Path (a wholly-owned subsidiary of the Company) as purchaser entered into the Sale and Purchase Agreement, pursuant to which Thousand China has conditionally agreed to dispose of the Genius Year Share to Power Path; and Power Path has conditionally agreed to purchase the Genius Year Share, where Genius Year indirectly holds 100% interest in the Genius Year Sites. The Group expects that, without further substantial investment on the Genius Year Group, the Genius Year Sites are suitable for various commercial purposes such as leasing to other parties and carbon credit trading (the "**Carbon Trading Business**"). We have reviewed the feasibility study on the Genius Year Sites mentioned in the letter from the Board in the Circular (the "**Board Letter**") and we understand the Genius Year Sites can be used for various commercial purposes including poultry farming, agrotourism, direct leasing and carbon credit trading. We also note that (i) the Company has obtained three letters of intent in relation to the leasing of an aggregate of approximately 100,000 mu of the Genius Year Sites, where the leasing terms are subject to further negotiations; and (ii) approximately 40,000 mu of the Genius Year Sites can be adopted for the Carbon Trading Business, where the initial accreditation cost for the certification of China Certified Emission Reduction is expected to be less than RMB1 million, which is not material to the Group. We are advised by the Management that the investment in the Genius Year Group provides an opportunity for the Group to widen its businesses to the forestry business (particularly the Carbon Trading Business) which is in line with the trend of the global environment, social and governance theme, with a view to broaden the revenue stream of the Group and improve the previous unfavourable financial performance of the Group. Moreover, as stated in the Board Letter, (i) two of the Directors (i.e. Mr. Ng and Ms. Cheung) have over 10 years of experience in the forestry and leasing business and have managed a portfolio with over 200,000 mu of agricultural and forestry lands; and (ii) a team, where the team leader has over 10 years of extensive working experience in the carbon trading business in the PRC, has been formed to focus on the Carbon Trading Business.

In respect of the Carbon Trading Business, we have reviewed industry information published by (i) the International Energy Agency (國際能源署), which is an international organisation made up of 31 member countries and 8 association countries for global energy matters (the "**IEA**"); and (ii) Refinitiv, being a London Stock Exchange Group business, is one of the world's largest providers of financial markets data and infrastructure ("**Refinitiv**").

Based on our review of the report titled "Enhancing China's ETS for Carbon Neutrality: Focus on Power Sector" published by the IEA and dated May 2022 *(https://iea.blob.core.windows.net/assets/17fc0c1d-7fff-4ca6-af39-7f6e6f1c33fc/EnhancingChinasETSforCarbonNeutrality_FocusonPowerSector.pdf)*, we understand that (i) according to the statement by President Xi Jinping in September 2020, the PRC will "aim to have CO2 emissions peak before 2030 and achieve carbon neutrality before 2060" (the "**Dual Carbon Goals**") sets out a clear vision and timeline for a profound transformation of the country's socio-economic development; and (ii) the emission trading system ("**ETS**") of the PRC came into operation in 2021 and is the world's largest ETS, covering annual power sector emissions of around 4.5 gigatonnes of carbon dioxide.

Based on our review of the article titled "One year in: China's national emission trading system" published by Refinitiv and dated 25 July 2022 *(https://www.refinitiv.com/perspectives/market-insights/one-year-in-chinas-national-emission-trading-system/)*, we understand that (i) the national ETS of the PRC turned one year old on 16 July 2022 since it kicked off trading at the Shanghai Environment and Energy Exchange; (ii) the price of national carbon emission allowances soared up by approximately 20% since the launch of trading; and (iii) in year 2022, being the second year of the PRC's march towards the Dual Carbon Goals, the market is eyeing expansion as the start of a new era.

We note that the Consideration for the Genius Year Share shall be fully satisfied by the issuance of the Convertible Bonds by the Company to the Vendor. As stated in the Board Letter, the issue of the Convertible Bonds allows the Group to preserve its cash resources in the challenging business environment in Hong Kong due to COVID-19 and provides protection to the Independent Shareholders from immediate shareholding dilution if new shares of the Company are to be issued for settlement of the Consideration. The Directors considered that the issue of the Convertible Bonds with a three-year term is the most effective means for the settlement of the Consideration given the Group may use these three years to develop this new business without having significant cash flow impact in acquiring it.

We have reviewed the 2022 Interim Report and we noted that (i) the Group had cash and bank balances of approximately HK$33 million and net current liabilities of approximately HK$62 million as at 30 June 2022, whereas the Consideration amounted to approximately HK$90 million; and (ii) the ratio of interest-bearing bank and other borrowings to total equity of the Group was approximately 104% as at 30 June 2022 (the "**Debt Ratio**"). In view of the aforesaid and the loss making financial performance of the Group in the past few years, we have discussed with the Management on the alternatives considered by the Group other than the issue of the Convertible Bonds and we understand that (i) the settlement of the Consideration by internal cash resources was not feasible given the cash position and the net current liabilities position of the Group; (ii) the settlement of the Consideration by bank borrowings was not feasible in view of the already high Debt Ratio of the Group and raising a substantial amount of bank borrowing at a rate lower than the Convertible Bonds was unlikely with reference to the prevailing borrowing interest rates of the Group as further elaborated in the section headed "Principal terms of the Sale and Purchase Agreement" below; and (iii) financing the Consideration through equity fund raising exercise (such as placing of new shares, rights issue or open offer) would cause an immediate and material dilution to all Shareholders (including the Independent Shareholders) who do not participate in the exercise and the Group was uncertain whether such exercise could attract enough investors to raise sufficient funds to meet the full amount of the Consideration. On the other hand, as compared with pre-emptive fundraising alternatives (such as rights issue and open offer), the issuance of the Convertible Bonds (i) would not cause an immediate dilution to the Independent Shareholders, where dilution would only take place if the Convertible Bonds are converted; and (ii) in the scenario where the Convertible Bonds are converted by the Vendor, such conversion would increase the shareholding of Mr. Ng and his close associate in the Company, which can further align the interests of Mr. Ng and his close associate (as substantial shareholder) with those of the Company. Hence, we concur with the Management that the issuance of the Convertible Bonds is an appropriate approach to settle the Consideration.

Taking into account, in particular, (i) the poor financial performance of the existing business of the Group in the past few years and the investment in the Genius Year Group provides an opportunity for the Group to diversify its business, with a view to broaden the revenue stream of the Group and improve the previous unfavourable financial performance of the Group; (ii) the possible commercial purposes of the Genius Year Sites; (iii) the issuance of the Convertible Bonds is an appropriate approach to settle the Consideration primarily because the Group did not have sufficient internal cash resources and was not likely to raise bank borrowings at a rate lower than the Convertible Bonds in view of the prevailing market environment and the adverse financial position of the Group; and (iv) the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Convertible Bonds) are fair and reasonable as discussed below, we are of the view that the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Convertible Bonds for settlement of the Consideration) is in the interests of the Company and the Shareholders as a whole.

3.2. Principal terms of the Sale and Purchase Agreement

Pursuant to the Sale and Purchase Agreement, the Vendor has agreed to sell and the Purchaser has agreed to purchase the Genius Year Share in accordance with the terms and subject to the conditions thereof. The total consideration for the Genius Year Share shall be a sum of HK$89,840,000 which is to be settled by the Convertible Bonds to be issued by the Company upon Completion.

(i) The Consideration

The Consideration of HK$89,840,000 in respect of the Genius Year Share was determined on an arm's length basis, which equals the adjusted net asset value of Genius Year Group, being (i) the net asset value of Genius Year Group as at 30 June 2022 of approximately HK$11,790,000; (ii) the elimination of the right of use of assets of approximately HK$3,660,000 and lease liability of approximately HK$4,150,000 arising from the land use right of certain farm lands to be assigned by the Genius Year Group to a fellow subsidiary in fourth quarter of 2022 (the "**Farm Land Assignment**"), which would result in a net increase in the net asset value of the Genius Year Group by approximately HK$490,000; and (iii) the appreciated value of the Genius Year Sites of approximately HK$77,560,000 (which is equivalent to the difference between the draft land valuation of the Genius Year Sites as at 31 August 2022 of approximately HK$89,090,000 and the book value of the Genius Year Sites as at 30 June 2022 of approximately HK$11,530,000). We are advised by the Management that the rationale for the Farm Land Assignment was because the subject farm lands do not form part of the forestry that constitute the Genius Year Sites, where the Group does not intend to acquire such farm lands. Moreover, given (i) the Farm Land Assignment is an internal assignment within the subsidiaries of SCH before Completion; and (ii) the amount of right of use of assets and lease liability related to the subject farm lands are to be derecognised at their book values for the Farm Land Assignment, we consider the treatment of the Farm Land Assignment to be appropriate and fair and reasonable.

We have reviewed the Valuation Report prepared by Ravia Global Appraisal Advisory Limited (the "**Valuer**") as set out in Appendix V to the Circular in relation to the valuation of the Genius Year Sites (the "**Valuation**") and we have discussed with the Valuer regarding the methodology of and the principal bases and assumptions adopted for the Valuation. We understand that the common valuation approaches are the market approach, the asset-based approach and the income approach. We are advised by the Valuer that the market approach was adopted because the Valuer was able to identify transactions in the market that are comparable with the acquisition of the Genius Year Sites, whereas (i) the income approach was not appropriate because the Genius Year Group did not utilise the Genius Year Sites, therefore no historical financial performance information was available for the preparation of a reliable financial forecast; and (ii) the cost approach was also not appropriate because it could not capture the earning potentials of the Genius Year Sites and the valuation subjects were primarily land rather than buildings involving construction costs. We have independently reviewed the market unit prices (in terms of per area) of comparable sites based on information provided to us by the Valuer and we noted that the appraised unit price of the Genius Year Sites was comparable with the average of those of the aforementioned comparable sites. We have also independently performed an internet search of the unit prices of comparable sites in the region of the Genius Year Sites and we also noted the appraised unit price of the Genius Year Sites was no less favourable to the Group than the unit prices of such comparable sites. We have interviewed the Valuer as to its expertise and we have obtained knowledge about the qualifications and experience of the Valuer. We note that the valuation of the Valuer was quoted in the prospectuses and circulars of various companies listed in Hong Kong. We are satisfied that the Valuer has the requisite qualifications, expertise and experience to perform its professional asset appraisal work. Based on our discussion with the Valuer and also with the Management, (i) we understand that, apart from independent valuation engagements, the Valuer has no other current or prior relationships with the Company, other parties to the Sale and Purchase Agreement or any of their core connected persons; and (ii) we are not aware the Company or other parties to the Sale and Purchase Agreement has made any formal or informal representation to the Valuer which is not in accordance with our knowledge. During the course of our discussion with the Valuer and our review of the Valuation, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the Valuation.

For our further assessment of the Consideration, we have considered to perform a price ratio analysis (i.e. price to earning ratio and price to book ratio). Nonetheless, we consider such analysis is not meaningful because (i) the Genius Year Group recorded net losses and had no revenue in the recent financial years; and (ii) the acquisition of the Genius Year Group is in essence the acquisition of its fixed assets (being the Genius Year Sites), whereas comparable companies in such analysis would be listed companies with ongoing developed business operations rather than only non-operating fixed assets. We also consider, and concur with the Valuer, that other analyses including the income approach and cost approach are not appropriate as discussed in the previous paragraph. We note that the valuation of the Genius Year Sites and the book value of the Genius Year Sites represented a substantial land appreciation. Nonetheless, given (i) the Genius Year Sites were acquired by the Genius Year Group more than 10 years ago, where the original cost is not directly comparable with the prevailing value given the very long duration; (ii) the value of sites, hence the land appreciation, depend on a variety of factors of the specific sites, including site location, site nature and the then market condition; and (iii) the current market value of the Genius Year Sites, rather than the amount of land appreciation, is the key concern in respect of the fairness and reasonableness of the Consideration, we consider the valuation performed by the Valuer (which we have reviewed as discussed in the previous paragraph) is sufficient for our assessment of the Consideration because the valuation reflects the current market value of the Genius Year Sites.

Taking into account, in particular, (i) the Consideration equals the adjusted net asset value of the Genius Year Group, where the primary adjustment is based on the appreciated value of the Genius Year Sites with reference to the Valuation; (ii) our review of the Valuation, where we did not identify any major factor which caused us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the Valuation; and (iii) the reasons and benefits of the Sale and Purchase Agreement as aforementioned, we consider the Consideration of the Sale and Purchase Agreement to be on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

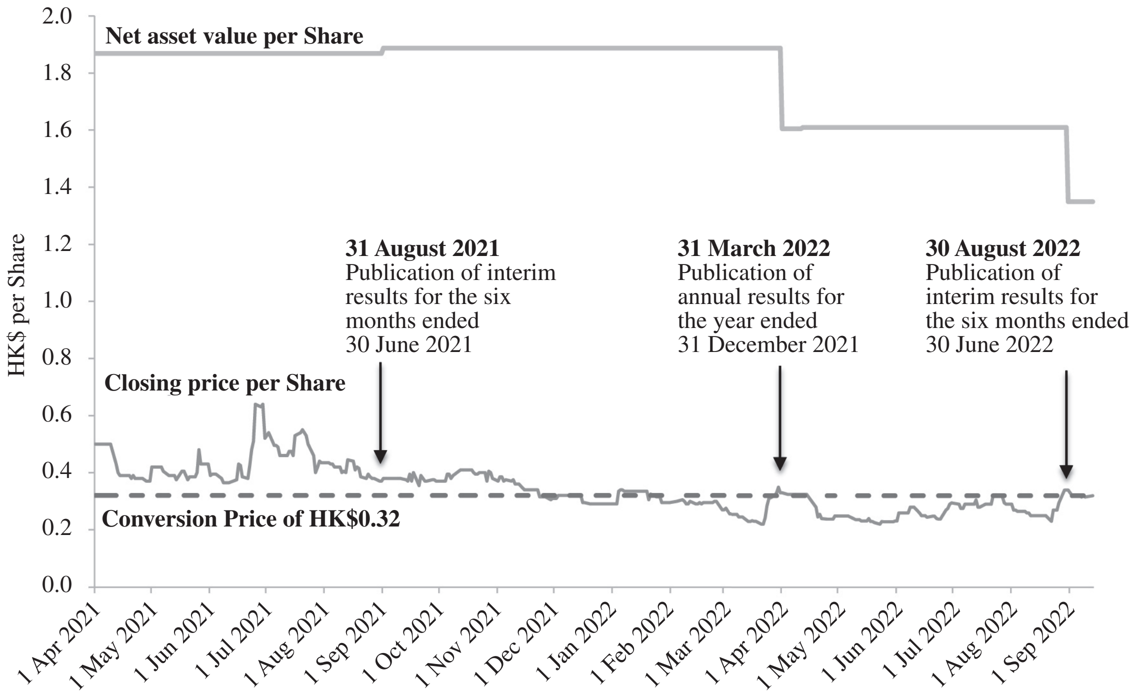
(ii) The Convertible Bonds

The total consideration for the Genius Year Share shall be a sum of HK$89,840,000 which is to be settled by the Convertible Bonds to be issued by the Company upon Completion. The following sets out the principal terms of the Convertible Bonds. For further details of the terms, please refer to the Board Letter.

Principal amount:	HK$89,840,000
Conversion Price:	HK$0.32 per Conversion Share
Conversion right:	The Bondholder(s) shall have the right to convert the Convertible Bonds into the shares of the Company subject to mutual agreement in writing between the Bondholder(s) and the Company at any time during the period commencing from the date of issue of the Convertible Bonds up to 5:00 p.m. (Hong Kong time) on the fifth (5th) Business Days prior to the maturity date
Interest rate:	1% per annum
Maturity date:	The date falling on three (3) years from the date of issue of the Convertible Bonds.
Redemption:	The Company may redeem any Convertible Bonds at any time which remain outstanding before 5:00 p.m. (Hong Kong time) on the maturity date at its principal amount.

Price performance of the Shares

We have reviewed the historical price performance of the Shares. The chart below depicts the closing price per Share and also the net asset value per Share (based on the latest published net assets attributable to equity holders of the Company and total issued Shares on the relevant day) during the Review Period.



With reference to the above chart for the Review Period, the closing prices of the Shares was around HK$0.50 per Share in early April 2021, around HK$0.40 per Share in May and June 2021 and soared to the highest price of HK$0.64 per Share in late June 2021. Since then, the closing prices demonstrated a declining trend for about nine months and reached the lowest price of HK$0.22 per Share on 21 March 2022 and 22 March 2022. Afterwards, the closing prices rebounded to HK$0.35 per Share on 30 March 2022, being the trading day prior to the publication of the annual results announcement of the Company for the year ended 31 December 2021, but the closing prices demonstrated a declining trend afterwards. The low point of HK$0.22 per Share was reached again on 23 May 2022 and recovered to HK$0.34 per Share on 29 August 2022, being the trading day prior to the publication of the interim results announcement of the Company for the six months ended 30 June 2022, but the closing prices demonstrated a declining trend again afterwards. As at the date of the Sale and Purchase Agreement, the closing price was HK$0.32 per Share.

We note that (i) the closing prices of the Shares overall demonstrated a declining trend during the Review Period, where the highest closing price recorded in June 2021 and the lowest closing price recorded in March 2022 represented a decline of approximately 66%; (ii) the Conversion Price of HK$0.32 is approximately the median of the closing prices during the Review Period of HK$0.325; and (iii) the Conversion Price of HK$0.32 equals the closing price of the Shares as at the date of the Sale and Purchase Agreement, where we understand the Conversion Price is in line with the recent market trading price of the Shares.

We also note that the Conversion Price represents a discount of approximately 76% to the unaudited consolidated net asset value per Share of the Company. Nonetheless, we understand the market trading price of the Share has been at a significant discount to the net asset value per Share as illustrated above, therefore the discount of the Conversion Price to the net asset value per Share is in line with the trend of discount between the market trading price of the Share and its net asset value.

Liquidity of the Shares

We have also reviewed the historical liquidity of the Shares. The following table sets out the average daily trading volume per month of the Shares during the Review Period:

	Average daily trading volume of Shares during the month	**Percentage of average daily trading volume of Shares to the total number of issued Shares**
2021		
April	108,318	0.04%
May	47,429	0.02%
June	315,663	0.10%
July	50,968	0.02%
August	53,864	0.02%
September	27,943	0.01%
October	29,556	0.01%
November	84,227	0.03%
December	11,750	0.00%
2022		
January	82,075	0.03%
February	35,298	0.01%
March	25,733	0.01%
April	111,845	0.04%
May	30,571	0.00%
June	37,410	0.01%
July	17,536	0.01%
August	14,772	0.00%
September *(up to the date of the Sale and Purchase Agreement)*	233,850	0.08%

We note from the above table that the trading volume of the Shares has been extremely thin during the Review Period, where the percentages of the average daily trading volume of the Shares to the total number of issued Shares were mainly below 0.05%. We also note that, upon exercise of the conversion rights under the Convertible Bonds in full, a total of 280,750,000 new Shares (being the Conversion Shares) may be allotted and issued to the Bondholder, representing approximately 93.19% of the total number of issued Shares as at the Latest Practicable Date and approximately 48.24% of the enlarged total number of issued Shares. Accordingly, the Bondholder would find it difficult to dispose of a large volume of Shares, such as a substantial part or all the Conversion Shares, in the open market in a short period of time without exerting material downward pressure on the price of the Shares. For further details of the potential dilution effect, please refer to the section headed "Possible financial and dilution effects of the Sale and Purchase Agreement" below.

Comparable analysis

In addition, we have exhaustively identified a list of comparable issues (the "**Comparable Issues**"), which (i) involved the issue of convertible bonds convertible into ordinary shares of companies listed on the Main Board of the Stock Exchange; (ii) the convertible bonds were issued by the listed companies to vendors for the direct settlement of company acquisition consideration; and (iii) the issues were announced within six months before the date of the Sale and Purchase Agreement. In view of the aforesaid criteria, we consider the Comparable Issues to be fair and representative for the purpose of conducting a comparable analysis for reference. The details of the Comparable Issues are set out in the following table.

Announcement date	**Name of company (stock code)**	**Maturity period** *(year)*	**Interest rate per annum** *(%)*	**Premium of the conversion price over the latest closing price of shares prior to entering into the relevant agreement** *(%)*
21 April 2022	IBO Technology Company Limited (2708 HK)	2	Nil	4%
23 May 2022	Beaver Group (Holding) Company Limited (8275 HK)	2	2.5%	33%
11 July 2022	Town Health International Medical Group Limited (3886 HK)	1 to 3(1)	Nil	54%
4 August 2022	ShiFang Holding Limited (1831 HK)	Less than 1(2)	Nil	0%
19 August 2022	Central Development Holdings Limited (475 HK)	3	Nil	0%
		Maximum	**2.5%**	**54%**
		Average	**0.5%**	**18%**
		Median	**0.0%**	**4%**
		Minimum	**0.0%**	**0%**
The issuance of the Convertible Bonds for settlement of the Consideration announced on 13 September 2022		3	1.0%	0%

Notes:

1. The convertible bonds have three tranches with one, two and three years of maturity period, respectively.

2. The convertible bonds have three tranches with two, four and seven months of maturity period, respectively.

Analysis

We note that the maturity period of the Comparable Issues ranged from a few months up to three years and the maturity period of the Convertible Bonds of three years is within such range and therefore in line with market practice. We also understand a longer maturity period, which extends the repayment timeframe and allows the preservation of cash for business development, is favourable to the Group.

We note that the interest rate of the Comparable Issues ranged from being interest-free to 2.5% and the interest rate of the Convertible Bonds of 1% is within such range and therefore in line with market practice. We have reviewed the 2021 Annual Report and we understand that (i) the floating rate bank loans of the Group had effective interest rates ranging from HIBOR +1.25% to HIBOR +3.75% for the year ended 31 December 2021; (ii) the fixed rate secured bank loans of the Group had effective interest rates ranging from approximately 5.2% to 5.7% per annum for the year ended 31 December 2021; and (iii) other unsecured loans of the Group had effective interest rates ranging from approximately 6.5% to 7.0% per annum for the year ended 31 December 2021. We also understand the market interest rate is on an increasing trend, following the interest rate hikes in the United States in 2022. For instance, soon after the Sale and Purchase Agreement was entered into, five major banks in Hong Kong rose their prime rates on 23 September 2022, being the first increase in prime rates in four years. Hence, we consider the interest rate of the Convertible Bonds of 1% to be acceptable.

We note that the Conversion Price is at the closing price of the Shares as at the date of the Sale and Purchase Agreement, which is in line with three out of five of the Comparable Issues (i.e. two at the then latest closing price and one at a premium of no more than 5% with reference to the above table).

Despite the large issue size of the Convertible Bonds, after primarily taking into account, (i) the aforementioned background of and reasons for the Sale and Purchase Agreement, particularly the need of the Group to diversify its business in view of the poor financial performance of the existing businesses, where the issuance of the Convertible Bonds was an appropriate approach to settle the Consideration primarily because the Group did not have sufficient internal cash resources; (ii) the maturity period of the Convertible Bonds of three years is at the upper range of those of the Comparable Issues, where a longer maturity period is favourable to the Group; (iii) the interest rate of the

Convertible Bonds of 1% is within the range of those of the Comparable Issues and is lower than the borrowing interest rates of the Group; (iv) the Conversion Price is at the closing price of the Shares as at the date of the Sale and Purchase Agreement, which is in line with three out of five of the Comparable Issues; and (v) the discount of the Conversion Price to the net asset value per Share is in line with the trend of discount between the market price of the Share and its net asset value, we consider the terms of the Convertible Bonds to be on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

Based on our above analysis on the Consideration and the Convertible Bonds, we are of the view that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Convertible Bonds for settlement of the Consideration) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

4.1. Possible financial and dilution effects of the Sale and Purchase Agreement

(a) Earnings

Upon Completion, the Genius Year Group will become indirect subsidiaries of the Company and the financial results of the Genius Year Group will be consolidated in the accounts of the Group. The Group recorded net loss attributable to equity holders of the Company of approximately HK$77 million for the year ended 31 December 2021 and approximately HK$72 million for the six months ended 30 June 2022. The Independent Shareholders should note that in view of the poor financial performance of the existing business of the Group in the past few years, the investment in the Genius Year Group provides an opportunity for the Group to diversify its business, with a view to broaden the revenue stream of the Group and improve the previous unfavourable financial performance of the Group. The Independent Shareholders should note that, despite the Sale and Purchase Agreement would not have an immediate impact on the earnings of the Group, the interest expense of the Convertible Bonds amounts to less than HK$1 million (being HK$898,400) per annum, which is not material when compared with the historical losses of the Group.

(b) Net assets

As the Genius Year Group will become indirect subsidiaries of the Company, the assets and the liabilities of the Genius Year Group will be consolidated in the accounts of the Group upon Completion. The total assets, total liabilities and net assets attributable to equity holders of the Company amounted to approximately HK$1,401 million, HK$992 million and HK$407 million as at 30 June 2022, respectively. Based on the pro forma financial statements of the Enlarged Group set out in Appendix IV to the Circular (the "**Pro Forma Statements**"), on the assumption that the acquisition of the Genius Year Group was completed on 30 June

2022, the Enlarged Group would have recorded total assets, total liabilities and net assets attributable to equity holders of the Company of approximately HK$1,495 million, HK$1,087 million and HK$405 million as at 30 June 2022, respectively.

(c) Working capital

The Group had cash and bank balances of approximately HK$33 million and net current liabilities of approximately HK$62 million as at 30 June 2022, whereas the Consideration amounted to approximately HK$90 million. Given the full amount of the Consideration would be settled by the issuance of the Convertible Bonds with a maturity period of three years, the transactions contemplated under the Sale and Purchase Agreement is not expected to cause an immediate material adverse impact on the working capital of the Group. Based on the Pro Forma Statements, on the assumption that the acquisition of the Genius Year Group was completed on 30 June 2022, the Enlarged Group would continue to have cash and bank balances of approximately HK$33 million and net current liabilities of approximately HK$63 million as at 30 June 2022.

(d) Gearing ratio

With reference to the 2022 Interim Report, the gearing ratio of the Group (being net debt divided by total equity plus net debt, where net debt includes interest-bearing bank borrowings and convertible bonds, less cash and bank balances) was approximately 47% as at 31 December 2021 and was approximately 52% as at 30 June 2022. With reference to the Pro Forma Statements, the gearing ratio of the Enlarged Group would be approximately 57% as at 30 June 2022. Nonetheless, the Independent Shareholders should note that the interest rate of the Convertible Bonds is generally significantly lower than those of the other borrowings of the Group.

(e) Shareholding and dilution

Assuming that there is no other change in the issued share capital of the Company from the Latest Practicable Date, the following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) after Completion and assuming full conversion of the Convertible Bonds at the Conversion Price; (iii) after Completion and assuming full conversion of the Convertible Bonds at the Conversion Price and full conversion of convertible bonds issued by the Company as per the circular of the Company dated 2 June 2022 (the "**Previous Convertible Bonds**"); and (iv) after Completion and assuming full conversion of the Convertible Bonds and conversion of the Previous Convertible Bonds to the extent meeting the public float requirement as per the Listing Rules. For further details of the shareholding structure of the Company, please refer to the Board Letter.

	As at the Latest Practicable Date		Upon full conversion of the Convertible Bonds		Upon full conversion of the Convertible Bonds and the Previous Convertible Bonds		Upon full conversion of the Convertible Bonds and conversion of the Previous Convertible Bonds to the extent meeting the public float requirement	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
Parties acting in concert with Mr. Ng (other than the Vendor)	119,733,918	39.74	119,733,918	20.57	347,006,645	42.87	263,633,918	36.32
The Vendor[(1)]	—	—	280,750,000	48.24	280,750,000	34.69	280,750,000	38.67
Subtotal	**119,733,918**	**39.74**	**400,483,918**	**68.81**	**627,756,645**	**77.56**	**544,383,918**	**74.99**
Hon. Raymond Arthur William Sears, K.C.[(2)]	53,000	0.02	53,000	0.01	53,000	0.01	53,000	0.01
Other public Shareholders	181,490,152	60.24	181,490,152	31.18	181,490,152	22.43	181,490,152	25.00
Total	**301,277,070**	**100.00**	**582,027,070**	**100.00**	**809,299,797**	**100.00**	**725,927,070**	**100.00**

Notes:

1. The Vendor is an indirect wholly-owned subsidiary of SCH. Mr. Ng and his associates held approximately 68.80% of the total issued share capital of SCH.

2. Hon. Raymond Arthur William Sears, K.C. is an independent non-executive Director.

The Independent Shareholders should note that the number of Conversion Shares to be issued pursuant to such conversion shall be limited to the maximum number of Shares issuable by the Company which would not result in a mandatory general offer being triggered under the Takeovers Code, unless a general offer is made or a whitewash waiver is approved and granted.

We note that, in the extreme scenario where the Convertible Bonds are fully converted, the shareholding of the other public Shareholders as shown in the above table would theoretically be diluted from approximately 60.24% to 31.18%. After primarily taking into account, (i) the aforementioned background of and reasons for the Sale and Purchase Agreement, particularly the need of the Group to diversify its business in view of the poor financial performance of the existing businesses, where the issuance of the Convertible Bonds was an appropriate approach to settle the Consideration primarily because the Group did not have sufficient internal cash resources; (ii) the maturity period of the Convertible Bonds is three years and allows the Group to preserve cash for business development; (iii) the Company may at any time during the period commencing from the Issue Date and expiring on the Maturity Date redeem the whole or part of the outstanding Convertible Bonds; (iv) the extent of the conversion of the Convertible Bonds is subject to the Takeovers Code, such as triggering a general offer or application for a whitewash waiver which would require a separate approval from the Independent Shareholders; (v) the number of

Conversion Shares to be issued shall not result in a breach of the public float requirement under the Listing Rules as stated in the Board Letter; and (vi) the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Convertible Bonds for settlement of the Consideration) are on normal commercial terms and are fair and reasonable as aforementioned, we consider the potential financial and dilution effects of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Convertible Bonds for settlement of the Consideration) to be acceptable.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that (i) the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Convertible Bonds for settlement of the Consideration) is in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Convertible Bonds for settlement of the Consideration) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issuance of the Convertible Bonds for settlement of the Consideration).

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

Edmond Kwan
Managing Director

Roger Tang
Vice President

Note: Mr. Edmond Kwan has been a Responsible Officer and Mr. Roger Tang has been a Representative of Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). Both of them have extensive experience in the corporate finance industry and have participated in, and completed, the provision of independent financial advisory services for numerous connected transactions involving listed companies in Hong Kong.

FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Company for the years ended 31 December 2019, 2020 and 2021 and the unaudited consolidated financial statements of the Company for the six months ended 30 June 2022 together with the relevant notes can be found on pages 61–180 of the annual report of the Company for the year ended 31 December 2019, pages 59–174 of the annual report of the Company for the year ended 31 December 2020, pages 60–172 of the annual report of the Company for the year ended 31 December 2021 and pages 1–16 of the interim report of the Company for the six months ended 30 June 2022. Please also see below the hyperlinks to the said documents:

https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0922/2022092200541.pdf

https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0427/2022042700589.pdf

https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0427/2021042700761.pdf

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0424/2020042400990.pdf

STATEMENT OF INDEBTEDNESS

As at the close of business on 31 October 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group (and taking into account the acquisition of the entire equity interest of Genius Year Limited and its subsidiaries (together, the "**Target Group**") ("**Target Group Acquisition**")) had the following indebtedness:

Indebtedness

		The Group	**The Target Group**	**The Enlarged Group**
		HK$'000	*HK$'000*	***HK$'000***
Bank and other borrowings				
Bank loans				
— secured	*(i)*	354,664	—	**354,664**
— unsecured	*(ii)*	3,000	—	**3,000**
Bank overdrafts — unsecured and unguaranteed	*(iii)*	1,510	—	**1,510**
Other borrowings — unsecured and unguaranteed		55,385	—	**55,385**
Lease liabilities — unsecured and unguaranteed		2,161	3,669	**5,830**
		416,720	3,669	**420,389**
Convertible bonds — unsecured and unguaranteed	*(iv)*	51,364	—	**51,364**
Total		468,084	3,669	**471,753**

(i) As at 31 October 2022, the Group's secured bank loans comprised of:

(a) secured bank loans of HK$244,726,000 which were secured by the Group's investment properties situated in Hong Kong;

(b) secured bank loans of HK$104,550,000 which were secured by listed equity investments belonging to the Group and clients of a subsidiary of the Group; and

(c) secured bank loans of HK$5,388,000 with floating charges over the Group's inventories.

At 31 October 2022, the secured bank loans denoted (a) and (b) were guaranteed by the Company and the secured bank loans denoted (c) are guaranteed by Nanjing Minxing Credit Guarantee Co., Ltd, a third party.

(ii) As at 31 October 2022, the Group's unsecured bank loans were guaranteed by a director of the Group.

(iii) As at 31 October 2022, the Group's bank overdrafts amounting to HK$1,510,000 was unsecured.

(iv) On 7 April 2020, the Company entered into the conditional subscription agreement with Total Grace in relation to, among others, the issue of the convertible bonds in an aggregate principal amount of HK$50,000,000 at the conversion price of HK$0.22 per share. The convertible bonds in an aggregate principal amount of HK$50,000,000 were issued by the Company to Total Grace on 30 June 2020. The convertible bonds have a maturity date (i.e. 29 June 2023) of three (3) years from the date of issue and interest-free. The convertible bonds contain a right to convert at a maximum of 227,272,727 shares of the Company at the conversion price of HK$0.22 per share. Unless previously converted or purchased or redeemed, the Company would redeem the convertible bonds on the maturity date at the redemption amount, which was 100% of the principal amount of the convertible bonds then outstanding. On 16 May 2022, the Company and the Total Grace entered into the supplemental agreement, pursuant to which the Company and Total Grace conditionally agreed to extend the maturity date by three (3) years from 30 June 2023 to 30 June 2026 by way of execution of the amendment deed.

Save as aforesaid or otherwise disclosed herein and apart from intra-group liabilities, at the close of business on 31 October 2022, none of the members of the Enlarged Group had (a) any debt securities issued and outstanding, and authorized or otherwise created but unissued; (b) any term loans; (c) any borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptances credits or hire purchase commitments; (d) any debentures, mortgages or charges; or (e) any guarantee or other material contingent liabilities.

SUFFICIENCY OF WORKING CAPITAL

The Directors, after due and careful enquiries, are of the opinion that following the Completion, after taking into account the effect of the Target Group Acquisition, the financial resources available to the Enlarged Group, including the available banking facilities and credit facilities provided by a substantial shareholder and a director of the Company, the internally generated funds from operations, proceeds from disposal of assets, and cash and bank balances of the Enlarged Group, the Enlarged Group has sufficient working capital to satisfy its requirements for at least 12 months from the date of publication of this Circular.

TRADING AND FINANCIAL PROSPECTS

With the continuing impact of international factors — including interest rate hikes by the Federal Reserve, the tightening of monetary policies by various central banks, ongoing dispute between China and United States, as well as the Russia-Ukraine conflict that has led to sanctions on Russia imposed by the United States and Europe, the volatility of financial markets is likely to remain, adding to uncertainties regarding global economic development.

On the other hand, a new listing regime for special purpose acquisition companies (SPAC) and overseas issuers, and other initiatives by Hong Kong Exchanges and Clearing Limited, Hong Kong's leadership role in the global capital market will be strengthened. With Hong Kong remaining a vital link for access to China's market, the financial services industry will continue developing with a promising outlook. The coordinated development with neighbouring cities in the Greater Bay Area will create enormous business opportunities, and ample room for Hong Kong's development.

In anticipation of continuing market remains volatile, the Group will adhere to its cautious approach in its brokerage and financing business, to minimise risks of default. The Group will also strengthen its wealth management business development, by offering more unique and quality investment products and services, aiming to expand its high net worth customer base.

For the media publications and financial public relation services sector, the Group actively sought change and continuous innovation by advancing its new media development during the period in keeping with the evolution of the current epoch. Under the strategy of combining traditional media and new digital media, the Group will strive to identify and seize market opportunities to promote and develop integrated marketing service industry. Adhering to an "offline to online" strategy combining the content and advertising of the print and digital platforms, the Group's traditional and new media businesses complement each other to expand their presence and revenue potential.

Amid a tough business environment, the Group will exercise stringent control over operating costs and adopt appropriate strategies to mitigate downside risk while seizing opportunities, and will endeavour to maintain steady businesses development.

The acquisition of the Genius Year Group would allow the Enlarged Group (i) widen its business to forestry business which is in line with the trend of the global environment, social and governance theme; and (ii) would reduce the reliance on the financial services business and media publications business which are highly competitive.

The following is the text of a report, prepared for the sole purpose of incorporation in this circular, from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

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ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF GENIUS YEAR LIMITED AND ITS SUBSIDIARIES (THE "TARGET GROUP") TO THE DIRECTORS OF SOUTH CHINA FINANCIAL HOLDINGS LIMITED

Introduction

We report on the historical financial information of Genius Year Limited (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages II-4 to II-37, which comprises the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Target Group for each of the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022 (the "**Relevant Periods**"), and the consolidated statements of financial position of the Target Group as at 31 December 2019, 2020 and 2021 and 30 June 2022 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-4 to II-37 forms an integral part of this report, which has been prepared for inclusion in the circular of South China Financial Holdings Limited (the "**Company**") dated 16 December 2022 (the "**Circular**") in connection with the acquisition of the entire equity interest of the Target Company (the "**Acquisition**").

Target Company Directors' responsibility for the Historical Financial Information

The directors of the Target Company (the "**Target Company Directors**") are 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 2.1 to the Historical Financial Information and for such internal control as the Target Company Directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

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 ("**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 the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 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 directors, 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 financial position of the Target Group as at 31 December 2019, 2020 and 2021 and 30 June 2022 and of the consolidated financial performance and consolidated cash flows of the Target Group for each of the Relevant Periods in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

Review of interim comparative financial information

We have reviewed the interim comparative financial information of the Target Group which comprises the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six months ended 30 June 2021 and other explanatory information (the "**Interim Comparative Financial Information**"). The Target Company Directors are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Interim 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 Interim 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 2.1 to the Historical Financial Information.

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

Adjustments

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

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Target Company since its date of incorporation.

Ernst & Young
Certified Public Accountants
Hong Kong

16 December 2022

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

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

The financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

					Six months ended	
		Year ended 31 December			**30 June**	
	Notes	**2019**	**2020**	**2021**	**2021**	**2022**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
Other income and gains	*5*	743	717	774	385	401
General and administrative expenses		(1,940)	(1,538)	(1,620)	(794)	(858)
Finance costs	*6*	(358)	(321)	(344)	(171)	(156)
LOSS BEFORE TAX	*7*	(1,555)	(1,142)	(1,190)	(580)	(613)
Income tax	*8*	—	—	—	—	—
LOSS FOR THE YEAR/ PERIOD		(1,555)	(1,142)	(1,190)	(580)	(613)

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
LOSS FOR THE YEAR/ PERIOD	(1,555)	(1,142)	(1,190)	(580)	(613)
OTHER COMPREHENSIVE LOSS					
Other comprehensive income/ (loss) that may be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	(183)	516	219	76	(288)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR/ PERIOD	(1,738)	(626)	(971)	(504)	(901)
Loss for the year/period attributable to:					
Owners of the parent	(1,555)	(1,142)	(1,190)	(580)	(613)
Total comprehensive loss for the year/period attributable to:					
Owners of the parent	(1,738)	(626)	(971)	(504)	(901)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2019 HK$'000	As at 31 December 2020 HK$'000	As at 31 December 2021 HK$'000	As at 30 June 2022 HK$'000
NON-CURRENT ASSETS					
Property, plant and equipment	*10*	—	—	—	6
Right-of-use assets	*11(a)*	16,324	16,655	16,282	15,184
Total non-current assets		16,324	16,655	16,282	15,190
CURRENT ASSETS					
Prepayments, deposits and other receivables	*12*	677	698	705	709
Due from fellow subsidiaries	*15*	3,471	3,819	3,487	—
Cash and cash equivalents	*13*	158	69	136	91
Total current assets		4,306	4,586	4,328	800
CURRENT LIABILITIES					
Other payables and accruals	*14*	62	111	68	53
Due to fellow subsidiaries	*15*	37,775	39,040	39,755	—
Lease liabilities	*11(b)*	391	451	524	517
Total current liabilities		38,228	39,602	40,347	570
NET CURRENT ASSETS/ (LIABILITIES)		(33,922)	(35,016)	(36,019)	230
TOTAL ASSETS LESS CURRENT LIABILITIES		(17,598)	(18,361)	(19,737)	15,420
NON-CURRENT LIABILITIES					
Lease liabilities	*11(b)*	4,607	4,470	4,065	3,633
Net assets/(liabilities)		(22,205)	(22,831)	(23,802)	11,787
EQUITY					
Equity attributable to owners of the parent					
Issued capital	*16*	—	—	—	—
Reserves		(22,205)	(22,831)	(23,802)	11,787
Total equity		(22,205)	(22,831)	(23,802)	11,787

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Issued capital *HK$'000*	Capital reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	Accumulated losses *HK$'000*	Total equity *HK$'000*
At 1 January 2019	—	—	(33)	(20,434)	(20,467)
Loss for the year	—	—	—	(1,555)	(1,555)
Other comprehensive loss for the year:					
Exchange differences on translation of foreign operations	—	—	(183)	—	(183)
Total comprehensive loss for the year	—	—	(183)	(1,555)	(1,738)
At 31 December 2019 and at 1 January 2020	—*	—^	(216)^	(21,989)^	(22,205)
Loss for the year	—	—	—	(1,142)	(1,142)
Other comprehensive income for the year:					
Exchange differences on translation of foreign operations	—	—	516	—	516
Total comprehensive loss for the year	—	—	516	(1,142)	(626)
At 31 December 2020 and at 1 January 2021	—*	—^	300^	(23,131)^	(22,831)
Loss for the year	—	—	—	(1,190)	(1,190)
Other comprehensive income for the year:					
Exchange differences on translation of foreign operations	—	—	219	—	219
Total comprehensive loss for the year	—	—	219	(1,190)	(971)

	Issued capital HK$'000	Capital reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total equity HK$'000
At 31 December 2021 and at 1 January 2022	—*	—^	519^	(24,321)^	(23,802)
Loss for the period	—	—	—	(613)	(613)
Other comprehensive loss for the period:					
Exchange differences on translation of foreign operations	—	—	(288)	—	(288)
Total comprehensive loss for the period	—	—	(288)	(613)	(901)
Capital reserve#	—	36,490	—	—	36,490
At 30 June 2022	—*	36,490^	231^	(24,934)^	11,787
(Unaudited)					
At 1 January 2021	—	—	300	(23,131)	(22,831)
Loss for the period	—	—	—	(580)	(580)
Other comprehensive income for the period:					
Exchange differences on translation of foreign operations	—	—	76	—	76
Total comprehensive loss for the period	—	—	76	(580)	(504)
At 30 June 2021	—	—	376	(23,711)	(23,335)

* Issued capital amounted to US$1 as at 31 December 2019, 2020 and 2021 and 30 June 2022.

On 30 June 2022, the Target Company, Thousand China Investment Limited ("**Thousand China**"), the immediate holding company of the Target Company, and South China Industries (BVI) Limited ("**SC Industries**"), an intermediate holding company of the Target Company, entered into a deed of undertaking (the "**Undertaking**"), whereby (i) Thousand China agreed to take up all the net amounts of RMB4,876,802 and HK$30,784,597 (in aggregate HK$36,490,000, the "**Debts**") owed by the Target Group to certain subsidiaries of SC Industries (the "**Creditors**") as at June 2022; (ii) SC Industries agreed Thousand China to take over the Debts with effect from the date of the Undertaking, and to procure the Creditors to release the Target Group all obligations of payment of Debts in accordance with the terms of the Undertaking. In the opinion of the Target Company Directors, the Target Group's obligations over the Debts and associated liabilities were novated to Thousand China with effect from

the date of the Undertaking (i.e. 30 June 2022) and released the Target Group any payment obligation thereafter. The Debts novated were accounted for as a shareholders' contribution and credited to capital reserve during the six months ended 30 June 2022.

^ These reserve accounts comprise the consolidated debit reserves of HK$22,205,000, HK$22,831,000, HK$23,802,000 in the consolidated statements of financial position as at 31 December 2019, 2020 and 2021, respectively and the consolidated reserves of HK$11,787,000 in the consolidated statements of financial position as at 30 June 2022.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December			Six months ended 30 June	
	Notes	**2019**	**2020**	**2021**	**2021**	**2022**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES						
Loss before tax		(1,555)	(1,142)	(1,190)	(580)	(613)
Adjustments for:						
Finance costs	*6*	358	321	344	171	156
Waiver of net amounts due to fellow subsidiaries	*5*	(743)	(715)	(774)	(385)	(401)
Depreciation of property, plant and equipment	*7*	—	—	—	—	5
Depreciation of right-of-use assets	*7*	769	738	803	399	400
		(1,171)	(798)	(817)	(395)	(453)
Decrease/(increase) in prepayments, deposits and other receivables		13	23	11	5	(35)
Increase/(decrease) in other payables and accruals		(119)	42	(45)	(56)	(12)
Decrease/(increase) in amounts due from fellow subsidiaries		163	(105)	428	(30)	570
Increase in amounts due to fellow subsidiaries		1,978	1,460	1,290	877	302
Net cash flows generated from operating activities		864	622	867	401	372

		Year ended 31 December			Six months ended 30 June	
	Notes	**2019**	**2020**	**2021**	**2021**	**2022**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
CASH FLOWS FROM AN INVESTING ACTIVITY						
Purchases of items of property, plant and equipment		—	—	—	—	(11)
Cash flows used in an investing activity		—	—	—	—	(11)
CASH FLOWS FROM FINANCING ACTIVITIES						
Principal portion of lease payments	*17(b)*	(385)	(394)	(457)	(227)	(245)
Interest portion of lease payments	*17(b)*	(358)	(321)	(344)	(171)	(156)
Cash flows used in financing activities		(743)	(715)	(801)	(398)	(401)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		121	(93)	66	3	(40)
Cash and cash equivalents at beginning of year/period		39	158	69	69	136
Effect of foreign exchange rate changes, net		(2)	4	1	—	(5)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		158	69	136	72	91

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Target Company is a limited liability company incorporated in the British Virgin Islands (the "**BVI**"). The address of the registered office of the Target Company is Vistra Corporation Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110.

The Target Company is an investment holding company. During the Relevant Periods, the Target Company and its subsidiaries (collectively the "**Target Group**") are principally engaged in investments in certain parcels of forestry land situated in the People's Republic of China (the "**PRC**"). There has been no significant change in the Target Group's principal activities during the Relevant Periods.

In the opinion of the Target Company Directors, Thousand China Investments Limited, a limited liability company incorporated in British Virgin Islands ("**BVI**"), is the immediate holding company of the Target Company, and South China Holdings Company Limited ("**South China Holdings**"), a limited liability company incorporated in Cayman Island, is the ultimate holding company of the Target Company.

The shares of South China Holdings are listed on The Stock Exchange of Hong Kong Limited.

As at the date of this report, the Target Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ paid-up capital	Percentage of equity attributable to the Target Company		Principal activities
			Direct	Indirect	
Power On Investments Limited *(note (a))*	Hong Kong 3 December 2007	HK$1	100	—	Investment holding
Wealthy Key Limited *(note (a))*	Hong Kong 8 March 2010	HK$1	100	—	Investment holding
武漢港洋林業發展有限公司 *(note (b))*	The PRC 2 June 2010	RMB1,000,000	—	100	Assets holding
武漢華峰農林發展有限公司 *(note (b))*	The PRC 15 October 2008	RMB8,010,330	—	100	Assets holding

Notes:

(a) The statutory financial statements of these entities for the years ended 31 December 2019, 31 December 2020 and 31 December 2021 prepared under Hong Kong Financial Reporting Standards ("**HKFRSs**") were audited by KPMG.

(b) No audited financial statements have been prepared for the Relevant Periods (or since the date of incorporation, where later than the beginning of the Relevant Periods) as these entities were not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation.

2.1 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2022 together with the relevant transitional provisions, have been early adopted on a consistent basis by the Target Group in the preparation of the Historical Financial Information throughout the Relevant Periods and the period covered by the Interim Comparative Financial Information.

The Historical Financial Information is presented in HK$ and all values are rounded to the nearest thousand except when otherwise indicated.

The Historical Financial Information has been prepared under the historical cost convention.

In the opinion of the Target Company Directors, it is appropriate that the Historical Financial Information has been prepared under the going concern basis as the ultimate holding company of the Target Group has agreed to provide continual financial support and adequate funds for the Target Group to meet its liabilities as and when they fall due.

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Target Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
HKFRS 17	*Insurance Contracts*[1]
Amendments to HKFRS 17	*Insurance Contracts*[1, 4]
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information*[1]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[1, 3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to HKAS 8	*Definition of Accounting Estimates*[1]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[5]

1 Effective for annual periods beginning on or after 1 January 2023

2 No mandatory effective date yet determined but available for adoption

3 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

4 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

5 Effective for annual periods beginning on or after 1 January 2024

The Target Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Target Group considers that these new and revised HKFRSs may result in changes in accounting policies and are unlikely to have a significant impact on the Target Group's results of operations and financial position.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Target Company. Control is achieved when the Target Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Target Company the current ability to direct the relevant activities of the investee).

When the Target Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Target Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Target Company's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Target Company, using consistent accounting policies. The results of subsidiaries are included in the Target Company's profit or loss to the extent of dividends received and receivable. The Target Company's investments in subsidiaries are stated at cost less any impairment losses.

The Target Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Target Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or of a parent of the Target Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the parent of the Target Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture and leasehold improvements	33%
Fixtures and equipment	33%
Motor vehicles	25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leases

The Target Group assesses at contract inception whether a contract is, or contains, 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.

Target Group as a lessee

The Target Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Target Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	Over the lease terms
Leased properties	Over the lease terms

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Target Group and payments of penalties for termination of a lease, if the lease term reflects the Target Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Target Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases

The Target Group applies the short-term lease recognition exemption to its short-term leases (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term are recognised as an expense on a straight-line basis over the lease term.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Group's business model for managing them. The Target Group initially measures a financial asset at its fair value, plus transaction costs.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding.

The Target Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement of financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Target Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Group has transferred substantially all the risks and rewards of the asset, or (b) the Target Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Group continues to recognise the transferred asset to the extent of the Target Group's continuing involvement. In that case, the Target Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Group could be required to repay.

Impairment of financial assets

The Target Group recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Target Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Target Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Target Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Target Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Target Group may also consider a financial asset to be in default when internal or external information indicates that the Target Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Target Group.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement of financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings and payables are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is recognised in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash at banks are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries/jurisdictions in which the Target Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Target Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Employee benefits

Pension schemes

The employees of the Target Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit or loss as they become payable in accordance with the rules of the central pension scheme.

Foreign currencies

Foreign currency transactions

The Historical Financial Information is presented in Hong Kong dollars, which is the Target Company's functional currency. Each entity in the Target Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Target Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Target Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Target Group determines the transaction date for each payment or receipt of the advance consideration.

Foreign operations

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the exchange rates that approximate to those prevailing at the dates of the transactions. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Target Group's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of non-financial assets

The Target Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. OPERATING SEGMENT INFORMATION

The Target Group is principally engaged in investments in certain parcels of forestry land situated in the PRC. The Target Company Directors is identified as the chief operating decision maker for the purposes of resource allocation and performance assessment and considered the investments in land business to be a single operating segment. Accordingly, no segment information is reported. For the Relevant Periods, no relevant revenue is derived and non-current assets of the Target Group are located in the PRC.

5. OTHER INCOME AND GAINS

	Year ended 31 December			Six months ended 30 June	
	2019	**2020**	**2021**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Waiver of net amounts due to fellow subsidiaries	743	715	774	385	401
Others	—	2	—	—	—
	743	717	774	385	401

Pursuant to waiver agreements entered into between the Target Group and certain fellow subsidiaries dated 31 December 2019, 31 December 2020, 31 December 2021, 30 June 2021 and 30 June 2022, the fellow subsidiaries agreed to waive the net amounts due by the Target Group amounting to HK$743,000, HK$715,000, HK$774,000, HK$385,000 and HK$401,000 as at the end of the respective reporting year/period. The amounts waived by the fellow subsidiaries were credited to the profit or loss in the respective year/period then ended.

6. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2019	**2020**	**2021**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Interest on lease liabilities	358	321	344	171	156

7. LOSS BEFORE TAX

The Target Group's loss before tax is arrived at after charging:

		Year ended 31 December			Six months ended 30 June	
	Notes	**2019**	**2020**	**2021**	**2021**	**2022**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Depreciation of property, plant and equipment	*10*	—	—	—	—	5
Depreciation of right-of-use assets	*11(a)*	769	738	803	399	400
Lease payments not included in the measurement of lease liabilities	*11(c)*	6	6	6	6	39
Employee benefit expense (excluding directors' remuneration):						
Wages, salaries, allowances and benefits in kind		791	621	633	318	311
Pension scheme contributions (defined contribution schemes)		65	32	86	40	44
		856	653	719	358	355

8. INCOME TAX

No provision for Hong Kong nor PRC profits tax has been made as the Target Group did not generate any assessable profits arising in Hong Kong or the PRC during the Relevant Periods.

9. DIRECTORS' REMUNERATION

No director received any fees or emoluments in respect of their services rendered to the Target Group during the Relevant Periods.

10. PROPERTY, PLANT AND EQUIPMENT

	Furniture and leasehold improvements *HK$'000*	**Fixtures and equipment** *HK$'000*	**Motor vehicles** *HK$'000*	**Total** *HK$'000*
31 December 2019				
At 1 January 2019:				
Cost	17	182	138	337
Accumulated depreciation	(17)	(182)	(138)	(337)
Net carrying amount	—	—	—	—
At 1 January 2019, net of accumulated depreciation	—	—	—	—
Exchange realignment	—	—	—	—
At 31 December 2019, net of accumulated depreciation	—	—	—	—
At 31 December 2019:				
Cost	17	182	138	337
Accumulated depreciation	(17)	(182)	(138)	(337)
Net carrying amount	—	—	—	—

	Furniture and leasehold improvements *HK$'000*	Fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2020				
At 1 January 2020:				
Cost	17	182	138	337
Accumulated depreciation	(17)	(182)	(138)	(337)
Net carrying amount	—	—	—	—
At 1 January 2020, net of accumulated depreciation	—	—	—	—
Exchange realignment	—	—	—	—
At 31 December 2020, net of accumulated depreciation	—	—	—	—
At 31 December 2020:				
Cost	18	187	144	349
Accumulated depreciation	(18)	(187)	(144)	(349)
Net carrying amount	—	—	—	—

	Furniture and leasehold improvements *HK$'000*	Fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2021				
At 1 January 2021:				
Cost	18	187	144	349
Accumulated depreciation	(18)	(187)	(144)	(349)
Net carrying amount	—	—	—	—
At 1 January 2021, net of accumulated depreciation	—	—	—	—
Exchange realignment	—	—	—	—
At 31 December 2021, net of accumulated depreciation	—	—	—	—
At 31 December 2021:				
Cost	19	192	148	359
Accumulated depreciation	(19)	(192)	(148)	(359)
Net carrying amount	—	—	—	—

	Furniture and leasehold improvements *HK$'000*	Fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
30 June 2022				
At 1 January 2022:				
Cost	19	192	148	359
Accumulated depreciation	(19)	(192)	(148)	(359)
Net carrying amount	—	—	—	—
At 1 January 2022, net of accumulated depreciation	—	—	—	—
Additions	—	11	—	11
Depreciation provided during the period	—	(5)	—	(5)
Exchange realignment	—	—	—	—
At 30 June 2022, net of accumulated depreciation	—	6	—	6
At 30 June 2022:				
Cost	18	195	141	354
Accumulated depreciation	(18)	(189)	(141)	(348)
Net carrying amount	—	6	—	6

11. LEASES

The Target Group as a lessee

The Target Group has lease contracts for various leasehold lands and properties used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 70 years, and no ongoing payments will be made under the terms of these land leases. Leases of properties generally have lease terms between 19 and 20 years. Generally, the Target Group is restricted from assigning and subleasing the leased assets outside the Target Group. There are several lease contracts that include extension options, which are further discussed below.

(a) Right-of-use assets

The carrying amounts of the Target Group's right-of-use assets and the movements during the Relevant Periods are as follows:

	Leasehold land	**Leased properties** *(note 11(b))*	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2019	11,947	—	11,947
Effect of adoption of HKFRS 16	—	5,474	5,474
Depreciation charge	(207)	(562)	(769)
Exchange realignment	(240)	(88)	(328)
At 31 December 2019 and at 1 January 2020	11,500	4,824	16,324
Depreciation charge	(198)	(540)	(738)
Exchange realignment	772	297	1,069
At 31 December 2020 and at 1 January 2021	12,074	4,581	16,655
Depreciation charge	(223)	(580)	(803)
Exchange realignment	317	113	430
At 31 December 2021 and at 1 January 2022	12,168	4,114	16,282
Depreciation charge	(111)	(289)	(400)
Exchange realignment	(527)	(171)	(698)
At 30 June 2022	11,530	3,654	15,184

The Target Group's leasehold land represents forestry land use rights over certain parcels of land located in Chongyang County, Xianning City, Hubei Province, the PRC, with Forestry Land Use Rights Certificates issued by The State Forestry Administration for a tenure of 70 years expiring between 31 July 2079 and 30 April 2083.

The Target Group's leased properties represent leasing of agricultural land in Hubei Province with the original tenure of around 20 years.

(b) Lease liabilities

The carrying amounts of lease liabilities and the movements during the Relevant Periods are as follows:

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of year/period	—	4,998	4,921	4,589
Effect of adoption of HKFRS 16	5,474	—	—	—
Accretion of interest recognised during the year/period	358	321	344	156
Payments	(743)	(715)	(801)	(401)
Exchange realignment	(91)	317	125	(194)
At end of year/period	4,998	4,921	4,589	4,150
Analysed into:				
Current portion	391	451	524	517
Non-current portion	4,607	4,470	4,065	3,633

The maturity analysis of lease liabilities is disclosed in note 21 to the Historical Financial Information.

Subsequent to 30 June 2022, on 10 November 2022, the Target Group and Wise Express Investment Limited ("**Wise Express**") an indirectly wholly-owned subsidiary of the ultimate holding company, agreed to assign the rights and obligations over the leased properties to Wise Express. The related right-of-use assets and lease liabilities of the Target Group were then derecognised by the Target Group subsequently. Further details of which are set out in note 22 to the Historical Financial Information.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Interest on lease liabilities	(358)	(321)	(344)	(171)	156
Depreciation of right-of-use assets	(769)	(738)	(803)	(399)	(400)
Expense relating to short-term leases	(6)	(6)	(6)	(6)	(39)
Total amount recognised in profit or loss	(1,133)	(1,065)	(1,153)	(576)	(283)

(d) The total cash outflow for leases is disclosed in note 17(c) to the Historical Financial Information.

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments	677	698	705	702
Deposits	—	—	—	7
	677	698	705	709

The financial assets included in the above balances relate to deposits and receivables for which there was no recent history of default and past due amounts. As at 31 December 2019, 2020 and 2021 and 30 June 2022, the loss allowance was assessed to be minimal.

13. CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	158	69	136	91

As at 31 December 2019, 2020 and 2021 and 30 June 2022, the cash and cash equivalents of the Target Group denominated in RMB amounted to HK$132,000, HK$43,000, HK$110,000 and HK$91,000, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Certain cash at banks earns interest at floating rates based on respective short-term deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

14. OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	5	15	17	4
Accruals	57	96	51	49
	62	111	68	53

Other payables are non-interest-bearing and have an average term of three months.

15. BALANCES WITH FELLOW SUBSIDIARIES

The balances with fellow subsidiaries are unsecured, interest-free and repayable on demand. Since the amounts due from fellow subsidiaries are not past due, the expected credit loss is assessed to be minimal.

16. SHARE CAPITAL

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Issued and fully paid:				
1 ordinary share of US$1 each	—	—	—	—

The Target Company is an exempted company with limited liability incorporated in the British Virgins Island on 28 March 2008. Issued share capital of the Target Company amounted to US$1 as at 31 December 2019, 2020, and 2021, and 30 June 2022.

17. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

The major non-cash transactions of the Target Group during the Relevant Periods and the six months ended 30 June 2021 are as follows:

(i) During the year ended 31 December 2019, the Target Group had non-cash additions to right-of-use assets and lease liabilities of HK$5,474,000.

(ii) During the year ended 31 December 2019, 2020 and 2021 and six months ended 30 June 2021 and 2022, certain fellow subsidiaries of the Target Group waived the amounts of HK$743,000, HK$715,000, HK$774,000, HK$385,000 and HK$401,000, respectively.

(b) Changes in liabilities arising from financing activities

	Lease liabilities *HK$'000*
At 1 January 2019	—
Changes from financing cash flows	
Principal portion of lease payments	(385)
Interest portion of lease payments	(358)
Effect on adoption of HKFRS 16	5,474
Interest expense	358
Exchange realignment	(91)
At 31 December 2019 and 1 January 2020	4,998
Changes from financing cash flows	
Principal portion of lease payments	(394)
Interest portion of lease payments	(321)
Interest expense	321
Exchange realignment	317
At 31 December 2020 and 1 January 2021	4,921
Changes from financing cash flows	
Principal portion of lease payments	(457)
Interest portion of lease payments	(344)
Interest expense	344
Exchange realignment	125
At 31 December 2021 and 1 January 2022	4,589
Changes from financing cash flows	
Principal portion of lease payments	(245)
Interest portion of lease payments	(156)
Interest expense	156
Exchange realignment	(194)
At 30 June 2022	4,150
(Unaudited)	
At 1 January 2021	4,921
Changes from financing cash flows	
Principal portion of lease payments	(227)
Interest portion of lease payments	(171)
Interest expense	171
Foreign exchange movement	39
At 30 June 2021	4,733

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	Years ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Within financing activities	743	715	801	398	401

18. RELATED PARTY TRANSACTIONS

(a) In addition to the balances, arrangements and transactions detailed elsewhere in the Historical Financial Information, the Target Group had the following material transactions with related parties during the Relevant Periods and the six months ended 30 June 2021:

		Years ended 31 December			Six months ended 30 June	
	Note	2019	2020	2021	2021	2022
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Wavier of net amounts due to fellow subsidiaries	*5*	743	715	774	385	401

(b) In the opinion of the Target Company Directors, key management personnel of the Target Group represented the directors of the Target Company whom did not receive any remuneration during the Relevant Periods.

19. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Financial assets

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at amortised cost:				
Amounts due from fellow subsidiaries	3,471	3,819	3,487	—
Cash and cash equivalents	158	69	136	91
	3,629	3,888	3,623	91

Financial liabilities

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities at amortised cost:				
Financial liabilities included in other payables and accruals	62	111	68	53
Amounts due to fellow subsidiaries	37,775	39,040	39,755	—
Lease liabilities	4,998	4,921	4,589	4,150
	42,835	44,072	44,412	4,203

20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, financial assets included in prepayments, deposits and other receivables, amounts due from fellow subsidiaries, financial liabilities included in other payables and accruals, amounts due to fellow subsidiaries and lease liabilities approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to finance the Target Group's operations. The Target Group has various other financial assets and liabilities such as financial assets included in prepayments, deposits and other receivables, amounts due from fellow subsidiaries, financial liabilities included in other payables and accruals, amounts due to fellow subsidiaries and lease liabilities, which mainly arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Target Group mainly transacts with recognised and creditworthy third parties. Receivable balances are monitored on an ongoing basis.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at the end of each of the Relevant Periods. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from fellow subsidiaries					
— Normal*	3,471	—	—	—	3,471
Cash and cash equivalents					
— Not yet past due	158	—	—	—	158
	3,629	—	—	—	3,629

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from fellow subsidiaries					
— Normal*	3,819	—	—	—	3,819
Cash and cash equivalents					
— Not yet past due	69	—	—	—	69
	3,888	—	—	—	3,888

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from fellow subsidiaries					
— Normal*	3,487	—	—	—	3,487
Cash and cash equivalents					
— Not yet past due	136	—	—	—	136
	3,623	—	—	—	3,623

As at 30 June 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash and cash equivalents					
— Not yet past due	91	—	—	—	91

* The credit quality of financial assets included prepayments, deposits and other receivables and amounts due from fellow subsidiaries is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Liquidity risk

Liquidity risk is the risk that the Target Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Target Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Target Group monitors its risk to a shortage of funds by considering the maturities of both its financial liabilities and financial assets.

The Target Group aims to maintain sufficient cash and cash equivalents to meet its liquidity requirements.

The maturity profile of the Target Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

	31 December 2019				
	On demand	Less than 1 year	1 to 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities included in other payables and accruals	62	—	—	—	62
Amounts due to fellow subsidiaries	37,775	—	—	—	37,775
Lease liabilities	—	709	2,950	3,096	6,755
	37,837	709	2,950	3,096	44,592

	31 December 2020				
	On demand	Less than 1 year	1 to 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities included in other payables and accruals	111	—	—	—	111
Amounts due to fellow subsidiaries	39,040	—	—	—	39,040
Lease liabilities	—	765	3,189	2,504	6,458
	39,151	765	3,189	2,504	45,609

	31 December 2021				
	On demand	**Less than 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities included in other payables and accruals	68	—	—	—	68
Amounts due to fellow subsidiaries	39,755	—	—	—	39,755
Lease liabilities	—	816	3,315	1,714	5,845
	39,823	816	3,315	7,714	45,668

	30 June 2022				
	On demand	**Less than 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities included in other payables and accruals	53	—	—	—	53
Lease liabilities	—	816	3,335	1,285	5,436
	53	816	3,335	1,285	5,489

Capital management

The primary objectives of the Group's capital management are to safeguard the Target Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Target Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

Capital of the Target Group comprises all components of shareholders' equity.

22. SIGNIFICANT SUBSEQUENT EVENTS

(a) On 10 November 2022, Power On, a wholly-owned subsidiary of the Target Company, entered into a deed of undertaking and memorandum with Wise Express, an indirect wholly-owned subsidiary of South China Holdings. Pursuant to which, Power On has agreed to assign and Wise Express has agreed to accept the assignment of, all the rights and obligations in relation to lease contracts of certain agricultural land with a total area of approximately 772.92 mu located in the PRC (the "**Leases**"), which had lease terms between 19 and 20 years and will be ended on 31 December 2028 with effect from the same date (collectively, the "**Lease Assignment**"). There is no consideration for the abovementioned assignment of the Leases. As at 30 June 2022, the right-of-use assets and lease liabilities of the Target Group relating to the Leases were HK$3,654,000 and HK$4,150,000, respectively which were derecognised upon the completion of the Lease Assignment.

(b) Other than disclosed above, in the opinion of the Target Company Directors, the Target Group did not have any significant events occurred after 30 June 2022.

23. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company, the Target Group or its subsidiaries in respect of any period subsequent to 30 June 2022.

The following discussion and analysis should be read in conjunction with the financial information of Genius Year for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022 (the "**Relevant Periods**"), as set out in Appendix II to this circular.

BUSINESS AND FINANCIAL REVIEW

For the Relevant Periods, the Genius Year Group did not have any material business. The major assets of the Genius Year Group are the Genius Year Sites.

Set out below is the consolidated financial performance of the Genius Year Group for the Relevant Periods as extracted from the accountants' report as set out in Appendix II to this circular.

	Year ended 31 December			**Six months ended 30 June**
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	—	—	—	—
Loss for the year/period	(1,555)	(1,142)	(1,190)	(613)

REVENUE

There is no revenue recorded during the Relevant Periods.

Loss for the year/period

For the financial year ended 31 December 2019, 2020 and 2021 and for the six months ended 30 June 2022, the Genius Year recorded a net loss of approximately HK$1,555,000, HK$1,142,000, HK$1,190,000 and HK$613,000 respectively.

For the financial year ended 31 December 2019, the net loss was mainly comprised of the administrative expenses.

For the financial year ended 31 December 2020, the net loss was mainly comprised of the administrative expenses.

For the financial year ended 31 December 2021, the net loss was mainly comprised of the administrative expenses.

For the six months ended 30 June 2022, the net loss was mainly comprised of the administrative expenses.

ASSET AND LIABILITIES

Set out below is the financial position of the Genius Year Group for the Relevant Periods

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	16,324	16,655	16,282	15,190
Current assets	4,306	4,586	4,328	800
Total assets	20,630	21,241	20,610	15,990
Non-current liabilities	4,607	4,470	4,065	3,633
Current liabilities	38,228	39,602	40,347	570
Total liabilities	42,835	44,072	44,412	4,203
Net (liabilities)/assets	(22,205)	(22,831)	(23,802)	11,787

SEGMENT INFORMATION

The Genius Year Group has only one reportable segment during the Relevant Periods. As such, no segmental information thereof is presented.

LIQUIDITY AND FINANCIAL RESOURCES

The Target Group's net liabilities was approximately HK$22.2 million, HK$22.8 million and 23.8 million as at 31 December 2019, 2020 and 2021 respectively and net assets was approximately HK$11.8 million as at 30 June 2022. As at 31 December 2019, 2020 and 2021 and 30 June 2022, the Genius Year Group had cash and cash equivalents of approximately HK$158,000, HK$69,000, HK$136,000 and HK$91,000 respectively, which were mainly denominated in RMB and HK$.

As at 31 December 2019, 2020 and 2021 and 30 June 2022, the Genius Year Group had no bank borrowings.

SIGNIFICANT INVESTMENT

The Genius Year Group had no significant investment during the Relevant Periods.

COMMITMENTS

As at 31 December 2019, 2020 and 2021 and 30 June 2022, the Genius Year Group had no significant capital commitment.

MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES, ASSOCIATES OR JOINT VENTURES

During the Relevant Periods, the Genius Year Group did not conduct any material acquisition or disposal of subsidiaries, associates and joint ventures.

CONTINGENT LIABILITIES

The Target Group did not have any material contingent liabilities as at 31 December 2019, 2020 and 2021 and 30 June 2022.

FOREIGN EXCHANGE EXPOSURE

During the Relevant Periods, the Genius Year Group operates in the PRC and all transactions and cash and cash equivalents are denominated in RMB. In this respect, the Genius Year Group is not exposed to any significant foreign currency exchange risk.

PLEDGE OF ASSETS

As at 31 December 2019, 2020 and 2021 and 30 June 2022, all the Genius Year Group did not have any charge on its assets.

EMPLOYEES

The Genius Year Group had about 5 employees as at 31 December 2019, 2020 and 2021 and 30 June 2022.

The information set out in this appendix does not form part of the accountants' report prepared by the independent reporting accountant of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, set out in the Appendix II to this Circular and is included here for illustration purpose only.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is an illustrative unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**"), which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the acquisition of the entire issued share capital of the Target Company (the "**Acquisition**") which had been completed on 30 June 2022.

This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 30 June 2022 or at any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this Circular.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP AS AT 30 JUNE 2022

	The Group	The Target Group	Subtotal	Pro forma adjustments	The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*		*(Note 3)*	
NON-CURRENT ASSETS					
Property, plant and equipment	5,207	6	5,213	—	5,213
Investment properties	528,500	—	528,500	—	528,500
Right-of-use assets	2,873	15,184	18,057	78,053	96,110
Goodwill	44,895	—	44,895	—	44,895
Intangible assets	5,069	—	5,069	—	5,069
Other assets	5,812	—	5,812	—	5,812
Equity investments designated at fair value through other comprehensive income	632	—	632	—	632
Debt investments at fair value through other comprehensive income	4,060	—	4,060	—	4,060
Long term loans receivable	201	—	201	—	201
Long term prepayments and deposits	61	—	61	—	61
Total non-current assets	597,310	15,190	612,500	78,053	690,553
CURRENT ASSETS					
Inventories	10,855	—	10,855	—	10,855
Financial assets at fair value through profit or loss	171,991	—	171,991	—	171,991
Loans receivable	129,133	—	129,133	—	129,133
Trade receivables	63,700	—	63,700	—	63,700
Prepayments, other receivables and other assets	15,839	709	16,548	—	16,548
Tax recoverable	11	—	11	—	11
Cash held on behalf of clients	379,335	—	379,335	—	379,335
Cash and bank balances	32,530	91	32,621	—	32,621
Total current assets	803,394	800	804,194	—	804,194

	The Group	The Target Group	Subtotal	Pro forma adjustments	The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*		*(Note 3)*	
CURRENT LIABILITIES					
Client deposits	(374,120)	—	(374,120)	—	(374,120)
Trade payables	(76,600)	—	(76,600)	—	(76,600)
Other payables and accruals	(35,662)	(53)	(35,715)	(1,200)	(36,915)
Interest-bearing bank and other borrowings	(379,324)	(517)	(379,841)	—	(379,841)
Total current liabilities	(865,706)	(570)	(866,276)	(1,200)	(867,476)
NET CURRENT (LIABILITIES)/ ASSETS	(62,312)	230	(62,082)	(1,200)	(63,282)
TOTAL ASSETS LESS CURRENT LIABILITIES	534,998	15,420	550,418	76,853	627,271
NON-CURRENT LIABILITIES					
Interest-bearing bank and other borrowings	(43,734)	(3,633)	(47,367)	—	(47,367)
Convertible bonds	(51,364)	—	(51,364)	(89,840)	(141,204)
Deposits received	(74)	—	(74)	—	(74)
Deferred tax liabilities	(31,203)	—	(31,203)	—	(31,203)
Total non-current liabilities	(126,375)	(3,633)	(130,008)	(89,840)	(219,848)
Net assets	408,623	11,787	420,410	(12,987)	407,423

Notes:

(1) The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2022 set out in the Company's published interim report for the six months ended 30 June 2022.

(2) The amounts are extracted from the audited consolidated statement of financial position of the Target Group as at 30 June 2022 set out in the Appendix II to this Circular.

(3) During the Relevant Periods and as at 30 June 2022, the Target Group did not have any operation nor business, other than investments in the Genius Year Sites. In the opinion of Directors, the Acquisition does not constitute an acquisition of business under Hong Kong Financial Reporting Standard 3 *Business Combination*, and accordingly, the Acquisition is accounted for as a purchase of assets. The Consideration of the Acquisition amounting to HK$89,840,000 would be settled by way of Convertible Bonds to be issued by the Company upon the Completion.

The adjustment represents (i) the ascribed appraised value to the Genius Year Sites, being the difference between the fair value of the Convertible Bonds of HK$89,840,000 and the net asset value of the Target Group as at 30 June 2022 of approximately HK$11,787,000. For the purpose of this Unaudited Pro Forma Financial Information, the fair value of the Convertible Bonds is assumed to be equal to the Consideration; and (ii) the estimated professional fees for the Acquisition and for the purpose of preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group of approximately HK$1,200,000.

(4) Since the net assets value of the Target Group and the fair value of the Convertible Bonds as at the Completion date may be materially different from their respective values used in the preparation of the Unaudited Pro Forma Financial Information, the actual amounts of the assets and liabilities to be recorded in the consolidated financial statements of the Enlarged Group upon Completion may be materially different from the estimated amounts shown in this appendix.

(5) Subsequent to 30 June 2022, on 10 November 2022, Power On, a wholly-owned subsidiary of the Target Company, entered into a deed of undertaking and memorandum with Wise Express Investments Limited ("**Wise Express**"), an indirect wholly-owned subsidiary of SCH. Pursuant to which, Power On agreed to assign and Wise Express agreed to accept the assignment of, all the rights and obligations in relation to lease contracts of certain agricultural land with a total area of approximately 772.92 mu located in the PRC (the "**Leases**"), which had lease terms between 19 and 20 years and will be ended on 31 December 2028 with effect from the same date (the "**Lease Assignment**").

The following is an illustration of the impact on the financial position of the Enlarged Group as if the Lease Assignment had been completed as at 30 June 2022:

	The Enlarged Group after Pro forma adjustments	**Derecognisation of related right-of-use assets and lease liabilities for the Lease Assignment**	**The Enlarged Group as if the Lease Assignment had been completed on 30 June 2022**
	HK$'000	*HK$'000*	*HK$'000*
Right-of-use assets	96,110	(3,654)	92,456
Interest-bearing bank and other borrowings	(427,208)	4,150	(423,058)
Total non-current assets	690,553	(3,654)	686,899
Total current liabilities	(867,476)	517	(866,959)
Net current liabilities	(63,282)	517	(62,765)
Total non-current liabilities	(219,848)	3,633	(216,215)
Net assets	407,423	496	407,919

Since the net assets value of the Enlarged Group and the carrying value of the related right-of-use assets and lease liabilities as at the completion date of the Lease Assignment may be material different from the above, the actual amounts of the assets and liabilities to be recorded in the consolidated financial statements of the Enlarged Group may be materially different.

(6) Save as aforesaid, no other adjustments have been made to reflect any trading results or other transactions of the Group or Enlarged Group entered into subsequent to 30 June 2022.

The following is the text of a report prepared for the sole purpose of inclusion in this circular received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group.

EY 安永

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

To the Directors of South China Financial Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of South China Financial Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**"), Genius Year Limited (the "**Target Company**") and its subsidiaries (collectively the "**Target 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 consolidated statement of assets and liabilities as at 30 June 2022, and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages IV-2 to IV-5 of the circular dated 16 December 2022 issued by the Company (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on page IV-1 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the acquisition of the entire issued share capital of the Target Company (the "**Acquisition**") on the Group's financial position as at 30 June 2022 as if the Acquisition had taken place at 30 June 2022. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's interim financial information for the six months ended 30 June 2022 as set out in the interim report of the Company dated 30 August 2022. Information about the financial position of the Target Group has been extracted by the Directors from the Target Group's financial information, on which an accountants' report has been published in Appendix II to the Circular.

Directors' responsibility 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 ("**AG**") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* 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 the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Acquisition on unadjusted financial information of the Group as if 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 transaction 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 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 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 purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully

Ernst & Young
Certified Public Accountants
Hong Kong

16 December 2022

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this circular received from Ravia Global Appraisal Advisory Limited, an independent valuer, in connected with its valuation as at 30 September 2022 of the Genius Year Sites.

RAVIA GLOBAL APPRAISAL ADVISORY LIMITED

17/F., 83 Wan Chai Road
Wan Chai, Hong Kong
T: (852) 2811 1876 F: (852) 3007 8501
W: www.raviagroup.com
E: general@raviagroup.com

16 December 2022

South China Financial Holdings Limited
28th Floor, Bank of China Tower,
No.1, Garden Road,
Central, Hong Kong

Dear Sirs/Madams,

RE: LAND VALUATION OF 65 PARCELS OF FORESTRY LAND SITUATED IN CHONGYANG COUNTY, XIANNING CITY, HUBEI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA (the "Lands")

In accordance with the instructions of South China Financial Holdings Limited (the "**Company**", and together with its subsidiaries, the "**Group**") to value the captioned Lands in the People's Republic of China (the "**PRC**"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the Lands as at 30 September 2022 (the "**Date of Valuation**"). for the purpose of incorporation in the Circular of the Company dated 16 December 2022.

1. BASIS OF VALUATION

Our valuation of the Lands is our opinion of the market values of the concerned Lands which we would define as intended to mean "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.

2. VALUATION METHODOLOGY

We have valued the Lands by the direct comparison approach assuming sale of the Lands in its existing state with the benefit of vacant possession and by making reference to comparable sales transactions as available in the relevant market.

3. TITLE INVESTIGATION

We have been provided with copies of extracts of title documents in relation to the Lands. However, under the current land registration system of the PRC, we are not able to conduct title search to verify the original of such documents have been registered with the relevant official authorities, and we have not scrutinized the original documents to verify any amendment which may not appear on the copies handed to us. Thus, we have relied on the advices and information regarding the land title status provided by the Group and the Group's independent PRC legal adviser, Jiangsu Yongrun Law Firm, in the course of our valuation.

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

4. VALUATION ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the Lands in the market in their existing state without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the value of the Lands. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the Lands and no allowance has been made for the Lands to be sold in one lot or to a single purchaser. As instructed by the Group, we have assumed the subject land parcels are vacant and the valuation only reflects the market value of the land use rights.

5. SOURCE OF INFORMATION

In the course of our valuation, we have relied to a very considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of the Lands, particulars of occupation, site areas and all other relevant matters which can affect the values of the lands. All documents have been used for reference only.

Dimension, measurements and areas included in the valuation report attached are based on information provided to us and are therefore only approximations. We have not been able to carry out detailed on-site measurements to verify the sites areas of the Lands and we have assumed that the areas shown on the documents handed to us are correct. We were also advised by the Group that no material facts have been omitted from the information provided.

6. VALUATION CONSIDERATION

We have inspected the Lands, however, we have not carried out investigation on site to determine the suitability of the soil conditions or any form of potential contamination or hazard which might affect the future usage. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary costs will be incurred for the continuity of future use.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the Lands nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Lands are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuing the Lands, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards (2020 Edition) published by The Hong Kong Institute of Surveyors.

7. REMARKS

In accordance with our standard practice, we must state that this report is for the use only of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of its contents and neither the whole, nor any part of this report may be included in any published documents or statement nor published in any way without our prior written approval of the form and context in which it may appear.

Unless otherwise stated, all monetary amounts stated in our valuation are in Renminbi (RMB).

Our Valuation Certificate is attached herewith.

Yours faithfully,
For and on behalf of
RAVIA GLOBAL APPRAISAL ADVISORY LIMITED
Dr. Alan W K Lee
PhD(BA) MFin BCom(Property)
MHKIS RPS(GP) AAPI CPV CPV(Business)
Director

Dr. Alan W K Lee is a Registered Professional Surveyor (General Practice), a member of Hong Kong Institute of Surveyors and an Associate of Australian Property Institute, He has over 16 years' valuation experience in Hong Kong, Macau, the PRC, the Asia Pacific Region, European countries and American countries.

VALUATION CERTIFICATE

Land held by the Group for owner-occupation in the PRC

Land	Description and Tenure	Particulars of Occupancy	Market Value in Existing State as at 30 September 2022
65 parcels of forestry land situated in Chongyang County, Xianning City, Hubei Province, The PRC 位於中國湖北省咸寧市崇陽縣之65塊林地	The site comprises 65 parcels of forestry land with a total site area of approximately 139,216 mu (or about 92,811,000 sq.m.). The forestry land parcels are mainly located near the southern border of Hubei Province, junction of Hunan, Hubei and Jiangxi provinces. The forestry land use rights of the property are held under various State-owned Forestry Land Use Rights Certificates for a term of 70 years with various expiry dates between 31 July 2079 and 30 April 2083.	As advised by the Group, the land is vacant with vegetation and idle as at the Date of Valuation.	RMB78,400,000.

Notes:

1. Pursuant to 36 State-owned Forestry Land Use Rights Certificates (林權證), the forestry land use rights of the land parcel with a total site area of 139,216 mu (or about 92,811,000 sq.m.) have been granted to Wuhan Huafeng Agriculture and Forestry Development Co., Ltd. (武漢華峰農林發展有限公司) ("**Huafeng**") and Wuhan Gangyang Forestry Development Co., Ltd. (武漢港洋林業發展有限公司) ("**Gangyang**"), wholly owned subsidiaries of the Company, for a tenure of 70 years with various land use right expiry dates between 31 July 2079 and 30 April 2083, details as below:

Certificate Nos.	Forest Land Use Rights Owner	Site Area (mu)	Tenure (years)	Land Use Right Expiry Dates
Chong Zheng Lin Zheng Zi (崇政林証字) (2009) Di(第) 000422 Hao(號)	Huafeng	3,691	70	2079-09-30
Chong Zheng Lin Zheng Zi (崇政林証字) (2009) Di(第) 000423 Hao(號)	Huafeng	2,517	70	2079-09-30
	Huafeng	838	70	2079-09-30
	Huafeng	2,842	70	2079-09-30
Chong Zheng Lin Zheng Zi (崇政林証字) (2009) Di(第) 000424 Hao(號)	Huafeng	615	70	2079-07-31
	Huafeng	1,182	70	2079-07-31
	Huafeng	1,535	70	2079-07-31

Certificate Nos.	Forest Land Use Rights Owner	Site Area (mu)	Tenure (years)	Land Use Right Expiry Dates
Chong Zheng Lin Zheng Zi (崇政林証字) (2009) Di(第) 000425 Hao(號)	Huafeng	3,178	70	2079-09-30
	Huafeng	2,853	70	2079-09-30
	Huafeng	628	70	2079-09-30
	Huafeng	3,289	70	2079-09-30
	Huafeng	4,361	70	2079-09-30
Chong Zheng Lin Zheng Zi (崇政林証字) (2009) Di(第) 000426 Hao(號)	Huafeng	1,050	70	2079-08-31
	Huafeng	695	70	2079-08-31
	Huafeng	4,307	70	2079-08-31
Chong Zheng Lin Zheng Zi (崇政林証字) (2010) Di(第) 000001 Hao(號)	Huafeng	2,345	70	2079-12-31
Chong Zheng Lin Zheng Zi (崇政林証字) (2010) Di(第) 000002 Hao(號)	Huafeng	1,764	70	2079-12-31
Chong Zheng Lin Zheng Zi (崇政林証字) (2010) Di(第) 000003 Hao(號)	Huafeng	1,349	70	2079-12-31
Chong Zheng Lin Zheng Zi (崇政林証字) (2010) Di(第) 000004 Hao(號)	Huafeng	5,180	70	2079-12-31
Chong Zheng Lin Zheng Zi (崇政林証字) (2010) Di(第) 000005 Hao(號)	Huafeng	4,093	70	2079-12-31
	Huafeng	5,408	70	2079-12-31
	Huafeng	796	70	2079-12-31
Chong Zheng Lin Zheng Zi (崇政林証字) (2010) Di(第) 000007 Hao(號)	Huafeng	3,375	70	2080-04-02
Chong Zheng Lin Zheng Zi (崇政林証字) (2012) Di(第) 000033 Hao(號)	Gangyang	1,857	70	2081-10-31
	Gangyang	844	70	2081-10-31
	Gangyang	1,234	70	2081-10-31
	Gangyang	1,897	70	2081-10-31
	Gangyang	3,476	70	2081-10-31
	Gangyang	697	70	2081-10-31
Chong Zheng Lin Zheng Zi (崇政林証字) (2012) Di(第) 000034 Hao(號)	Gangyang	650	70	2081-10-31
	Gangyang	134	70	2081-10-31
	Gangyang	1,263	70	2081-10-31
	Gangyang	1,880	70	2081-10-31
	Gangyang	3,190	70	2081-10-31
	Gangyang	1,475	70	2082-06-02
Chong Zheng Lin Zheng Zi (崇政林証字) (2012) Di(第) 000035 Hao(號)	Gangyang	889	70	2081-10-31
	Gangyang	2,673	70	2081-10-31
	Gangyang	727	70	2081-10-31
	Gangyang	1,190	70	2081-10-31
Chong Zheng Lin Zheng Zi (崇政林証字) (2011) Di(第) 000139 Hao(號)	Gangyang	926	70	2081-10-26
	Gangyang	1,043	70	2081-10-26
Chong Zheng Lin Zheng Zi (崇政林証字) (2010) Di(第) 000221 Hao(號)	Gangyang	1,068	70	2080-07-31
Chong Zheng Lin Zheng Zi (崇政林証字) (2010) Di(第) 000250 Hao(號)	Huafeng	857	70	2080-04-30
	Huafeng	461	70	2080-04-30
Chong Zheng Lin Zheng Zi (崇政林証字) (2011) Di(第) 000138 Hao(號)	Gangyang	1,996	70	2081-07-30
	Gangyang	1,455	70	2081-07-30
	Gangyang	1,233	70	2081-07-30
Chong Zheng Lin Zheng Zi (崇政林証字) (2011) Di(第) 000026 Hao(號)	Gangyang	232	70	2080-05-31
Chong Zheng Lin Zheng Zi (崇政林証字) (2011) Di(第) 000025 Hao(號)	Gangyang	3,051	70	2080-05-31

Certificate Nos.	Forest Land Use Rights Owner	Site Area (mu)	Tenure (years)	Land Use Right Expiry Dates
Chong Zheng Lin Zheng Zi (崇政林証字) (2011) Di(第) 000027 Hao(號)	Gangyang	5,213	70	2080-05-31
Chong Zheng Lin Zheng Zi (崇政林証字) (2011) Di(第) 000024 Hao(號)	Gangyang	3,202	70	2080-05-31
Chong Zheng Lin Zheng Zi (崇政林証字) (2010) Di(第) 000249 Hao(號)	Gangyang	1,621	70	2080-07-31
Chong Zheng Lin Zheng Zi (崇政林証字) (2010) Di(第) 000309 Hao(號)	Gangyang	1,216	70	2080-10-31
Chong Zheng Lin Zheng Zi (崇政林証字) (2010) Di(第) 000225 Hao(號)	Gangyang	1,625	70	2080-04-30
Chong Zheng Lin Zheng Zi (崇政林証字) (2010) Di(第) 000224 Hao(號)	Gangyang	4,371	70	2080-04-30
Chong Zheng Lin Zheng Zi (崇政林証字) (2011) Di(第) 000131 Hao(號)	Gangyang	2,547	70	2081-08-31
Chong Zheng Lin Zheng Zi (崇政林証字) (2010) Di(第) 000308 Hao(號)	Gangyang	1,278	70	2080-05-31
Chong Zheng Lin Zheng Zi (崇政林証字) (2011) Di(第) 000023 Hao(號)	Gangyang	727	70	2081-01-18
Chong Zheng Lin Zheng Zi (崇政林証字) (2012) Di(第) 000077 Hao(號)	Gangyang	4,545	70	2081-07-31
Chong Zheng Lin Zheng Zi (崇政林証字) (2013) Di(第) 000093 Hao(號)	Gangyang	7,729	70	2083-04-30
Chong Zheng Lin Zheng Zi (崇政林証字) (2013) Di(第) 000094 Hao(號)	Gangyang	3,727	70	2083-04-30
Chong Zheng Lin Zheng Zi (崇政林証字) (2014) Di(第) 000068 Hao(號)	Gangyang	2,615	70	2083-04-30
Chong Zheng Lin Zheng Zi (崇政林証字) (2013) Di(第) 000091 Hao(號)	Gangyang	405	70	2080-11-30
Chong Zheng Lin Zheng Zi (崇政林証字) (2013) Di(第) 000090 Hao(號)	Gangyang	1,068	70	2080-11-30
Chong Zheng Lin Zheng Zi (崇政林証字) (2013) Di(第) 000089 Hao(號)	Gangyang	3,038	70	2080-11-30
	Total:	139,216		

2. We have been provided with a legal opinion regarding the land interest by the Group's independent PRC legal adviser, which contains, inter alia, the following:

   i Huafeng and Gangyang are legally and validly in possession of the forestry land use rights of the property and has the right to occupy, lease, use or transfer to any affiliated companies of the Company established in the local district or county; and

   ii The Lands are is not subjected to any encumbrance such as mortgage and pledge.

3. Our inspection was performed by Mr. J.R. Zhang, who has over 15 years of valuation experience in the PRC, in October 2022.

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 executives' interests in the Company or its associated corporations

As at the Latest Practicable Date, the interests of the Directors, the chief executives and their associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or to be recorded in the register referred to under section 352 of the SFO or to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of listed issuers were as follows:

Name of Director	Nature of interest	Number of Shares held	Number of underlying shares held	Percentage of issued share capital of the Company as at the Latest Practicable Date *(%)*
Mr. Ng	Interest of a controlled corporation	77,328,343 *(Note 1)*	227,272,727 *(Note 2)*	101.10
	Beneficial owner	11,609,264	—	3.85
Ms. Cheung	Beneficial owner	13,598,311	—	4.51
Hon. Raymond Arthur William Sears, K.C.	Interest of spouse *(Note 3)*	53,000	—	0.02

Notes:

1. The 77,328,343 Shares held by Mr. Ng through controlled corporations included 23,526,030 Shares held by Fung Shing, 44,623,680 Shares held by Parkfield, 1,999,872 Shares held by Ronastar and 7,178,761 Shares held by Uni-Spark. Fung Shing, Parkfield and Ronastar are directly wholly-owned by Mr. Ng. Uni-Spark is indirect wholly-owned by Mr. Ng.

2. Total Grace is a company wholly-owned by Mr. Ng which holds the convertible bonds issued by the Company in the principal amounts of HK$50,000,000. Assuming (i) the conversion right under the convertible bonds are exercised in full; and (ii) there is no other change to the total number of issued shares, a total of 227,272,727 new shares will be allotted and issued to Total Grace, representing approximately 75.44% of the total number of issued shares as at the Latest Practicable Date and approximately 43.00% of the total number of issued shares as enlarged by the allotment and issue of the conversion shares.

3. Under the SFO, Hon. Raymond Arthur William Sears, K.C. is deemed to be interested in the 53,000 Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company and their respective associates had an interest or short position in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which was required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, entered in the register referred to therein; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

(b) Long position in underlying shares-share options

Under the share option scheme of the Company adopted on 9 August 2022 (the "**Share Option Scheme**"), options may be granted to the Directors and employees and to certain eligible participants of the Company as defined in the Share Option Scheme to subscribe for the Shares. As at the Latest Practicable Date, the following Director had personal interests in the following share options to subscribe for the Shares under the Share Option Scheme:

Name of Director	**Capacity**	**Number of underlying shares held**	**Approximate percentage of total interest of total issued Shares**
Ms. Jessica Ng	Beneficial owner	3,012,770 *(Note 1)*	1.00%
	Interest of spouse	3,012,770 *(Note 2)*	1.00%

Notes:

1. The underlying Shares held by Ms. Jessica Ng were the share options granted to her on 29 September 2022 under the Share Option Scheme.

2. Under the SFO, Ms. Jessica Ng is deemed to be interested in the 3,012,770 underlying Shares.

(c) Substantial Shareholders and other persons' interests in Shares and underlying shares

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of the SFO, and so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or a chief executive of the Company) had, or was deemed or taken to have, interests in the Shares 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 and the amount of each of such person's interests in such Shares is as follows:

Name	Nature of interest	Number of Shares held	Number of underlying shares held	Percentage of issued share capital of the Company as at the Latest Practicable Date *(%)*
Ms. Ng Lai King Pamela *(Note 1)*	Interest of spouse	88,937,607	227,272,727	104.95%
Parkfield *(Note 2)*	Beneficial owner	44,623,680	—	14.81%
Fung Shing *(Note 3)*	Beneficial owner	23,526,030	—	7.81%
Total Grace *(Note 4)*	Beneficial owner	—	227,272,727	75.44%

Notes:

1. Ms. Ng Lai King Pamela is the spouse of Mr. Ng. By virtue of the SFO, Ms. Ng Lai King Pamela is deemed to be interested in the 88,937,607 Shares and 227,272,727 underlying shares which Mr. Ng is interested in.

2. Parkfield is a company wholly-owned by Mr. Ng.

3. Fung Shing is a company wholly-owned by Mr. Ng.

4. Total Grace is a company wholly-owned by Mr. Ng which holds the convertible bonds issued by the Company in the principal amounts of HK$50,000,000. Assuming (i) the conversion right under the convertible bonds are exercised in full; and (ii) there is no other change to the total number of issued Shares, a total of 227,272,727 new shares will be allotted and issued to Total Grace, representing approximately 75.44% of the total number of issued shares as at the Latest Practicable Date and approximately 43.00% of the total number of issued shares as enlarged by the allotment and issue of the conversion shares.

As at the Latest Practicable Date, save as Mr. Ng, the director of Fung Shing, Parkfield and Total Grace, none of the Directors was a director or an employee of a company which had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, so far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, there was no person (other than a Director or chief executive of the Company) or deemed or taken to have who had an interest or a short position in the Shares and/or underlying Shares (including interest in options, if any) of the Company as recorded in the register required to be kept under section 336 of the SFO, or to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS

None of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group taken as a whole.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2021 (the date to which the latest published audited consolidated accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of or leased to any member of the Group.

4. COMPETING INTERESTS

Based on the information provided by SCH, (1) SCH does not hold any forestry land in Hubei Province and does not conduct any business related to carbon credit trading as at the Latest Practicable Date and (2) given the Genius Year Sites, of which all the forestry lands are located in Chongyang County, Xianning City, Hubei Province, are the only forestry land project to be held by the Company upon Completion, the Board considers that the business focus (in terms of the location and size of the projects) of the Company and SCH are different and hence the competition between the businesses of the Company and SCH is considered to be relatively remote.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or his or her respective close associates was considered to have an interest in a business which competed or was likely to compete, enter directly or indirectly, with the business of the Group or any other conflicts of interests with the Group other than those business to which the Directors and his or her close associates were appointed to represent the interests of the Company and/or the Group.

5. DIRECTORS' SERVICES CONTRACTS

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

6. LITIGATION

As at the Latest Practicable Date, to the best of the Directors' knowledge information and belief, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group that would have a material adverse effect on the results of operations or financial conditions of the Group.

7. MATERIAL CONTRACTS

Save the agreements set out below, no contract (not being contract in the ordinary course of business), which is or may be material, has been entered into by the Company or any of its subsidiaries within the two (2) years immediately preceding the date of this circular and up to the Latest Practicable Date:

(a) supplemental agreement dated 16 May 2022 entered into between the Company (as issuer) and Total Grace (as bondholder) in relation to the extension of the maturity date of subscription of the outstanding HK$50,000,000 convertible bonds from 30 June 2023 to 30 June 2026; and

(b) the Sale and Purchase Agreement.

8. MATERIAL ADVERSE CHANGE

Save as disclosed in the Company's interim report for the six months ended 30 June 2022 published on 22 September 2022, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

9. QUALIFICATIONS AND CONSENT OF EXPERTS

The following set out the qualifications of the experts who have given opinion or advice, which are contained or referred to in this circular:

Name	Qualification
Ernst & Young	Certified Public Accountants
First Shanghai Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO
Ravia Global Appraisal Advisory Limited	Independent Valuer

As at the Latest Practicable Date, each of the experts did not have any direct or indirect interest in any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member of the Group, and had no direct or indirect interests in any assets which has been acquired or disposed of by or leased to any member of the Group since 31 December 2021 (the date to which the latest published audited consolidated financial statements of the Group were made up) or proposed to be so acquired, disposed of or leased.

As at the Latest Practicable Date, the above experts had given and have not withdrawn their respective written consent to the issue of this circular with the inclusion herein of its advice, letters, reports and/or summary of its opinions (as the case may be) and references to its name and logo in the form and context in which they respectively appear.

10. MISCELLANEOUS

(a) The registered office of the Company is at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong.

(b) The share registrar of the Company is Union Registrars Limited at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.

(c) The company secretary of the Company is Mr. Watt Ka Po James, who is a fellow member of both The Chartered Governance Institute and The Hong Kong Chartered Governance Institute.

(d) The English text of this circular and accompanying form of proxy shall prevail over the Chinese text in the case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sctrade.com) for a period of not less than fourteen (14) days from the date of this circular up to and including the date of EGM and is available for inspection at the EGM:

(a) the articles of association of the Company;

(b) the material contracts as referred to in the paragraph headed "7. Material Contracts" in this Appendix;

(c) the written consent of expert referred to in the paragraph headed "9. Qualifications and consent of experts" in this Appendix;

(d) the letter from the Board, the text of which is set out from pages 6 to 21 of this circular;

(e) the letter from the Independent Board Committee, the text of which is set out on pages 22 and 23 in this circular;

(f) the letter from the Independent Financial Adviser, the text of which is set out from pages 24 to 46 in this circular; and

(g) this circular.

SOUTH CHINA FINANCIAL HOLDINGS LIMITED
南華金融控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00619)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of South China Financial Holdings Limited (the "**Company**") will be held at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Wednesday, 11 January 2023 at 10:00 a.m. (the "**EGM**") for the purpose of considering and, if thought fit, passing with or without amendment(s), passing the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

1. "**THAT**:

(a) the sale and purchase agreement dated 13 September 2022 (the "**Sale and Purchase Agreement**") entered into between Thousand China Investments Limited as vendor (the "**Vendor**") and Power Path Global Limited as purchaser (a copy of which marked "A" has been produced to the EGM and initialled by the chairman of the EGM for the purpose of identification) in relation to, among other matters, the proposed purchase of one (1) share of US$1.00 in the share capital of Genius Year Limited, representing the entire issued share capital of Genius Year Limited, and the transactions contemplated thereunder (including the terms and conditions of the subscription of the convertible bonds in the total principal amount of HK$89,840,000 (the "**Convertible Bonds**") to be issued by the Company) be and are hereby approved, ratified and confirmed;

(b) subject to and conditional upon The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") approving the listing of, and granting the permission to deal in, the Conversion Shares (as defined below), the directors of the Company (the "**Directors**") be and are hereby authorised to: (i) issue the Convertible Bonds to the Vendor; and (ii) allot and issue such shares of the Company which may fall to be issued upon exercise of the conversion rights attaching to the Convertible Bonds (the "**Conversion Shares**") on the terms and subject to the conditions of the Convertible Bonds;

(c) an unconditional specific mandate granted to the Directors to exercise the powers to allot, issue and deal with such number of Conversion Shares as may be required to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds pursuant to the terms of the Convertible Bonds be and is hereby confirmed and approved; and

(d) subject to and conditional upon the fulfillment of the conditions set out in the Sale and Purchase Agreement and the transactions contemplated thereunder (including the terms and conditions of the Convertible Bonds), any one or more Directors be and is/are hereby authorized, for and on behalf of the Company, to execute all such documents, instruments and agreements, and take such action, do all such acts or things, as he/she/they may, in his/her/their absolute discretion, consider necessary, appropriate, desirable or expedient for the purpose of, or in connection with, the implement of or giving effect or completion of any matters relating to the Sale and Purchase Agreement and the transactions contemplated thereunder (including the terms and conditions of the Convertible Bonds) and all matters incidental thereto."

By order of the board of Directors of
South China Financial Holdings Limited
南華金融控股有限公司
Ng Yuk Mui Jessica
Executive Director

Hong Kong, 16 December 2022

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

Notes:

1. The register of members of the Company will be closed from Friday, 6 January 2023 to Wednesday, 11 January 2023, both days inclusive, during which period no share transfers will be effected. In order to be eligible to attend and vote at the EGM, all share transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Union Registrars Limited at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not later than 4:00 p.m. on Thursday, 5 January 2023.

2. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and on a poll vote instead of him. A proxy need not be a member of the Company.

3. In order to be valid, a proxy form and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited with the Company's share registrar, Union Registrars Limited at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, not less than forty-eight (48) hours before the time fixed for holding the meeting or any adjournment thereof. Completion and return of the proxy form will not preclude any member from attending and voting in person at the EGM or any adjourned meeting thereof should he so wish.

4. In the case of joint shareholdings, any one of such persons may vote, either personally or by proxy in respect of such share, provided that if more than one of such joint holders be present at the meeting or any adjournment thereof personally or by proxy, the more senior shall alone be entitled to vote and for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register of members in respect of the joint holding.

5. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 8:00 a.m. on the date of the EGM, the meeting will be postponed. The Company will publish an announcement on the website of the Company at www.sctrade.com and on the HKExnews website of the Stock Exchange at www.hkexnews.hk to notify the shareholders of the Company of the date, time and venue of the rescheduled meeting.

6. To safeguard the health and safety of the shareholders of the Company and to prevent the spreading of the COVID-19 pandemic, certain precautionary measures will be implemented at the EGM, including (i) compulsory temperature screening/checks; (ii) wearing of surgical face mask; and (iii) no provision of refreshments or drinks or souvenir. Attendees who do not comply with the precautionary measures referred to in (i) and (ii) above may be denied entry to the EGM venue, at the absolute discretion of the Company as permitted by law. Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the EGM venue. For the health and safety of the shareholders of the Company, the Company would like to encourage shareholders of the Company to exercise their right to vote at the EGM by appointing the chairman of the EGM as their proxy and to return their proxy forms by the time specified above, instead of attending the EGM in person.