**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 licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

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

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

# CHINA TANGSHANG HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 674)**

## (1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE TARGET GROUP AND (2) NOTICE OF SPECIAL GENERAL MEETING

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

RAINBOW.

RAINBOW CAPITAL (HK) LIMITED
浤博資本有限公司

A notice convening the SGM of China Tangshang Holdings Limited to be held at Unit 1201, 12/F., 29 Austin Road, Tsim Sha Tsui, Hong Kong on Thursday, 16 February 2023 at 3 p.m. is set out on pages SGM-1 to SGM-3 of this circular. Whether you are able to attend the SGM or not, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Secretaries Limited, at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting if you so wish and in such event, the form of proxy shall be deemed to be revoked.

20 January 2023

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

| | |
|---|---|
| "Acquisition" | the acquisition of the Sale Shares by the Company from Mr. Chen in accordance with the terms and conditions of the Agreement |
| "Agreement" or "Equity Sale and Purchase Agreement" | the conditional Equity Sale and Purchase Agreement dated 31 October 2022 entered into by the Company and Mr. Chen in respect of the Acquisition |
| "Board" | the board of Directors of the Company |
| "Company" | China Tangshang Holdings Limited, a company incorporated in Bermuda with limited liability, and the issued Shares of which are listed on the Main Board of the Stock Exchange (Stock code: 674) |
| "Completion" | completion of the Acquisition in accordance with the terms and conditions of the Agreement |
| "Completion Date" | the date of Completion |
| "connected person(s)" | has the meaning ascribed to it under the Listing Rules |
| "Consideration" | the consideration of RMB315,000,000 for the acquisition of the Sale Shares |
| "Consideration Share(s)" | 534,000,000 new Shares to be allotted and issued by the Company to the vendor |
| "Conversion Price" | the initial Conversion Price of HK$0.2 per Conversion Share |
| "Conversion Share(s)" | the new Share(s) which may be issued upon exercise of the conversion right attaching to the Convertible Bonds |

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| "Convertible Bonds" | the zero-coupon convertible bonds with a principal amount of HK$249,150,000 to be issued by the Company to Mr. Chen to settle part of the Consideration |
| "controlling shareholder" | has the meaning ascribed to it under the Listing Rules |
| "Director(s)" | the director(s) of the Company |
| "Enlarged Group" | the Group as enlarged by the Acquisition upon Completion |
| "Group" | the Company and its subsidiaries |
| "Hong Kong" | the Hong Kong Special Administrative Region of the People's Republic of China |
| "Hong Kong Holding Company" | Goldmate Enterprises Limited (金美企業有限公司), a company incorporated under the laws of Hong Kong which is directly wholly-owned by the Target Company |
| "Independent Board Committee" | the independent board committee, comprising all of the independent non-executive Directors, namely Mr. Chen Youchun, Ms. Lui Mei Ka and Mr. Zhou Xin, established for the purpose of advising the Independent Shareholders in respect of the signing of the Equity Sale and Purchase Agreement |
| "Independent Shareholders" | shareholders other than connected person(s) which is/are interested in the relevant transactions |
| "Latest Practicable Date" | 18 January 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |

| | |
|---|---|
| "Mr. Chen" | Mr. Chen Weiwu, chairman of the Board |
| "PRC" | the People's Republic of China excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| "PRC Holding Company" | A company incorporated under the laws of the PRC which is directly wholly-owned by Hong Kong Holding Company and holds 70% equity interest in the Project Company |
| "Previous Acquisition" | the acquisition of 55% equity interest of Dongguan Huachuangwen Land Ltd. by the Company from Shenzhen Yaoling in accordance with the equity sale and purchase agreement signed on 30 July 2021 |
| "Project Company" | Puning Huachuangwen Industrial Development Co., Ltd.* (普寧華創文實業開發有限公司), a company incorporated on 16 January 2020 under the laws of the PRC with limited liability |
| "Rainbow Capital" and "Independent Financial Adviser" | Rainbow Capital (HK) Limited, a corporation licensed under the Securities and Futures Ordinance to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition |
| "Reach Glory Group" | the Target Company and its subsidiaries (excluding the Project Company) |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "Sale Shares" | the entire issued share capital of the Target Company |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |

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|---|---|
| "SGM" | the 2023 first special general meeting of the Company to be convened and held at Unit 1201, 12/F., 29 Austin Road, Tsim Sha Shui, Hong Kong at 3 p.m. on 16 February 2023 or any adjournment, for considering and approving, if appropriate, the transactions contemplated under the Equity Sale and Purchase Agreement |
| "Share(s)" | ordinary shares of HK$0.05 each in the share capital of the Company |
| "Shareholders" | shareholders of the Company |
| "Shenzhen Yaoling" | Shenzhen Yaoling Investment Company Limited* (深圳市耀領投資有限公司), a company incorporated under the laws of the PRC |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Target Company" | Reach Glory Holdings Limited (致榮控股有限公司), a company incorporated under the laws of the British Virgin Islands with limited liability on 9 January 2020 |
| "Target Group" | the Target Company and its subsidiaries, including the Project Company |
| "%" | per cent. |

* *For identification purpose only*

# CHINA TANGSHANG HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 674)**

*Executive Directors:*
Mr. Chen Weiwu *(Chairman)*
Mr. Zhou Houjie
Mr. Jiang Ruowenhao *(Acting Chief Executive Officer)*

*Independent Non-executive Directors:*
Mr. Chen Youchun
Ms. Lui Mei Ka
Mr. Zhou Xin

*Registered office:*
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

*Principal place of business in Hong Kong:*
Unit 1201, 12/F.,
29 Austin Road,
Tsim Sha Tsui,
Hong Kong

20 January 2023

*To the Shareholders,*

Dear Sir or Madam,

**(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE TARGET GROUP AND (2) NOTICE OF SPECIAL GENERAL MEETING**

## INTRODUCTION

Reference is made to the announcement of the Company dated 31 October 2022 in relation to the entering of the Equity Sale and Purchase Agreement.

The purpose of this circular is to provide you with details of, among others,

(i) information of the terms of the Equity Sale and Purchase Agreement;

(ii) the recommendations from the Independent Board Committee to the Independent Shareholders in respect of the Equity Sale and Purchase Agreement;

(iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Equity Sale and Purchase Agreement;

(iv) the financial information of the Group;

(v) the financial information of the Target Company and the Project Company;

(vi) the unaudited pro forma financial information of the Group;

(vii) the management discussion and analysis of the Group;

(viii) the management discussion and analysis of the Target Group;

(ix) a valuation report;

(x) the SGM which will be convened for the purposes of, inter alia, considering and, if thought fit, passing the resolutions relating to the Equity Sale and Purchase Agreement; and

(xi) other information as required under the Listing Rules relating to the Equity Sale and Purchase Agreement.

## EQUITY SALE AND PURCHASE AGREEMENT

On 31 October 2022, the Company entered into the Equity Sale and Purchase Agreement with Mr. Chen, pursuant to which the Company has agreed conditionally to acquire, and Mr. Chen has agreed conditionally to sell, the Sale Shares at the Consideration of RMB315,000,000 (equivalent to HK$355,950,000). The Consideration shall be settled by way of (i) the issue and allotment of 534,000,000 Consideration Shares at an issue price of HK$0.2 per Consideration Share, resulting in the total value of the Consideration Shares being HK$106,800,000 (equivalent to approximately RMB94,513,274) and (ii) the issue of Convertible Bonds in the principal amount of HK$249,150,000 (equivalent to approximately RMB220,486,726).

The principal terms of the Equity Sale and Purchase Agreement are as follows:

**Date:**

31 October 2022

**Parties:**

Purchaser: the Company

Vendor: Mr. Chen

**Subject Matter:**

The Company has agreed conditionally to acquire, and Mr. Chen has agreed conditionally to sell, the Sale Shares, which represent the total issued share capital in the Target Company. The Target Company will indirectly hold 70% equity interest in the Project Company before Completion.

**Consideration:**

Pursuant to the Equity Sale and Purchase Agreement, the Consideration of RMB315,000,000 (equivalent to HK$355,950,000) shall be payable by the Company by way of (i) issue and allotment of 534,000,000 Consideration Shares to Mr. Chen at an issue price of HK$0.2 per Consideration Share, resulting in a total value of HK$106,800,000 of Consideration Shares, and (ii) issue of Convertible Bonds in the principal amount of HK$249,150,000 to Mr. Chen on the Completion Date.

The Consideration of the Equity Sale and Purchase Agreement was determined and arrived at after arm's length negotiation with reference to valuation of the Project Company (the "**Project Company Valuation**") amounting to approximately RMB450 million, which was prepared based on the management account of the Project Company as at 30 September 2022 adopting the asset-based approach. The Consideration represents 70% of the Project Company Valuation (i.e. RMB450 million). The Board is of the view that the basis of determining the Consideration is fair and reasonable because (i) the Target Company, Hong Kong Holding Company and PRC Holding Company are all investment holding companies with no business, and hence it is reasonable to determine the Consideration based on 70% of the valuation of the Project Company; (ii) the Project Company Valuation represents a discount to the fair value of 100% equity of the Project Company as set out in P.11 of this Circular.

As at 30 September 2022, the unaudited net liabilities of the Project Company amounted to approximately RMB61,229,840. The Project Company recorded net liabilities because the deposits received from buyers have been booked as liabilities before completion of the property development project at the Puning Land.

The companies in the Target Group other than the Project Company are investment holding companies with no material assets and liabilities and hence they are not taken into account in the valuation for determining the Consideration. As at 31 March 2022, the audited net liabilities of the Target Company and the Hong Kong Holding Company are HK$22,840 and HK$8,799, respectively. The PRC Holding Company was just incorporated on 9 December 2022 and has no profits as at the Latest Practicable Date.

**The Project Company Valuation:**

The Project Company Valuation was conducted by an independent valuer based on the management accounts of the Project Company.

The asset based approach has been adopted for the valuation of equity of the Project Company. This is the most common valuation method for this type of valuation target, as the tangible assets of this type of companies (involving in property development business) are the best indicator of value for property development companies.

The valuer has conducted a high-level review of the breakdown and nature of the assets and liabilities held by the Project Company, and has also relied to a considerable extent on the information provided by the management in arriving at the appraisal of these assets and liabilities.

Overall, fair value adjustments have been made to the balances of properties under development, prepayment, deposits and other receivables, profit tax provision and deferred tax liabilities.

– The properties under development represents the Puning Land, which is a residential development being erected on a parcel of land with a site area of approximately 44,654.86 square meters ("**sqm**"). It is situated in Puning of Jieyang in Guangdong Province. The immediate locality is mainly a residential area. In valuing the property which is under development in the PRC, the valuer has valued the Puning Land on the basis that the property will be developed and completed in accordance with the latest development scheme provided to the valuer and all consents, approvals and licenses from relevant government authorities for the development scheme have been or will be obtained without any onerous conditions. The valuer has adopted the direct comparison method by making reference to comparable sales evidences as available in the relevant market, and has taken into account the expended and outstanding construction costs to reflect the quality of the completed development.

– In the table below, the item "prepayment, deposits and other receivables" comprise prepayment and other receivables. An expected credit loss provision of RMB6,040,739 was made based on the credit profile and recoverability of the receivables.

– The deferred tax liability is calculated as an applicate land appreciation tax rate multiplied with the net revaluation surplus, with reference to《土地增值稅清算管理規程》and other PRC publications on land appreciation tax. The net revaluation surplus the difference between the valuation of the property of RMB1,875 million as at 30 September 2022 and the audited carrying amount of the property of RMB1,424.1 million as at 30 September 2022.

The provision for profit tax is calculated as the net revaluation surplus minus the deferred tax liability then multiplied by the PRC profit tax rate of 25%.

The adjusted net asset value analysis of the Project Company is summarized in the below table:

| | **Book Value** | **Fair Value** |
|---|---|---|
| | 30 September 2022 | 30 September 2022 |
| | *RMB* | *RMB* |
| **Assets** | | |
| Property, plant and equipment | 297,000 | 297,000 |
| Deferred tax asset | 6,713,000 | 6,713,000 |
| Properties under development | 1,424,193,000 | 1,875,000,000 |
| Prepayment, deposits and other receivables | 388,485,823 | 382,445,084 |
| – Prepayment | (191,304) | (188,248) |
| – Staff advances and deposits | (916,619) | (916,619) |
| – Deferred sales expenses | (9,422,838) | (9,422,838) |
| – Other receivables | (377,955,061) | (371,917,379) |
| Amounts due from related parties | 1,451,000 | 1,451,000 |
| Prepaid taxes | 113,295,000 | 113,295,000 |
| Cash and bank balance | 162,796,000 | 162,796,000 |
| **Total assets** | **2,097,230,823** | **2,541,997,084** |

| | Book Value<br>30 September<br>2022<br>*RMB* | Fair Value<br>30 September<br>2022<br>*RMB* |
|---|---|---|
| **Liabilities** | | |
| Accounts payable, accruals and other payable | (10,892,000) | (10,892,000) |
| Contract liabilities | (1,744,002,000) | (1,744,002,000) |
| Amounts due to related parties | (135,000) | (135,000) |
| Amount due to a shareholder | – | – |
| Loan from a related company | – | – |
| Profit tax provision | – | (100,254,120) |
| Deferred tax liabilities | – | (49,790,520) |
| **Total liabilities** | **(1,755,029,000)** | **(1,905,073,640)** |
| **Net Asset Value (before marketability adjustment)** | **342,201,823** | **636,923,444** |

Privately held companies are not readily marketable and would face more difficulty in converting its shares into cash as compared with publicly held companies. Discount for lack of marketability ("**DLOM**") is commonly considered in the valuations of privately held companies to reflect difference in the marketability of the shares of the subject private companies and that of the selected publicly-traded comparable companies.

A DLOM of 20.6% is estimated with reference to the 2021 Stout Restricted Stocks Studies on Determining Discount for Lack of Marketability included an examination of 763 private placement transactions of unregistered common stock, with and without registration rights, issued by publicly traded companies from July 1980 through December 2020. The adopted DLOM is the average discount implied by these 763 private placement transactions in comparison with the corresponding publicly traded common stocks, and is considered fair and reasonable for the valuation of the equities of the Project Company.

In this valuation, a DLOM of 20.6% is applied to the adjusted net asset value of RMB636,923,444 to derive the 100% equity value of the Project Company.

| | | |
|---|---|---|
| Net Asset Value (before marketability adjustments) | (A) | RMB636,923,444 |
| Discount of Lack of Marketability | (B) | 20.6% |
| Fair Value of 100% Equity of the Project Company | (A)*1-(B) = (C) | RMB505,717,215* |
| Fair Value of 100% Equity Value of the Project Company (Rounding to ten millions) | | RMB510,000,000 |

* The fair value of RMB510,000,000 is calculated based on the reassessed net asset value of the 100% stake in the Project Company on 30 September 2022, which is different from the Project Company Valuation

In the course of this valuation exercise, a number of assumptions and caveats have been made. The valuer has based on the following to arrive at the valuation result.

- It is assumed that the accuracy of financial and operational information provided to the valuer by management, and the valuer relied to a considerable extent on such information in arriving at its opinion of value;

- The valuer is not a tax expert on matters regarding the deferred tax liabilities and profit tax provision applicable to the Project Company. The valuer has consulted with management and the Company's accountants on the methodology to calculate the tax provisions and liabilities. Should the actual tax liabilities to be incurred to the Project Company be different from the assumed liabilities in this report, the valuation result would be changed significantly;

- It is assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value;

- There will be no major changes in existing political, legal, fiscal or economic conditions in the country or district where the business is in operation;

- There will be no major changes in the current taxation law in the areas in which the company conducting their business, that the rate of tax payable remains unchanged and that all applicable laws and regulations will be complied with;

- The inflation, interest rates and currency exchange rate will not differ materially from those presently prevailing;

- The Project Company will retain their key management and technical personnel to maintain their ongoing operations;

- There will be no major business disruptions through international crisis, diseases, industrial disputes, industrial accidents or severe weather conditions that will affect the existing business;

- The company will remain free from claims and litigation against the business or their customers that will have a material impact on value;

- The business is unaffected by any statutory notice and that operation of the business gives, or will give, no rise to a contravention of any statutory requirements;

- The business is not subject to any unusual or onerous restrictions or encumbrances; and

- The potential bad debt of the Project Company will not materially affect their business operations.

The Company considered the Project Company Valuation as a primary factor in forming the basis of the Consideration.

The difference between the valuation of the Project Company and the valuation of the Puning Land arises from the fact that the Project Company has RMB1,755,029,000 total liabilities as at 30 September 2022, and, in the assessment, profit tax provision of RMB100,254,120 and deferred tax liabilities of RMB49,790,520 was derived as a result of the fair value assessment of the Puning Land (i.e., properties under development).

For the statement of financial position of the Project Company, please refer to Appendix II – FINANCIAL INFORMATION OF THE TARGET COMPANY AND THE PROJECT COMPANY.

Details of the calculation of the adjusted net asset value for the Project Company Valuation and the 100% equity value (fair value) are outlined in the table below:

| | **Project Company Valuation (Based on unaudited figures 30 September 2022** *RMB* | **Fair Value (Based on audited figures) 30 September 2022** *RMB* |
|---|---|---|
| **Assets** | | |
| Property, plant and equipment | 296,838 | 297,000 |
| Deferred tax asset | – | 6,713,000 |
| Properties under development | 1,875,000,000 | 1,875,000,000 |
| Prepayment, deposits and other receivables | 371,495,746 | 382,445,084 |
| Amounts due from related parties | – | 1,451,000 |
| Prepaid taxes | – | 113,295,000 |
| Cash and bank balance | 162,796,218 | 162,796,000 |
| **Total assets** | **2,411,115,302** | **2,541,997,084** |
| **Liabilities** | | |
| Accounts payable, accruals and other payable | 108,260,119 | (10,892,000) |
| Contract liabilities | (1,743,702,126) | (1,744,002,000) |
| Amounts due to related parties | – | (135,000) |
| Profit tax provision | (131,589,291) | (100,254,120) |
| Deferred tax liabilities | (76,988,578) | (49,790,520) |
| **Total liabilities** | **(1,844,019,876)** | **(1,905,073,640)** |
| **Adjusted Net Asset Value (Before marketability adjustment)** | **565,568,926** | **636,923,444** |
| DLOM | 20.6% | 20.6% |
| **100% Equity Value of the Project Company = Adjusted Net Asset Value x (1 – DLOM) (Rounding to ten millions)** | **450,000,000** | **510,000,000** |

The management accounts which the Project Company Valuation is based on were originally prepared by management of the Project Company in accordance with Chinese Accounting Standards (CAS). The Company has made certain reclassification and adjustments to arrive at the unaudited pro forma financial statements in accordance with Hong Kong Financial Reporting Standards (HKFRS).

The main reclassification and audit adjustments are as follow:

(1) the first adjustment represents the understatement of deferred tax assets amounted to approximately RMB6.7 million from the unused tax losses of the Project Company in the PRC due to the expected future taxable profits. The understatement increases the fair value of 100% equity of the Project Company amounted to approximately RMB5.3 million;

(2) the second adjustment represents the recognition of deferred sale commission under other receivable amounted to approximately RMB3.4 million. The recognition increases the fair value of 100% equity of the Project Company amounted to approximately RMB2.7 million;

(3) the third adjustment represents the overstatement of the deferred tax liabilities due to the change in the book value of properties under development, amounted to approximately RMB27.2 million. The overstatement of deferred tax liabilities increases the fair value of 100% equity of the Project Company amounted to approximately RMB21.6 million; and

(4) the fourth adjustment represents the overstatement of the income tax payable from the change in book value of properties under development and the change in deferred tax liabilities, amounted to approximately RMB31.3 million. The overstatement of income tax payable increases the fair value of 100% equity of the Project Company amounted to approximately RMB24.9 million.

The valuation assumptions adopted for the the 100% equity value (fair value) are the same as those for the Project Company Valuation. The only differing factors between the two results are:

1) The different financial statements which the two assessments are based upon (one being the management accounts, the other being the unaudited pro-forma financial statements as illustrated above). The valuation is based on the assumption that the financial statements of the Target Company are accurate and without material errors.

It is understood that several adjustments have been made to the management accounts to arrive at the unaudited pro-forma financial statements. As a result, the valuation result based on the management accounts would be different from that based on the unaudited pro-forma financial statements (which is taken as fair value).

2) The deferred tax liabilities and profit tax provisions have been calculated on the same basis for both assessments, but the amount is changed due to the difference in the recorded development costs (and the book value of the property accordingly) between the management accounts and the unaudited pro-forma financial statements.

Since pre-sales have already been launched for the project at the Puning Land, large amount of deposits had been booked as liabilities of the Project Company, which will then become revenue of the Project Company once the project is delivered. The Board believes that the net liabilities and net loss position of the Project Company would not continue after the completion of the Puning Land project. Having considered the aforesaid and that the Consideration determined based on the Project Company Valuation is significantly lower than the valuation of the Puning Land property, the Board believes that the Consideration is fair and reasonable.

**The Consideration Shares and Convertible Bonds:**

The Consideration Shares represent:

(i) approximately 18.45% of the issued share capital of the Company as at the Latest Practicable Date; and

(ii) approximately 11.42% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Conversion Shares upon full conversion of the Convertible Bonds.

The Consideration Shares will be issued under the specific mandate to be sought from the Independent Shareholders at the special general meeting. The Consideration Shares, when allotted and issued, shall rank *pari passu* in all respects with the outstanding Shares in issue on the date of the allotment and issue of the Consideration Shares.

Application for the listing of, and permission to deal in, the Consideration Shares to be allotted and issued pursuant to the Equity Sale and Purchase Agreement will be made by the Company to the Stock Exchange.

The principal terms of the Convertible Bonds are as follows:

| | |
|---|---|
| Issuer: | The Company |
| Principal amount: | HK$249,150,000 |
| Maturity date: | The date falling on the fifth anniversary after the issue date of the Convertible Bonds |
| Interest: | The Convertible Bonds are non-interest bearing |
| Redemption: | Unless previously purchased or converted for Conversion Shares, the Company shall on the maturity date redeem the outstanding principal amount of the Convertible Bonds. |
| Early Redemption: | The Company shall have the right, as from the expiry of 6 months following the issue date of the Convertible Bonds, to partly or fully redeem the Convertible Bonds early, upon obtaining the written approval from Mr. Chen. The amount payable by the Company to early redeem the Convertible Bonds (or any part thereof) shall be the principal amount being redeemed. |
| Conversion Price: | HK$0.2 per Conversion Share (subject to adjustment as mentioned below) |
| Conversion right: | Subject to compliance with the procedures set out in the conditions of the Convertible Bonds, the holders of the Convertible Bonds have the right to convert all or part of the outstanding principal amount of the Convertible Bonds registered in its name into the Conversion Shares at any time commencing from the date of issue up to the maturity date provided that the amount of each conversion shall not be less than an integral multiple of HK$249,150.<br><br>The exercise of the conversion right under the Convertible Bonds is subject to the Company meeting the public float requirement under the Listing Rules. |

| | |
|---|---|
| Conversion adjustment: | The Conversion Price will be subject to adjustment upon the occurrence of the following events: (i) consolidation, subdivision and reclassification of the Shares; (ii) capitalisation of profits or reserves; (iii) capital distribution by the Company to the Shareholders; (iv) rights issue of the Shares, options or warrants; (v) rights issue of other securities other than the Shares, options or warrants; (vi) issue of the Shares at a price less than 80% of the market price of the Shares; (vii) issue of other securities at a price less than 80% of the market price of the Shares; (viii) modification of the rights of conversion, exchange or subscription of securities mentioned in paragraph (vii) so that the price is less than 80% of the market price of the Shares; and (ix) other offers made by the Company or its subsidiaries or other persons to the Shareholders in connection with an offer to which the Shareholders are generally entitled to participate. |
| Ranking: | The Conversion Shares will be issued upon conversion of the Convertible Bonds and will rank *pari passu* with the Shares then in issue. |
| Transferability: | The Convertible Bonds are transferable, subject to the Company meeting the public float requirement under the Listing Rules.<br><br>Though the Convertible Bonds are transferable, Mr. Chen undertakes that he shall not transfer any of the Convertible Bonds to a connected person of the Company. Accordingly, there will be no implications of the connected transaction rules for possible transfer of the Convertible Bonds. |
| Voting right: | The Convertible Bonds do not confer any voting right. |
| Listing: | Application for the listing of, and permission to deal in, the Conversion Shares to be allotted and issued upon the exercise of the conversion right under the Convertible Bonds will be made by the Company to the Stock Exchange. |

Assuming full exercise of the conversion right attached to the Convertible Bonds at the Conversion Price of HK$0.2, the Company will issue a total of 1,245,750,000 Conversion Shares, representing:

(i) approximately 43.04% of the existing issued share capital of the Company as at the Latest Practicable Date; and

(ii) approximately 26.65% of the issued share capital of the Company as enlarged by the issue and allotment of the Consideration Shares and the Conversion Shares upon full conversion of the Convertible Bonds.

The Consideration Shares and the Conversion Shares, when allotted and issued, shall rank *pari passu* in all respects among themselves and with all the existing Shares then in issue, including the right to receive all future dividends and distributions which may be declared, made or paid by the Company on or after the issue date of the Consideration Shares and the Conversion Shares. The Consideration Shares and the Conversion Shares will be issued under the specific mandate to be sought by the Shareholders at the SGM. Application for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares will be made by the Company to the Stock Exchange.

The issue price of HK$0.2 per Consideration Share at which the Consideration Shares will be allotted and issued and the Conversion Price of HK$0.2 per Conversion Share (subject to adjustment) represents:

(i) a premium of approximately 9.89% over the closing price of HK$0.182 per Share as quoted on the Stock Exchange on the date of the Agreement;

(ii) a premium of approximately 10.13% over the average closing price of approximately HK$0.1816 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the date of the Agreement;

(iii) a premium of approximately 8.46% over the average closing price of approximately HK$0.1844 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the date of the Agreement;

(iv) a premium of approximately 2.46% over the average closing price of approximately HK$0.1952 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the date of the Agreement;

(v) a premium of approximately 2.35% over the average closing price of approximately HK$0.1954 per Share as quoted on the Stock Exchange for the last 60 consecutive trading days up to and including the date of the Agreement;

(vi) a premium of approximately 27.88% over the average closing price of approximately HK$0.1564 per Share as quoted on the Stock Exchange for the last 360 consecutive trading days up to and including the date of the Agreement;

(vii) a premium of approximately 19.47% over the audited net asset value per Share of approximately HK$0.1674 as at 31 March 2022 based on the 2,308,866,570 Shares in issue as at 31 March 2022; and

(viii) a discount of approximately 10.71% over the closing price of HK$0.224 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

As calculated in accordance with Rule 7.27B of the Listing Rules, there is no theoretical dilution effect resulting from the issuance of the Consideration Shares and Conversion Shares given the issue price and the conversion price are higher than the prevailing market prices of the Shares. Save for the allotment and issue of the Consideration Shares and the Conversion Shares, and the issuance of 585,600,000 Shares at the issue price of HK$0.2 per Share to Shenzhen Yaoling under the Previous Acquisition, during the 12 month period immediately preceding the date of this announcement, the Company has not undertaken (whether by reference to the date of announcement or the date of share issue) any rights issues, open offer or any other specific mandate placing.

The Issue Price and the Conversion Price were determined after arm's length negotiation between the Company and Mr. Chen with reference to the recent price performance of the Shares and the prevailing market conditions. The Shares were traded at an average price lower than HK$0.2 in the last 360 consecutive days up to and including the date of the Agreement. Trading volume of the Shares was not particularly high. There is only 1 day which the trading volume exceeded a million within the month before the date of the Agreement. Hence, the Board is of the view that a significant premium over the recent trading price will not be appropriate. The issue price of the Consideration Shares of HK$0.2 per Consideration Share and the Conversion Price of HK$0.2 per Conversion Share represent a slight premium over historical closing prices of the Shares, which is fair and reasonable.

The net asset value of the Company per Share is approximately HK$0.1674 as at 31 March 2022 calculated based on the equity attributable to owners of the Company as at 31 March 2022 of approximately HK$386,457,853 and 2,308,866,570 Shares. The average closing price during the period from 31 October 2021 (12 months before the date of the Agreement) up to the date of this announcement is approximately HK$0.1592, which is slightly below the net asset value of the Company per Share as at 31 March 2022. Considering the prevailing market price, the Directors are of the view that the premium represented by the Conversion Price compared to the consolidated net asset value of the Company per Share would be fair and reasonable.

The issue of the Consideration Shares and Convertible Bonds will not result in a change in control of the Company. The authorized share capital of the Company is HK$1,000,000,000, divided into 20,000,000,000 Shares of a par value of HK$0.05 of each Share.

The number of Consideration Shares and Convertible Shares is mainly determined with reference to the public float required to be maintained by the Company. The Consideration Shares will be issued to Mr. Chen while the Convertible Bonds may be transferred to third party independent of the Company in case Mr. Chen is not able to convert them due to public float requirements under the Listing Rules.

The Company is of the view that the issuance of Consideration Shares and Convertible Bonds would be the best way to satisfy the Consideration because:

(a) the Board opines that the dilution impact is acceptable because (i) the Convertible Bonds would not be converted into Conversion Shares immediately upon Completion due to the public float requirement, and hence the shareholding of the existing public Shareholders will be diluted by approximately 4.62 percentage point immediately upon Completion; (ii) the issue of the Consideration Shares and Convertible Bonds would be an appropriate way of financing considering the shortcoming of other financing means as illustrated in paragraph (c) and (d) below and their impact on the gearing ratio of the Company; and (iii) the reasons for and benefits of the Acquisition as illustrated under the section headed “Reasons for and benefits of the entering into of the transactions” below;

(b) the issue price of the Consideration Shares of HK$0.2 per Consideration Share and the Conversion Price of HK$0.2 per Conversion Share represent a premium over historical closing prices of the Shares as well as the unaudited net asset value of approximately HK$0.1674 per Share as at 31 March 2022. As such, the issue of the Consideration Shares and Conversion Shares would not reduce the net asset value per Share;

(c) though the Company has considered debt financing, such as bank borrowings, to be other possible fund raising alternatives, the Company is of the view that this will depend on the prevailing market condition, and may be subject to lengthy due diligence and negotiations with banks. As such, the Company considers debt financing to be relatively uncertain and time-consuming as compared to equity financing. In addition, taking into account the requirement of interest payments and working capital requirement, the Company is of the view that obtaining further bank borrowings to finance the Acquisition, which would reduce banking facilities otherwise available for other working capital requirements, is not in the interests of the Shareholders; and

(d) the Company has also considered other alternatives of equity financing for the Acquisition which would not affect the cash and debt position of the Group, including a private placement of Shares to independent third party investors or a rights issue or open offer to existing Shareholders. A private placement has a similar dilutive potential as an issue to a connected person. However, private placements are also normally made at a significant discount to current market price, say around 10%, whereas the issue of the Consideration Shares and Conversion Shares is priced at a premium to the Share price. As regards a rights issue or open offer, the Company has considered such factors as (1) the price of a rights issue or open offer would normally involve a substantial discount to market, based on the discounts involved for recent rights issues and open offers of companies listed on the Stock Exchange; (2) the large size of the rights issue or open offer which would be required; (3) the likely costs involved (including the amount of underwriting commissions and other administrative and legal expenses); and (4) the lack of certainty in the successful implementation of a rights issue or open offer with their longer timetable. On this basis, the Company did not consider a rights issue or open offer as appropriate means of raising fund for the Acquisition.

**Conditions Precedent:**

Completion is conditional upon fulfilment or waiver (as the case may be) of the following conditions:

(i) the Company having obtained the approval from its Independent Shareholders in respect of, inter alia, (a) the Acquisition; and (b) the issue of Consideration Shares and Convertible Bonds to Mr. Chen pursuant to the terms of the Equity Sale and Purchase Agreement, in the manner required by the Listing Rules;

(ii) the Company having obtained the approval from the Board in respect of the transactions contemplated under the Equity Sale and Purchase Agreement and the allotment and issue of the Consideration Shares and the Convertible Bonds;

(iii) the Target Company having indirectly held 70% of the equity interest in the Project Company through its wholly-owned subsidiaries;

(iv) the Company having obtained the approval from the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares;

(v) the allotment and issue of the Consideration Shares and the Conversion Shares not being prohibited by any statute, order, rule, regulation or directive promulgated or issued after the date of the Agreement by any legislative, executive or regulatory body or authority of Bermuda or Hong Kong;

(vi) each of the parties having complied with the terms and conditions of the Agreement and there having been no material breach of the Agreement by any party thereto;

(vii) all of the warranties and representations contained in the Agreement remaining true, correct, complete, accurate and not misleading in all material respects at the Completion as if repeated at the Completion, and all undertakings contained in the Agreement, to the extent that it is capable of being fulfilled prior to the Completion Date, having been fulfilled in all respects;

(viii) there having been no material adverse change in the Target Group between the date of the Agreement and the Completion Date;

(ix) the purchaser, the vendor and the Target Company having complied with the Listing Rules in all respects for the Acquisition;

(x) the Company being satisfied with the results of the legal and/or financial due diligence review on the Target Group, including having obtained sufficient evidence indicating the valid title of the properties held by the Target Group pursuant to the relevant laws and regulations of the PRC; and

(xi) the Company having satisfied that each member of the Target Group is duly incorporated, validly existing and of good standing, and that the shareholding structure of the Target Group pursuant to the Agreement is true, correct, accurate, complete, legal and valid.

Among the above conditions, the Company may at any time waive the conditions set out in (viii), (x) and (xi) above by notice in writing to Mr. Chen. The Board is of the view that the arrangement is fair and reasonable as the three conditions are mainly about whether the Company is satisfied with the condition of the Target Group and hence the Company may have the sole discretion to waive such conditions, yet the Company would not exercise such discretion if this will adversely affect the value of the Target Group or will be detrimental to the interests of the Company and its Shareholders. Except item (ii), the other conditions are not fulfilled yet at this stage. Notwithstanding the aforesaid, if the conditions above have not been fulfilled or waived (as the case may be) by 31 March 2023, unless the parties agree to postpone the deadline, the Equity Sale and Purchase Agreement shall cease and terminate and neither party shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the Agreement.

**Completion**

Completion shall take place within seven business days after fulfilment or waiver (as the case may be) of all the conditions precedent to the Agreement, or such other date as the parties to the Agreement may agree in writing.

Upon the Completion, the Company will hold the total issued share capital in the Target Company and the financial statements of the Target Group will be consolidated into the consolidated financial statements of the Group. The Company will indirectly hold 70% equity interest in the Project Company through the Target Company.

## INFORMATION OF THE TARGET COMPANY

The Target Company, Hong Kong Holding Company and PRC Holding Company are investment holding companies with no business.

The Project Company is principally engaged in participation in industrial investment; real estate development, real estate brokerage; real estate information consultation; property leasing; property management, building decoration engineering, building curtain wall engineering, steel structure engineering, building mechanical and electrical installation engineering, electronic and intelligent engineering; sales: building materials, decoration materials; business consulting services, information technology consulting services. It currently holds the Puning Land and is undertaking development project on the land parcel.

Among the Target Group:

(i) The Project Company was established on 16 January 2020. For the period from 16 January 2020 (date of establishment) to 31 December 2020, there is no revenue recognised, and the net loss (both before taxation and after taxation) amounted to RMB10,363,000. For the year ended 31 December 2021, the loss (both before taxation and after taxation) amounted to RMB15,205,000;

(ii) For the period from 9 January 2020 (date of establishment) to 31 December 2020 and the year ended 31 December 2021, the net loss (both before taxation and after taxation) of the Target Company and its then subsidiaries amounted to HK$98,600 and HK$15,890, respectively;

(iii) For the period from 9 January 2020 (date of establishment) to 31 December 2020 and the year ended 31 December 2021, the net loss (both before taxation and after taxation) of the Target Company amounted to HK$89,800 and HK$10,840, respectively;

(iv) For the period from 27 March 2020 (date of establishment) to 31 December 2020 and the year ended 31 December 2021, the net loss (both before taxation and after taxation) of the Hong Kong Holding Company amounted to HK$8,800 and HK$5,050, respectively;

(v) The PRC Holding Company was just incorporated on 9 December 2022 and has no profits as at the Latest Practicable Date.

The Puning Land situates at the intersection of Beihuan Avenue and Tielanshan Road, Puning City, the PRC, with an area of 48,719 square meters designated for urban residential use and business service use.

The Group plans to develop the Puning Land into a mix of residential and commercial properties, part of which is for leasing purpose. It is currently intended that not more than 80% of the planned gross floor area ("**GFA**") of the Puning Land will be used to construct residential properties for sales, and not less than 20% of the planned GFA of the Puning Land will be used for leasing purpose such as to construct commercial properties (for example, retail shops and car parking space).

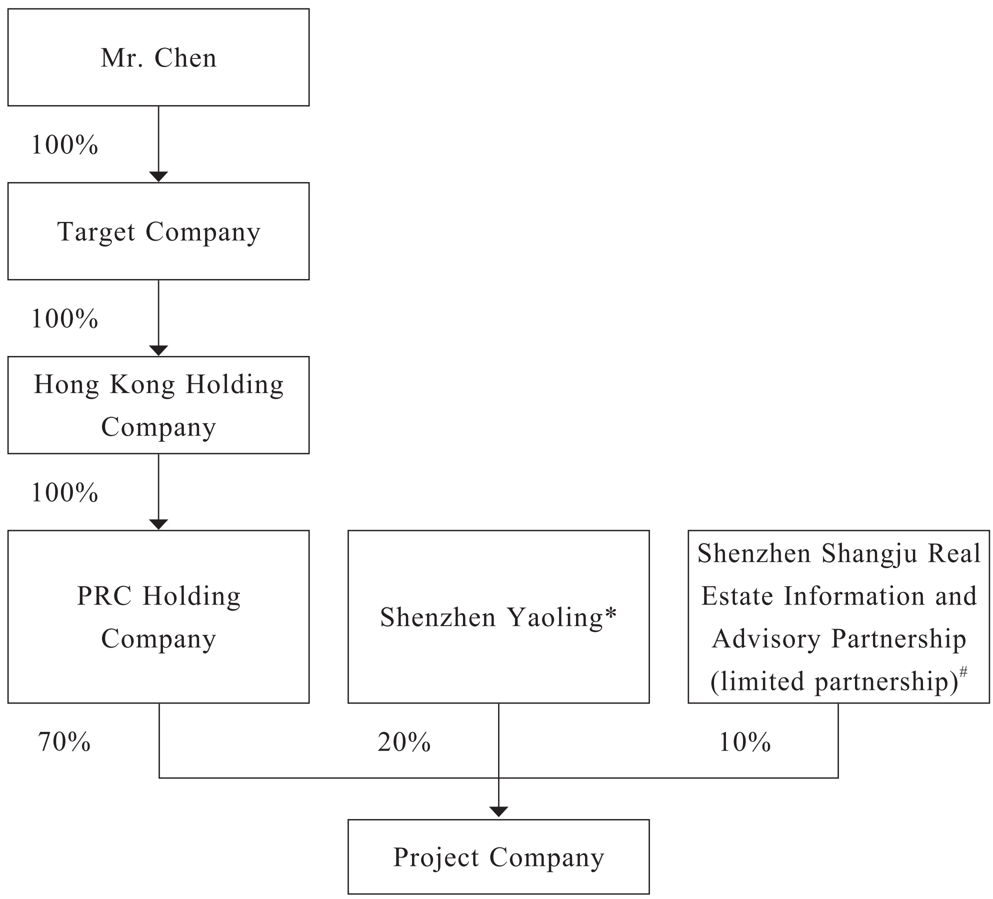
The construction of the project on the Puning Land has been completed in 2022 and part of the units have been delivered as of the Latest Practicable Date. The Project Company has already launched pre-sale of the property on the Puning Land and received good responses from the market. As of 31 December 2021, approximately 70% of the total number of sellable units were sold; as of 30 June 2022, the sale amount of the project already amounted to approximately RMB1,735 million, with only approximately RMB588 million worth of properties unsold.

At present, the Project Company does not have other business plan after completion of the development of the Puning Land.

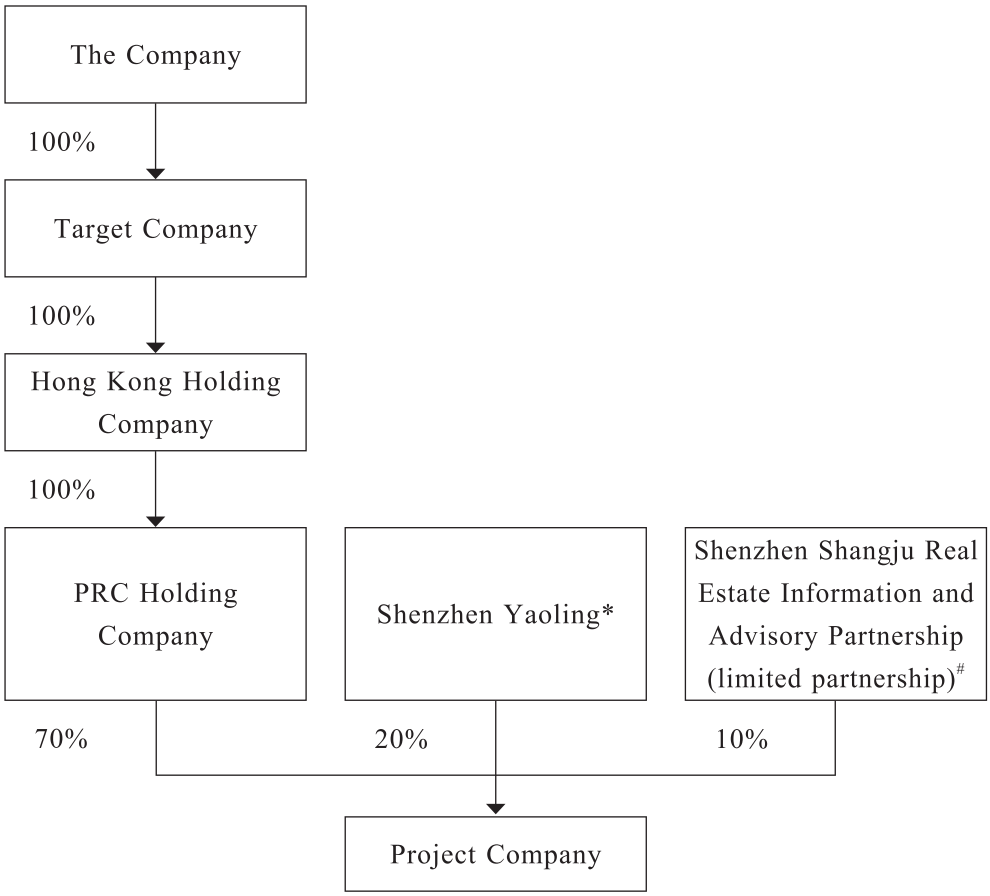
Mr. Chen will, through the Target Company (which holds 100% equity interest in the Hong Kong Holding Company and the PRC Holding Company), acquire 70% equity interest in the Project Company from Shenzhen Yaoling at the consideration of RMB315,000,000 before Completion. Completion will only take place and the Consideration will only be settled after Mr. Chen has indirectly acquired 70% equity interest in the Project Company, which is expected to take place by mid-February 2023. The reason for the transfer of the Project Company from Shenzhen Yaoling to Mr. Chen shortly before the Acquisition is that Shenzhen Yaoling would like to sell its shares in the Project Company to obtain cash as soon as practicable for its own business plan and development. The Company understands that Shenzhen Yaoling would like to receive cash instead of shares or convertible bonds as consideration. While the Company would like to retain most of its cash for its business operation, Mr. Chen is willing to pay cash to Shenzhen Yaoling for acquiring 70% of the equity interest in the Project Company, and then sell such equity interest to the Company with shares or convertible bonds as consideration. Also, since the Company would need to obtain Shareholders' approval for the Acquisition, which will take at least a few months, Shenzhen Yaoling did not wish to wait for the completion of the Company's compliance procedures and would like to complete the sale of 70% equity interest of the Project Company as soon as practicable.

## CHANGES IN THE SHAREHOLDING STRUCTURE OF THE TARGET COMPANY

Before the Acquisition, the shareholding structure of the Target Company is as follows:



Immediately after the completion of the Acquisition, the shareholding structure of the Target Company will be as follows:




* *Shenzhen Yaoling is principally engaged in investment in industrial enterprises (specific projects to be separately reported); investment advisory (excluding restricted items); logistics solutions design, logistics information consulting; development and operation of real estate (on the land for which the right of use has been legally obtained); real estate brokerage; leasing of owned properties; domestic trade (excluding franchised, exclusive and proprietary goods); operation of import and export business; and logistics and warehousing. Shenzhen Yaoling is wholly-owned by Shenzhen Tangshang Industrial Group Limited, which Mr. Jiang Dingwei and Ms. Jiang Mengshan holds 60% and 40% of the equity interest, respectively. Mr. Jiang Dingwei and Ms. Jiang Mengshan are both cousins of Mr. Chen, and hence Shenzhen Yaoling is a connected person of the Company.*

\# *Shenzhen Shangju Real Estate Information and Advisory Partnership (limited partnership) is principally engaged in real estate marketing planning and information consulting services; conference and exhibition services; cleaning services; housekeeping services; industrial investment (declared separately for specific projects); licensed business project. The general partner is Mr. Chen Danjun, and its limited partners are Shenzhen Yinghui Investment Ltd.*(深圳盈暉投資有限公司), Mr. Chen Zhenshou and Mr. Weng Qihao. Mr. Chen Danjun, Shenzhen Yinghui Investment Ltd.(深圳盈暉投資有限公司), Mr. Chen Zhenshou and Mr. Weng Qihao respectively holds 60%, 10%, 15% and 15% of interest in Shenzhen Shangju Real Estate Information and Advisory Partnership (limited partnership). The legal representative and ultimate beneficial owner of Shenzhen Yinghui Investment Ltd. are Ms. Jiang Xiumei and Mr. Zhong Jinxian. To the Directors' knowledge, information and belief and having made all reasonable enquiries, save that Mr. Weng Qihao is Mr. Chen's cousin and Ms. Jiang Xiumei is the sister of Mr. Chen's aunt, Shenzhen Shangju Real Estate Information and Advisory Partnership (limited partnership) and its ultimate beneficial owners are independent third parties not connected with the Company and its connected persons.*

## CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company has 2,894,466,570 Shares in issue. Set out below is the shareholding structure of the Company (i) as at the date of this announcement; (ii) immediately after the Completion and the allotment and issue of the Consideration Shares; and (iii) immediately after the Completion and the allotment and issue of the Consideration Shares and the Conversion Shares:

| | As at the Latest Practicable Date | | Immediately after the Completion and the allotment and issue of the Consideration Shares | | Immediately after the Completion and the allotment and issue of the Consideration Shares and the Conversion Shares* | |
|---|---|---|---|---|---|---|
| | *No. of Shares* | *Approximate %* | *No. of Shares* | *Approximate %* | *No. of Shares* | *Approximate %* |
| Mr. Chen | 1,451,654,977 | 50.15 | 1,985,654,977 | 57.92 | 3,231,404,977 | 69.13 |
| Shenzhen Yaoling# | 585,600,000 | 20.23 | 585,600,000 | 17.08 | 585,600,000 | 12.53 |
| Public Shareholders | 857,211,593 | 29.62 | 857,211,593 | 25.00 | 857,211,593 | 18.34 |
| Total | 2,894,466,570 | 100 | 3,428,466,570 | 100 | 4,674,216,570 | 100 |

* *For illustration purpose only. In practice, the issue of the Conversion Shares is subject to the Company meeting the public float requirement under the Listing Rules.*

## REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE TRANSACTIONS

The Project Company has commenced the property project in Puning in 2020 and achieved satisfactory pre-sale results. The Company believes that the acquisition of the shares of the Project Company at present would enable the Company to generate more revenue from the development project on the Puning Land.

The business objectives of the Group are to develop its business and achieve sustainable growth of its business. The Group aims to achieve such objectives by pursuing the growth-oriented strategies, including investment in more property sub-leasing, development and investment projects in the PRC.

As disclosed in the annual report of the Company, the management team and the Board of the Company are highly experienced in the real estate development industry in the PRC and possess significant resources and networks in the PRC which the Company expects to be able to leverage for its future development in the property sub-leasing, development and investment business sector.

The Company commenced property development business in 2020 by investing in Dongguan Huachuangwen Land Ltd., which has proven to be a success. The Group ceased making losses because of the property development business.

Mr. Chen Weiwu, being the controlling shareholder of the Company and the chairman of the Board, now enables the Group to engage in the development of the Puning Land and assists the Group to further develop its property development business in the PRC through the transfer of the equity interests in the Project Company indirectly held by him to the Company. Considering the satisfactory pre-sales result, the Board believes that the Acquisition would be beneficial to the Group's financial results.

Having considered the above factors, the Board considers that the terms of the Equity Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

## EFFECTS ON EANRINGS AND ASSETS AND LIABILITIES OF THE GROUP

Upon completion of the Acquisition, it is expected that the Acquisition will have the following financial effects on the Group:

### Assets and liabilities

The unaudited consolidated total assets, total liabilities and net assets of the Group as at 30 September 2022 as extracted from the interim report of the Company for the six months ended 30 September 2022 were HK$1,392,817,922, HK$821,444,208 and HK$571,373,714 respectively. Based on the unaudited pro forma financial information of the Group as set out in the Appendix III to this circular, assuming completion of the Acquisition had taken place on 30 September 2022, the pro forma total assets and total liabilities of the Enlarged Group would have been approximately HK$4,197,149,000 and approximately HK$3,094,180,000 respectively. The unaudited pro forma net asset value of the Enlarged Group would be approximately HK$1,102,969,000.

### Earnings

The audited net profits of the Group for the year ended 31 March 2022 as extracted from the audited report of the Company for the year ended 31 March 2022 was HK$15,678,206. Based on the unaudited pro forma financial information of the Group as set out in the Appendix III to this circular, assuming completion of the Acquisition had taken place on 31 March 2022, the Enlarged Group would record net loss amounting to approximately HK$14,506,000. In view of the future prospects of the property market in Puning, the PRC, it is anticipated that the Acquisition will improve the Group's trading prospects in the future.

## INFORMATION OF THE COMPANY

The Company is an investment holding company principally engaged in property business. The Company has two segments. Property sub-leasing and investment business represents the subleasing and leasing of investment properties. Property development business represents development of real estates.

## APPROVAL OF THE BOARD

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no Director has a material interest in the Equity Sale and Purchase Agreement except Mr. Chen, the connected Director, who has material interest in the Acquisition. Other Directors have unanimously approved the Equity Sale and Purchase Agreement (Mr. Chen, the connected Director, has abstained from voting), and consider that the terms of the Equity Sale and Purchase Agreement are on normal commercial terms, fair and reasonable, and the Equity Sale and Purchase Agreement is in the interests of the Company and its Shareholders as a whole.

## IMPLICATIONS UNDER THE LISTING RULES

In July 2022, the Company completed the acquisition of 55% equity interest in Dongguan Huachuangwen Land Ltd. from Shenzhen Yaoling. As Shenzhen Yaoling will transfer its equity interest in the Project Company to the PRC Holding Company controlled by Mr. Chen shortly before the Acquisition, the Previous Acquisition and the Acquisition shall be aggregated. As certain percentage ratios (as defined under Chapter 14 of the Listing Rules) in respect of the Acquisition (after aggregation) exceed 100%, the Acquisition constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval requirements.

As at the Latest Practicable Date, Mr. Chen, being the executive Director of the Company, is interested in approximately 50.15% of the shares of the Company. Mr. Chen is the controlling Shareholder and therefore a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition also constitutes a connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Consideration Shares will be issued under the specific mandate of the Company in accordance with the Listing Rules.

The SGM will be convened and held by the Company for the purpose of considering and, if thought fit, approving the resolution in relation to the Equity Sale and Purchase Agreement and the transactions contemplated thereunder, including the allotment and issue of the Consideration Shares and the Convertible Bonds. Mr. Chen, being the chairman of the Board and an executive Director, and being interested in 1,452,654,977 Shares, representing approximately 50.15% of the issued share capital of the Company, has a material interest in the Equity Sale and Purchase Agreement and the transactions contemplated thereunder and has abstained from voting on the Board resolution approving the Equity Sale and Purchase Agreement and the transactions contemplated thereunder.

## OTHER MATTERS

Pursuant to the Listing Rules, an Independent Board Committee comprising all the independent non-executive Directors has been established by the Company to advise the Independent Shareholders on the terms of the transactions under the Equity Sale and Purchase Agreement. Rainbow Capital has been appointed as the Independent Financial Adviser by the Company to advise the Independent Board Committee and Independent Shareholders as to whether the terms and conditions of the Equity Sale and Purchase Agreement and the transactions contemplated thereunder, including the allotment and issue of the Consideration Shares, are fair and reasonable so far as the Independent Shareholders are concerned, are on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and Shareholders as a whole.

## SGM

**A notice of SGM is set out on pages SGM-1 to SGM-3 of this circular. All the resolutions as set out in the notice of SGM will be proposed at the SGM.**

A form of proxy for the SGM is enclosed with this circular. Whether you are able to attend the SGM or not, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish and in such event, the form of proxy shall be deemed to be revoked.

In accordance with Rule 13.39(4) of the Listing Rules, all votes of the Shareholders on the proposed ordinary resolutions at the SGM shall be taken by poll. The chairman of the SGM will demand that all resolutions as set out in the SGM Notice be voted upon by way of poll at the SGM.

To the best of the Director's knowledge, information and belief and having made all reasonable enquiries, other than Mr. Chen Weiwu who shall abstain from voting at the SGM in respect of the Equity Sale and Purchase Agreement, none of the Directors or Shareholders has a material interest on the resolutions proposed at the SGM, and no Shareholder is required to abstain from voting on any of the resolutions at the SGM.

## RECOMMENDATION

The Directors believe that the transactions under the Equity Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole, and that the proposed resolutions relating to the Equity Sale and Purchase Agreement are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of all the resolutions to be proposed at the SGM.

## 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.

## ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the Appendices to this circular.

Yours faithfully,
For and on behalf of the Board
**China Tangshang Holdings Limited**
**Chen Weiwu**
*Chairman*

# CHINA TANGSHANG HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 674)**

20 January 2023

*To the Independent Shareholders*

Dear Sir or Madam,

## (1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE TARGET COMPANY AND (2) NOTICE OF SPECIAL GENERAL MEETING

Reference is made to the circular issued by the Company to the Shareholders dated 20 January 2023 (the "**Circular**") of which this letter forms a part. Unless the context otherwise specified, capitalized terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board to advise you on the terms of the Equity Sale and Purchase Agreement. Rainbow Capital has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving such advice, are set out on pages 36 to 82 of the Circular and the additional information is set out in the appendices thereto.

Having considered the terms of the Equity Sale and Purchase Agreement, and taking into account the independent advice of Rainbow Capital, in particular the principal factors, reasons and recommendations set out in its letter on pages 36 to 82 of the Circular, we consider that the Equity Sale and Purchase Agreement are on normal commercial terms or better and fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Equity Sale and Purchase Agreement, while not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favor of the resolutions to be proposed at the SGM to approve the Equity Sale and Purchase Agreement.

Yours faithfully,
*the Independent Board Committee*
**Chen Youchun, Lui Mei Ka and Zhou Xin**

*The following is the full text of a letter of advice from Rainbow Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, which has been prepared for the purpose of incorporation in this circular.*

**Rainbow Capital (HK) Limited**

20 January 2023

*To the Independent Board Committee and the Independent Shareholders*

China Tangshang Holdings Limited
Unit 1201, 12/F.,
29 Austin Road,
Tsim Sha Tsui,
Hong Kong

Dear Sir or Madam,

## VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISIITON OF THE TARGET GROUP

### INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the "Letter from the Board" (the "**Letter from the Board**") contained in the circular issued by the Company to the Shareholders dated 20 January 2023 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 31 October 2022, the Company entered into the Equity Sale and Purchase Agreement with Mr. Chen, pursuant to which the Company has agreed conditionally to acquire, and Mr. Chen has agreed conditionally to sell, the Sale Shares at the Consideration of RMB315,000,000 (equivalent to HK$355,950,000). The Consideration shall be satisfied as to (i) HK$106,800,000 (equivalent to approximately RMB94,513,274) by the issue and allotment of 534,000,000 Consideration Shares at an issue price of HK$0.2 per Consideration Share (the "**Issue Price**"); and (ii) HK$249,150,000 (equivalent to approximately RMB220,486,726) by the issuance of the Convertible Bonds. The Sale Shares represent the total issued share capital in the Target Company. Upon Completion, the Company will hold the total issued share capital of the Target Company and the financial statements of the Target Group will be consolidated into the consolidated financial statements of the Group. The Company will indirectly hold 70% equity interest in the Project Company through the Target Company.

In July 2022, the Company completed the acquisition of 55% equity interest in Dongguan Huachuangwen Land Ltd. from Shenzhen Yaoling. As Shenzhen Yaoling will transfer its equity interest in the Project Company to the PRC Holding Company controlled by Mr. Chen shortly before the Acquisition, the Previous Acquisition and the Acquisition shall be aggregated. As certain percentage ratios (as defined under Chapter 14 of the Listing Rules) in respect of the Acquisition (after aggregation) exceed 100%, the Acquisition constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and the Shareholders' approval requirements. In addition, as at the Latest Practicable Date, Mr. Chen, being the executive Director of the Company, is interested in 1,452,654,977 Shares, representing approximately 50.15% of the issued share capital of the Company. Therefore, Mr. Chen is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition also constitutes a connected transaction of the Company and is subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Consideration Shares and the Convertible Shares will be issued under the specific mandate to be sought from the Independent Shareholders at the SGM.

The Company will seek approval from the Independent Shareholders in respect of the Acquisition by way of a poll at the SGM. In view of the interest above, Mr. Chen and his associates are required to abstain from voting in respect of the ordinary resolution approving the Acquisition at the SGM. To the best of the Director's knowledge, information and belief and having made all reasonable enquiries, saved as disclosed above, none of the Directors or Shareholders has a material interest on the resolution proposed at the SGM, and no Shareholder is required to abstain from voting on any of the resolution at the SGM.

The Independent Board Committee, comprising all the three independent non-executive Directors, namely Mr. Chen Youchun, Ms. Lui Mei Ka and Mr. Zhou Xin, has been formed to advise the Independent Shareholders on whether the terms of the Acquisition are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and advise the Independent Shareholders as to voting. We, Rainbow Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group, Mr. Chen and the Target Group that could reasonably be regarded as relevant to our independence. We have acted as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to (i) certain lease contracts which constituted a very substantial acquisition and connected transaction of the Company, details of which are set out in the circular of the Company dated 25 January 2021; and (ii) the acquisition of 55% equity interest in a target company which constituted a very substantial acquisition and connected transaction of the Company, details of which are set out in the circular of the Company dated 30 September 2021. Other than that, there was no engagement between the Group and us in the last two years. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Group, Mr. Chen or the Target Group. Accordingly, we are independent from the Company pursuant to the requirement under Rule 13.84 and therefore we are qualified to give independent advice in respect of the Acquisition.

**BASIS OF OUR OPINION**

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry.

We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, the Target Group or their respective substantial shareholders, subsidiaries or associates.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Equity Sale and Purchase Agreement are fair and reasonable, we have taken into account the principal factors and reasons set out below:

### 1. Background information of the Group

The Group is principally engaged in (i) property sub-leasing and investment business; (ii) property development business; and (iii) money lending business.

The Group has undergone a series of transactions to restructure its businesses (the "**Restructuring**"). In December 2019 and December 2020, the Group entered into new lease contracts with Beijing Tian'an Innovation Technology and Estates Limited ("**BTIT**") to diversify and expand its property sub-leasing business into Beijing, a first-tier city in the PRC. BTIT has agreed to provide a rental income guarantee of HK$51 million each year to the Group in 2021 and 2022. In December 2020, the Group disposed of its property sub-leasing business in Nanjing, the PRC, with a view to restructuring its property sub-leasing business by shifting the location of the business from a second-tier city to a first-tier city in the PRC. Since completion of the acquisition of 35% and 55% equity interest of Dongguan Huachuangwen Land Ltd. ("**Huachuangwen Land**") on 27 July 2020 and 6 July 2022, respectively (collectively, the "**Previous Acquisitions**"), the Company holds 90% of the equity interest in Huachuangwen Land and the financial statements of Huachuangwen Land have been consolidated into the financial statements of the Group, allowing the Group to engage in the property development business. During the year ended 31 March 2021, the Group ceased the exhibition-related business given the uncertain outlook caused by the continuous travel restrictions across the world as well as the food and beverages business to mitigate continuous loss.

Set out below is a summary of the consolidated financial information of the Group for the two years ended 31 March 2022 as extracted from the annual report of the Company for the year ended 31 March 2022 (the "**2022 Annual Report**") and for the six months ended 30 September 2021 and 2022 as extracted from the interim report of the Company for the six months ended 30 September 2022:

***(i) Financial performance***

| | For the six months ended 30 September | | For the year ended 31 March | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | (unaudited) | (unaudited) | (audited) | (audited) |
| **Revenue from continuing operations** | **519,649** | **24,543** | **256,890** | **56,159** |
| – Property sub-leasing and investment business | 28,349 | 24,543 | 80,198 | 56,159 |
| – Property development business | 491,300 | – | 176,692 | – |
| – Money lending business | – | – | – | – |
| **Revenue from discontinued operations** | **–** | **–** | **–** | **529** |
| – Exhibition-related business | – | – | – | 529 |
| – Food and beverages business | – | – | – | – |
| **Total revenue** | **519,649** | **24,543** | **256,890** | **56,688** |
| **Profit/(loss) attributable to the Shareholders** | 34,789 | (5,792) | 8,021 | (13,347) |
| – Continuing operations | 34,789 | (5,792) | 8,021 | (12,735) |
| – Discontinued operations | – | – | – | (612) |

| | For the six months ended 30 September | | For the year ended 31 March | |
|---|---|---|---|---|
| | **2022** | **2021** | **2022** | **2021** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | (unaudited) | (unaudited) | (audited) | (audited) |
| **Segment profit/(loss) before income tax** | | | | |
| – Property sub-leasing and investment business | 975 | 2,011 | 15,379 | (331) |
| – Property development business | 113,617 | (5,315) | 20,548 | (11,018) |
| – Money lending business | (4) | (123) | (194) | (239) |
| – Exhibition-related business | – | – | – | (716) |
| – Food and beverages business | – | – | – | 103 |

*Year ended 31 March 2022 ("**FY2022**") compared to year ended 31 March 2021 ("**FY2021**")*

Since completion of the Previous Acquisitions, the Group indirectly holds a land situated at Caole Village, Xiegang Town, Dongguan City, the PRC and a development project, namely, Tangshang Hanlin Manion (唐商翰林居) (the "**Tangshang Property**"). As the construction of the Tangshang Property was completed in December 2021, there were approximately 9,672.1 square meters ("**sq.m**"). booked gross floor area ("**GFA**") delivered and recognised into the Group's revenue under the property development business in FY2022. No revenue has been generated from the money lending business since FY2021. As such, revenue from property sub-leasing and investment business and property development business are the primary businesses of the Group, accounting for the entire revenue from continuing operations in FY2021 and FY2022.

Revenue from continuing operations increased by approximately 357.4% from approximately HK$56.2 million in FY2021 to approximately HK$256.9 million in FY2022, primarily attributable to (a) the significant increase in revenue from the property sub-leasing and investment business by approximately 42.8%, as a result of the entering into of new lease contracts with BTIT in December 2020 which allowed the Group to expand its property sub-leasing business in Beijing and generate additional revenue since the approval of the lease contracts in February 2021; and (b) the increase in revenue from the property development business from nil in FY2021 to approximately HK$176.7 million in FY2022, as a result of the increase of booked GFA delivered to the property owners after completion of the construction of the Tangshang Property in December 2021.

The property sub-leasing and investment business recorded a segment profit of approximately HK$15.4 million in FY2022 as compared to a segment loss of approximately HK$0.3 million in FY2021, mainly due to the decrease in fair value loss on investment properties of the Group from approximately HK$56.0 million in FY2021 to approximately HK$11.5 million in FY2022. The property development business also recorded a segment profit of approximately HK$20.5 million FY2022 as compared to a segment loss of approximately HK$11.0 million in FY2021, mainly resulting from the recognition on revenue from the Tangshang Property in FY2022 while no revenue was generated in FY2021. As for the money lending business, no interest income was recognised in both FY2021 and FY2022.

The Group recorded profit attributable to the Shareholders from continuing operations of approximately HK$8.0 million in FY2022, as compared to loss attributable to the Shareholders from continuing operations of approximately HK$12.7 million in FY2021, primarily attributable to (a) the recognition on revenue of property development business in FY2022 as mentioned above; (b) the decrease in fair value loss on investment properties in FY2022; (c) no provision of financial guarantee was made; and (d) the Group's implementation of various measures on cost control and expenditures reduction during the year.

*Six months ended 30 September 2022 ("**2022H1**") compared to six months ended 30 September 2021 ("**2021H1**")*

Revenue from continuing operations increased by approximately 2,017.3% from approximately HK$24.5 million in 2021H1 to approximately HK$519.6 million in 2022H1, primarily attributable to (a) the increase in revenue from the property sub-leasing and investment business by approximately 15.5%; and (b) the increase in revenue from the property development business from nil in 2021H1 to approximately HK$491.3 million in 2022H1, as a result of the increase of booked GFA delivered under the Tangshang Property to the property owners during the period.

The property sub-leasing and investment business recorded a decrease in the segment profit from approximately HK$2.0 million in 2021H1 to approximately HK$1.0 million in 2022H1, mainly due to the decrease of fair value on investment properties. The property development business recorded a segment profit of approximately HK$113.6 million 2022H1 as compared to a segment loss of approximately HK$5.3 million in 2021H1, mainly resulting from the recognition on revenue from the Tangshang Property in 2022H1 while no revenue was generated in 2021H1. As for the money lending business, the Group continued to record no interest income in 2022H1. As advised by the management of the Company, the Company would continue to find new opportunity for this business segment.

The Group recorded profit attributable to the Shareholders from continuing operations of approximately HK$34.8 million in 2022H1, as compared to loss attributable to the Shareholders from continuing operations of approximately HK$5.8 million in 2021H1, primarily attributable to (a) the recognition on revenue of property development business in 2022H1 as mentioned above; and (b) the Group's implementation of various measures on cost control and reduction of expenditures during the period.

*(ii) Financial position*

| | As at 30 September 2022 *HK$'000* (unaudited) | As at 31 March 2022 *HK$'000* (audited) | As at 31 March 2021 *HK$'000* (audited) |
|---|---|---|---|
| **Non-current assets, including:** | **480,722** | **551,669** | **567,746** |
| – Investment properties | 244,228 | 279,651 | 284,436 |
| – Finance lease receivables | 233,393 | 266,635 | 275,396 |
| **Current assets, including:** | **912,096** | **1,406,650** | **1,328,932** |
| – Completed properties held for sale | 414,440 | 837,029 | – |
| – Properties under development | – | – | 770,393 |
| – Trade and other receivables | 153,693 | 297,927 | 337,633 |
| – Finance lease receivables | 43,580 | 48,876 | 26,162 |
| – Cash and bank balances | 290,945 | 192,855 | 175,939 |
| **Total assets** | **1,392,818** | **1,958,319** | **1,896,678** |
| **Current liabilities, including** | **401,324** | **875,399** | **836,173** |
| – Trade and other payables | 93,447 | 102,715 | 27,528 |
| – Contract liabilities | 229,295 | 579,969 | 434,758 |
| – Bank and other borrowings | – | 99,235 | 289,531 |
| – Lease liabilities | 48,458 | 57,329 | 51,532 |
| **Net current assets** | **510,772** | **531,251** | **492,759** |
| **Non-current liabilities, including** | **420,120** | **482,547** | **498,393** |
| – Lease liabilities | 420,120 | 482,547 | 498,393 |
| **Total liabilities** | **821,444** | **1,357,946** | **1,334,566** |
| **Equity attributable to the Shareholders** | **534,140** | **386,458** | **364,950** |
| **Gearing ratio** *(Note)* | Net cash | Net cash | 31.1% |

*Note:* being the sum of total bank and other borrowings, bills payables and convertible bonds minus cash and bank balances and divided by total equity attributable to the Shareholders.

As at 30 September 2022, total assets of the Group were approximately HK$1,392.8 million, which mainly included (a) investment properties of approximately HK$244.2 million, representing the right-of-use assets relating to building held by the Group and leased out under operating leases; (b) completed properties held for sale of approximately HK$414.4 million attributable to the Tangshang Property which was completed in December 2021 as a result of the Previous Acquisitions; (c) trade and other receivables of approximately HK$153.7 million, primarily relating to prepayments to contractors and refundable deposits for various potential business development projects; (d) finance lease receivables of approximately HK$277.0 million arising from the Group's property sub-leasing business; and (e) cash and bank balances of approximately HK$290.9 million.

As at 30 September 2022, total liabilities of the Group were approximately HK$821.4 million, which mainly included (a) trade and other payables of approximately HK$93.4 million; (b) contract liabilities of approximately HK$229.3 million, primarily attributable to the deposits and instalments received on properties sold prior to the date of revenue recognition; and (c) lease liabilities of approximately HK$468.6 million.

As at 30 September 2022, the Group had net current assets of approximately HK$510.8 million and equity attributable to the Shareholders of approximately HK$534.1 million. As compared to the gearing ratio of approximately 31.1% as at 31 March 2021, the Group maintained net cash position as at 30 September 2022.

Based on (a) the equity attributable to the Shareholders of approximately HK$534.1 million as at 30 September 2022; and (ii) 2,894,466,570 issued Shares as at the Latest Practicable Date, the net asset value per Share was approximately HK$0.1845 (the "**NAV per Share**").

***(iii) Overall comment***

After completion of the Restructuring and the Previous Acquisitions, the Group's core business segments comprise the property sub-leasing and investment business in Beijing, the PRC, and the property development business through its 90% equity interest in the Huachuangwen Land. The property sub-leasing and investment business has been generating relatively stable revenue during the two years ended 31 March 2022 and the six months ended 30 September 2022, and BTIT has agreed to provide a rental income guarantee of HK$51 million each year to the Group in 2021 and 2022. As for the property development business, the construction of the Tangshang Property was completed in December 2021 and started to be delivered to the property owners during FY2022, resulting in a significant increase in the Group's revenue in FY2022 and 2022H1. Through the Restructuring and the Previous Acquisitions, equity attributable to the Shareholders has been enhanced substantially. In addition, taking into account the Group's net current assets and net cash position as at 30 September 2022, the Group was in a healthy financial position.

As disclosed in the 2022 Annual Report, the Group will (a) remain proactive in reviewing its pace of business expansion to maintain its property development business; and (b) maintain open-minded in identifying new property development projects in the PRC in the coming few years which could strengthen the financial profitability of the Group. As such, we consider that the Acquisition represents an opportunity for the Group to further expand its principal business in property development so as to achieve sustainable growth of the Group.

**2. Information of the Target Group and the Property**

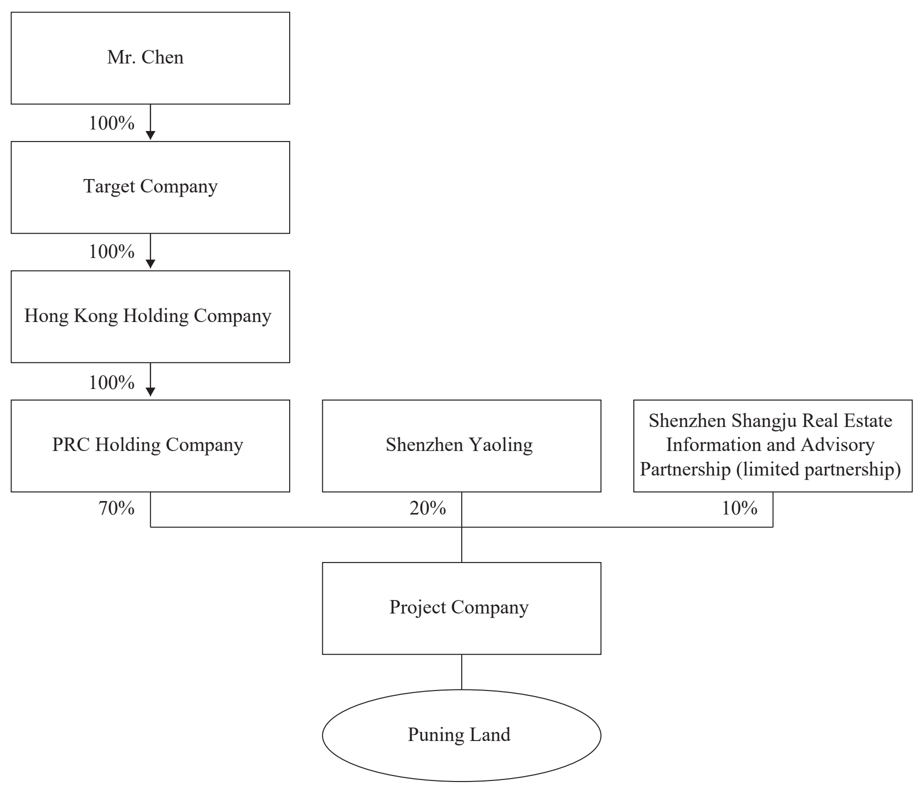
***(i) The Target Group***

The Target Company, the Hong Kong Holding Company and the PRC Holding Company are investment holding companies with no business.

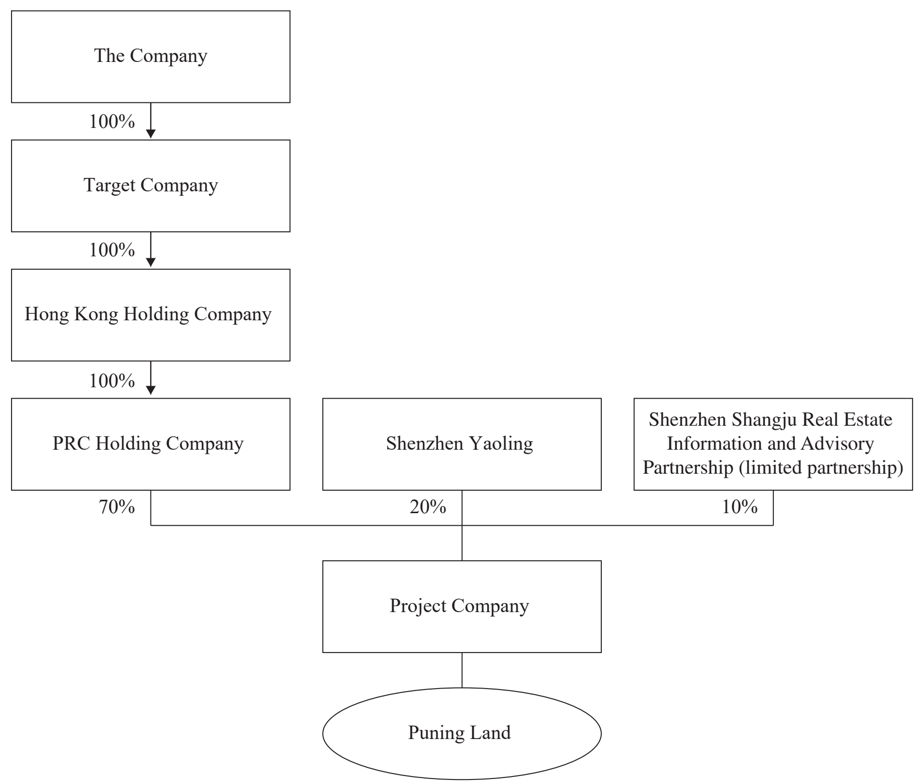
The Project Company is principally engaged in participation in industrial investment; real estate development, real estate brokerage; real estate information consultation; property leasing; property management, building decoration engineering, building curtain wall engineering, steel structure engineering, building mechanical and electrical installation engineering, electronic and intelligent engineering; sales: building materials, decoration materials; business consulting services, information technology consulting services. It currently holds the Puning Land and is undertaking development project on the land parcel.

Mr. Chen will, through the Target Company (which holds 100% equity interest in the Hong Kong Holding Company and the PRC Holding Company), acquire 70% equity interest in the Project Company from Shenzhen Yaoling at the consideration of RMB315,000,000 before Completion. Completion will only take place and the Consideration will only be settled after Mr. Chen has indirectly acquired 70% equity interest in the Project Company. The reason for the transfer of the Project Company from Shenzhen Yaoling to Mr. Chen shortly before the Acquisition is that Shenzhen Yaoling would like to sell its shares in the Project Company to obtain cash as soon as practicable for its own business plan and development. The Company understands that Shenzhen Yaoling would like to receive cash instead of shares or convertible bonds as consideration. While the Company would like to retain most of its cash for its business operation, Mr. Chen is willing to pay cash to Shenzhen Yaoling for acquiring 70% of the equity interest in the Project Company, and then sell such equity interest to the Company with shares or convertible bonds as consideration. Also, since the Company would need to obtain Shareholders' approval for the Acquisition, which will take at least a few months, Shenzhen Yaoling did not wish to wait for the completion of the Company's compliance procedures and would like to complete the sale of 70% equity interest of the Project Company as soon as practicable.

Immediately before completion of the Acquisition, the Project Company will be held as to 70%, 20% and 10% by the PRC Holding Company, Shenzhen Yaoling and Shenzhen Shangju Real Estate Information and Advisory Partnership (limited partnership), respectively, and the major asset of the Project Company is the Puning Land. The shareholding structure is set out as follows:



Immediately after the completion of the Acquisition, the shareholding structure of the Target Group will be as follows:




Set out below is the summarised financial information of the Reach Glory Group as extracted from Appendix II to the Circular:

| | **Nine months ended 30 September 2022** | **Nine months ended 30 September 2021** | **Year ended 31 December 2021** | **For the period from 9 January 2020 (date of establishment) to 31 December 2020** |
|---|---|---|---|---|
| | *HK$* | *HK$* | *HK$* | *HK$* |
| | (audited) | (unaudited) | (audited) | (audited) |
| Revenue | – | – | – | – |
| Loss before income tax | (15,890) | (15,890) | (15,890) | (98,600) |
| Net loss for the period/year | (15,890) | (15,890) | (15,890) | (98,600) |

As at 30 September 2022, the Reach Glory Group did not have any assets, and the net liabilities of the Reach Glory Group was approximately HK$52,580, which comprised amount due to a director which was unsecured, interest free and repayable on demand.

Set out below is the summarised financial information of the Project Company as extracted from Appendix II to the Circular:

| | **Nine months ended 30 September 2022** | **Nine months ended 30 September 2021** | **Year ended 31 December 2021** | **For the period from 9 January 2020 (date of establishment) to 31 December 2020** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | (audited) | (unaudited) | (audited) | (audited) |
| Revenue | – | – | – | – |
| Loss before income tax | (10,044) | (7,894) | (15,205) | (10,363) |
| Net loss for the period/year | (8,626) | (5,920) | (12,501) | (7,772) |

| | **As at 30 September** | **As at 31 December** | |
|---|---|---|---|
| | **2022** | **2021** | **2020** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | (audited) | (audited) | (audited) |
| **Total assets, including:** | **2,091,190** | **1,669,852** | **1,354,560** |
| – Properties under development | 1,424,193 | 1,215,997 | 921,775 |
| – Prepayment, deposits and other receivables | 382,445 | 203,896 | 135 |
| – Prepaid taxes | 113,295 | 111,766 | 4,636 |
| – Cash and bank balance | 162,796 | 130,849 | 423,031 |
| **Total liabilities, including:** | **1,755,029** | **1,640,125** | **1,312,332** |
| – Contract liabilities | 1,744,002 | 1,366,968 | – |
| – Amount due to a shareholder | – | 141,321 | 899,290 |
| **Total equity** | **336,161** | **29,727** | **42,228** |

As at 30 September 2022, total assets of the Project Company amounted to approximately RMB2,091.2 million, which mainly represented (a) properties under development of approximately RMB1,424.2 million attributable to the development project on the Puning Land, namely Puning Tangshang Zhongyang Garden (普寧唐商中央花園) (the "**Property**"), comprising land cost of approximately RMB820.0 million, construction cost of approximately RMB585.5 million and capitalised borrowing costs of approximately RMB18.7 million, (b) prepayment, deposits and other receivables of approximately RMB382.4 million; (c) prepaid taxes of approximately RMB113.3 million; and (d) cash and bank balance of approximately RMB162.8 million.

As at 30 September 2022, total liabilities of the Project Company amounted to approximately RMB1,755.0 million, which mainly represented contract liabilities of approximately RMB1,744.0 million, primarily relate to advances from customers for sales of development properties before the criteria for revenue recognition have been met.

The Project Company is yet to generate any revenue since its establishment on 16 January 2020 up to 30 September 2022. Net loss incurred for the year ended on 31 December 2021 and the nine months ended 30 September 2022 amounted to approximately RMB12.5 million and RMB8.6 million, respectively. As advised by the management of the Group, the Project Company is expected to generate revenue following completion of the development project on the Puning Land.

***(ii) The Puning Land and the Property***

The Puning Land situates at the intersection of Beihuan Avenue and Tielanshan Road, Puning City, the PRC, with an area of 48,719 square meters designated for urban residential use and business service use.

The Group plans to develop the Puning Land into a mix of residential and commercial properties, part of which is for leasing purpose. It is currently intended that not more than 80% of the planned GFA of the Puning Land will be used to construct residential properties for sales, and not less than 20% of the planned GFA of the Puning Land will be used for leasing purpose such as to construct commercial properties (for example, retail shops and car parking space).

The construction of the project on the Puning Land with a site area of 44,654.86 sq.m. has been completed in 2022 and part of the units have been delivered as of the Latest Practicable Date. The Property is developed into a mix of residential and commercial properties with a total gross floor area of approximately 213,187.36 sq. m. and 1,480 carparking spaces. The Property was valued by APAC Asset Valuation and Consulting Limited, an independent property valuer (the "**Valuer**"), at RMB1,905.0 million as at 31 October 2022 (the "**Valuation**"), according to the valuation report of the Property prepared by the Valuer using the direct comparison method (the "**Valuation Report**"). The full text of the Valuation Report and certificate dated 20 January 2023 is set out in Appendix IV to the Circular.

As disclosed in the Letter from the Board, the Project Company has already launched pre-sale of the Property and received good responses from the market. As of 31 December 2021, approximately 70% of the total number of sellable units of the Property were sold and as of 30 June 2022, the sale amount of the Property already amounted to approximately RMB1,735 million, with only approximately RMB588 million worth of properties unsold. As noted from the financial information of the Project Company in the above, the Project Company recorded contract liabilities of approximately RMB1,744.0 million as at 30 September 2022 which represented the pre-sale amount of development properties received from customers.

**3. Reasons for and benefits of the Acquisition**

As disclosed in the Letter from the Board, the Project Company has commenced the development of the Property in 2020 and achieved satisfactory pre-sale results. We concur with the Directors that the acquisition of the shares of the Project Company at present would enable the Company to (i) generate more revenue from the Property, following the delivery or leasing of the residential and commercial properties in the future, which may ultimately bring a higher return to the Group and the Shareholders; and (ii) strengthen its presence in the property market in the PRC.

As stated in the section headed "1. Background information of the Group" above, the Group has incurred losses for the two years ended 31 March 2021 and recorded profit for FY2022 when the Group's property development business started to generate revenue after completion of the construction of the Tangshang Property in December 2021. In addition, as set out in the 2022 Annual Report, the Group will (i) remain proactive in reviewing its pace of business expansion to maintain its property development business; and (ii) maintain open-minded in identifying new property development projects in the PRC in the coming few years which could strengthen the financial profitability of the Group. As such, we consider that the Acquisition is consistent with the Group's business strategy to seek new property development projects to enhance its earning potential and represents an opportunity for the Group to facilitate the growth of its property development business.

In addition, as disclosed in the 2022 Annual Report, the management team and the Board are highly experienced in the real estate development industry in the PRC and possess significant resources and networks in the PRC which the Company expects to be able to leverage for its future development in the property sub-leasing, development and investment business sector. The Company commenced property development business in 2020 by investing in Dongguan Huachuangwen Land Ltd., which has proven to be a success. The Group ceased making losses because of the property development business. Considering the satisfactory pre-sales result of the Project Company, the Board believes that the Acquisition would be beneficial to the Group's financial results.

Taking into account that (i) the property development business represents a growth potential for the Group in view of the positive trend and outlook of the property market in Puning, the PRC, as set out in the section headed "4. Industry overview" below; (ii) the Acquisition is in line with the business strategy of the Group to further expand its property development business so as to enhance its earning potential and bring a higher return to the Group and the Shareholders; and (iii) the Acquisition enables the Company to leverage the experience of the management of the Company in the real estate development industry in the PRC, we concur with the Directors that the Acquisition is in the interest of the Company and the Shareholders as a whole.

## 4. Industry overview

Set out below are the historical data on (i) the completed investment in property development (全年完成房地產開發投資); (ii) the sales value of commodity properties (商品房銷售金額); and (iii) average selling price of commodity properties, in Puning, the PRC, from 2017 to 2021:

| | **2017** | **2018** | **2019** | **2020** | **2021** | **2017-2021 CAGR** |
|---|---|---|---|---|---|---|
| Completed investment in property development *(in RMB million)* | 3,477.6 | 5,249.6 | 5,996.0 | 8,755.8 | 7,580.0 | 21.5% |
| Sales value of commodity properties *(in RMB million)* | 3,534.5 | 6,589.3 | 7,263.6 | 6,876.6 | 6,575.9 | 16.8% |
| Average selling price of commodity properties *(in RMB per sq. m.)* | 5,902 | 7,083 | 8,126 | 7,964 | 8,697 | 10.2% |

*Source: Puning Bureau of Statistics (普寧市統計局)*

As shown in the table above, total completed investment in property development in Puning exhibited an upward trend from approximately RMB3,477.6 million in 2017 to approximately RMB7,580.0 million in 2021, representing a compound annual growth rate (“**CAGR**”) of approximately 21.5%. This indicated a growing supply of commodity properties on the market. Meanwhile, total sales value of commodity properties in Puning, although decreased in 2020 and 2021, generally increased at a CAGR of approximately 16.8% from approximately RMB3,534.5 million in 2017 to approximately RMB6,575.9 million in 2021. Average selling price of commodity properties in Puning, also increased at a moderate CAGR of approximately 10.2% from approximately RMB5,902 per sq. m. in 2017 to approximately RMB8,697 per sq. m. in 2021. These indicated the growing demand for commodity properties in the PRC was generally in line with the growing supply.

According to Puning Bureau of Statistics, for the ten months ended 31 October 2022, total investment in property development and sales area of commodity properties in Puning decreased by approximately 45.3% and 9.8%, respectively, as compared to the corresponding period in 2021. This was primarily attributable to the recurrent outbreak of COVID-19, the introduction and effecting of various regulations and policies including the “Three Red Lines” policy and recent debt default of certain large property developers which have adversely affected the Chinese property market including the property market in Puning. However, the Directors consider that as economic activities may gradually resume after the pandemic situation is kept under control, the economic fundamentals of Puning as well as the PRC will remain stable. In addition, the Chinese government has also directed to facilitate the positive cycle and healthy development of the property industry and launched policies to provide support, such as encouraging banks to revive bank lending and alleviating the home-purchase restrictions.

In summary, although the growth in the property market in Puning may be sluggish in the current period, taking into account that (i) the recovery of the PRC economy as the COVID-19 has been gradually eased; (ii) the growth in total sales value and average selling price of commodity properties in Puning, the PRC, from 2017 to 2021; and (iii) the Chinese government’s dedication to facilitate the healthy development of the property market, we concur with the Directors that the outlook for the property market in Puning will be cautiously optimistic in the long run.

**5. Principal terms of the Equity Sale and Purchase Agreement and the Convertible Bonds**

***(i) The Equity Sale and Purchase Agreement***

Set out below is a summary of the principal terms of the Equity Sale and Purchase Agreement. The Independent Shareholders are advised to read further details of the Equity Sale and Purchase Agreement as disclosed in the Letter from the Board.

| | | |
|---|---|---|
| Date | : | 31 October 2022 |
| Parties | : | (a) The Company, as the purchaser; and<br><br>(b) Mr. Chen, as the vendor |
| Subject matter | : | The Sales Shares, which represent the total issued share capital of the Target Company. The Target Company will indirectly hold 70% equity interest in the Project Company before Completion. |
| Consideration | : | RMB315,000,000 (equivalent to HK$355,950,000), which shall be satisfied on the Completion Date, as to<br><br>(a) HK$106,800,000 (equivalent to approximately RMB94,513,274) by the issue and allotment of 534,000,000 Consideration Shares at the Issue Price of HK$0.2 per Consideration Share; and<br><br>(b) HK$249,150,000 (equivalent to approximately RMB220,486,726) by the issue of the Convertible Bonds. |

As disclosed in the Letter from the Board, the Consideration was determined and arrived at after arm's length negotiation with reference to the Valuation of the Project Company amounting to approximately RMB450 million, which was prepared based on the management account of the Project Company as at 30 September 2022 adopting the asset-based approach. The Consideration represents 70% of the Project Company Valuation (i.e. RMB450 million).

Conditions precedent : Completion is conditional upon, among other things:

(a) the Company having obtained the approval from its Independent Shareholders in respect of, inter alia, (1) the Acquisition; and (2) the issue of the Consideration Shares and the Convertible Bonds to Mr. Chen pursuant to the terms of the Equity Sale and Purchase Agreement, in the manner required by the Listing Rules;

(b) the Target Company having indirectly held 70% of the equity interest in the Project Company through its wholly-owned subsidiaries; and

(c) the Company having obtained the approval from the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares.

Completion : Completion shall take place within seven business days after fulfilment or waiver (as the case may be) of all the conditions precedent to the Equity Sale and Purchase Agreement, or such other date as the parties to the Equity Sale and Purchase Agreement may agree in writing.

Upon Completion, the Company will hold the total issued share capital in the Target Company and the financial statements of the Target Group will be consolidated into the consolidated financial statements of the Group. The Company will indirectly hold 70% equity interest in the Project Company through the Target Company.

***(ii) The Convertible Bonds***

Upon Completion, the Company will issue the Convertible Bonds to Mr. Chen to settle part of the Consideration. Set out below is a summary of the principal terms of the Convertible Bonds. The Independent Shareholders are advised to read further details of the Convertible Bonds as disclosed in the Letter from the Board.

| | | |
|---|---|---|
| Principal amount | : | HK$249,150,000 |
| Coupon rate | : | Zero |
| Maturity Date | : | The date falling on the fifth anniversary after the issue date of the Convertible Bonds |
| Conversion Price | : | HK$0.2 per Conversion Share (subject to adjustments as mentioned below) |
| Conversion Shares | : | Assuming full exercise of the conversion right attached to the Convertible Bonds at the Conversion Price of HK$0.2 per Conversion Share, the Company will issue a total of 1,245,740,000 Conversion Shares, representing:<br><br>(a) approximately 43.04% of the existing issued share capital of the Company as at the Latest Practicable Date; and |

(b) approximately 26.65% of the issued share capital of the Company as enlarged by the issue and allotment of the Consideration Shares and the Conversion Shares upon full conversion of the Convertible Bonds.

Conversion right : Subject to compliance with the procedures set out in the conditions of the Convertible Bonds, the holders of the Convertible Bonds have the right to convert all or part of the outstanding principal amount of the Convertible Bonds registered in its name into the Conversion Shares at any time commencing from the date of issue up to the maturity date provided that the amount of each conversion shall not be less than an integral multiple of HK$249,150.

The exercise of the conversion right under the Convertible Bonds is subject to the Company meeting the public float requirement under the Listing Rules.

Conversion adjustments (the "**Conversion Adjustment**") : The Conversion Price will be subject to adjustment upon the occurrence of the following events: (a) consolidation, subdivision and reclassification of the Shares; (b) capitalisation of profits or reserves; (c) capital distribution by the Company to the Shareholders; (d) rights issue of the Shares, options or warrants or other securities; (e) issue of the Shares or other securities at a price less than 80% of the market price of the Shares; (f) modification of the rights of conversion, exchange or subscription of securities at a price less than 80% of the market price of the Shares; and (g) other offers made by the Company or its subsidiaries or other persons to the Shareholders in connection with an offer to which the Shareholders are generally entitled to participate.

| | | |
|---|---|---|
| Early redemption | : | The Company shall have the right, as from the expiry of 6 months following the issue date of the Convertible Bonds, to partly or fully redeem the Convertible Bonds early, upon obtaining the written approval from Mr. Chen. The amount payable by the Company to early redeem the Convertible Bonds (or any part thereof) shall be the principal amount being redeemed. |
| Transferability | : | The Conversion Bonds are transferable, subject to the Company meeting the public float requirement under the Listing Rules.<br><br>Though the Convertible Bonds are transferable, Mr. Chen undertakes that he shall not transfer any of the Convertible Bonds to a connected person of the Company. Accordingly, there will be no implications of the connected transaction rules for possible transfer of the Convertible Bonds. |
| Voting rights | : | The Conversion Bonds do not confer any voting right. |
| Listing | : | Application for the listing of, and permission to deal in, the Conversion Shares to be allotted and issued upon exercise of the conversion right under the Convertible Bonds will be made by the Company to the Stock Exchange. |

## 6. Other alternative methods of financing

The Consideration shall be satisfied as to (i) HK$106,800,000 (equivalent to approximately RMB94,513,274) by the issue and allotment of the Consideration Shares; and (ii) HK$249,150,000 (equivalent to approximately RMB220,486,726) by the issue of the Convertible Bonds. This is an approximately 3:7 split (the "**Split**") between equity and debt financing.

Given that the Group only had cash and bank balances of approximately HK$290.9 million as at 30 September 2022, it is not possible to satisfy the entire Consideration of RMB315,000,000 (equivalent to HK$355,950,000) in cash. Though the Company has considered debt financing, such as bank borrowings, to be other possible fund-raising alternatives, the Company is of the view that this will depend on the prevailing market condition, and may be subject to lengthy due diligence and negotiations with banks. As such, the Company considers debt financing to be relatively uncertain and time-consuming as compared to equity financing. In addition, taking into account the requirement of interest payments and working capital requirement, the Company is of the view that obtaining further bank borrowings to finance the Acquisition, which would reduce banking facilities otherwise available for other working capital requirements, is not in the interests of the Shareholders.

The Company has also considered other alternatives of equity financing for the Acquisition which would not affect the cash and debt position of the Group, including a private placement of Shares to independent third party investors or a rights issue or open offer to the existing Shareholders. A private placement has a similar dilutive potential as an issue to a connected person. However, private placements are also normally made at a significant discount to current market price, say around 10%, whereas the issue of the Consideration Shares and Conversion Shares is priced at a premium to the Share price. As regards a rights issue or open offer, the Company has considered such factors as (i) the price of a rights issue or open offer would normally involve a substantial discount to market, based on the discounts involved for recent rights issues and open offers of companies listed on the Stock Exchange; (ii) the large size of the rights issue or open offer which would be required; (iii) the likely costs involved (including the amount of underwriting commissions and other administrative and legal expenses); and (iv) the lack of certainty in the successful implementation of a rights issue or open offer with their longer timetable. On this basis, the Company did not consider a rights issue or open offer as appropriate means of raising fund for the Acquisition.

In light of the above, we concur with the Directors that the issue of the Consideration Shares and the Convertible Bonds to satisfy the Consideration allow the Group to maintain its financial flexibility and reserve sufficient working capital for its daily business operations. In determining the split between the Consideration Shares and the Convertible Bonds, the Directors have considered both the dilution impact on the shareholdings of the existing Shareholders and the impact on the Group's gearing ratio.

Taking into account (i) the size of the Acquisition; (ii) the internal resources and working capital requirement of the Group; (iii) the potential lengthy negotiations with banks for any debt financing and the requirement of interest payments for any bank borrowing, as compared to the zero-coupon Convertible Bonds; (iv) the potential significant discount of the price of a private placement or a rights issue or open offer to the current market price, as compared the premiums of the Issue Price over the historical Share prices; and (v) the impact on the shareholdings of the existing Shareholders and the gearing ratio of the Group, we consider the Split to be an appropriate method of financing.

**7. Valuation of the Property**

The Consideration was determined and arrived at after arm's length negotiation with reference to the valuation of the Project Company of approximately RMB450.0 million, which was prepared based on the management account of the Project Company as at 30 September 2022 adopting the asset-based approach. The carrying amount of the Property was approximately RMB1,424.2 million as at 30 September 2022. The Property was valued by the Valuer at RMB1,875.0 million as at 30 September 2022 and RMB1,905.0 million as at 31 October 2022. The full text of the Valuation Report on the valuation of the Property as at 31 October 2022 and certificate dated 20 January 2023 is set out in Appendix IV to the Circular, and Independent Shareholders are recommended to read in full.

We have conducted an interview with the Valuer to enquire their qualification and experience in valuing similar property interests in the PRC and their independence. From the mandate letter and other relevant information provided by the Valuer, we noted that the Valuer is a qualified asset appraisal firm to perform valuation works in the PRC, and the responsible person of the Valuer, is a registered professional surveyor in general practice division with over 26 years' valuation experience on properties in Hong Kong and the PRC. We have also enquired with the Valuer as to their independence from the Group, Mr. Chen and the Target Group, and were given to understand that the Valuer is independent of the Group, Mr. Chen and the Target Group. The Valuer confirmed that they were not aware of any relationship or interest between themselves and the Group, Mr. Chen and the Target Group or any other parties that would reasonably be considered to affect their independence to act as the independent valuer for the Company. The Valuer also confirmed that apart from normal professional fees paid or payable to them in connection with their appointment as the Valuer, no arrangements exist whereby they will receive any fees or benefits from the Group, Mr. Chen or the Target Group. We have also reviewed the terms of engagement of the Valuer, in particular to their scope of work. We noted that their scope of work is appropriate to form the opinion required to be given and there are no limitations on the scope of work which might adversely impact on the degree of assurance given by the Valuer in the Valuation Report. We have also performed work as required under note (1)(d) to the Listing Rule 13.80 in relation to the Valuer and its work as regards the Valuation. Based on the above, we are satisfied with the terms of engagement of the Valuer as well as their qualification and experience for performing the Valuation, and we are of the view that the scope of work of the Valuer is appropriate.

The Valuer confirmed that subject to the current pandemic conditions, they were unable to perform a site visit to the Property. Instead, they had inspected the Property by means of video conference in October 2022. We have discussed with the management of the Group to understand the latest status as well as the latest development and funding plans of the Property.

When arriving at the Valuation, the Valuer has valued the Property on the basis that the Property will be developed and completed in accordance with the latest development scheme and adopted the direct comparison approach by making reference to comparable sales evidences as available in the relevant market and taking into account the expended and outstanding construction costs to reflect the quality of the completed development. As stated in the Valuation Report, the valuation is conducted in compliance with Chapter 5 and Practice Note 12 of the Listing Rules and the HKIS Valuation Standards 2020 issued by the Hong Kong Institute of Surveyors. We have reviewed and discussed with the Valuer regarding the methodology, basis and assumptions adopted in arriving at the value of the Property. As advised by the Valuer, since the Property comprised of three parts, namely, residential units, retail units and car parking spaces, different comparable properties are selected based for different parts of the Property. As such, comparable properties are selected based on similar characteristics of the Property such as location, usage, grade and pricing status (i.e. whether the sales price is an asking price or a pre-selling price). Given that (i) the comparable properties are all located within close proximity to the Property with the same usage; (ii) the transaction dates of the comparable properties are close to the valuation date; and (iii) the Valuer has made necessary adjustments based on factors, which include, among others, differences in location, size, quality and pricing status between the comparable properties and the Property, we consider the comparable properties are appropriate for determining the valuation of the Property. In addition, as the Property was under construction as at the valuation date, the total construction cost incurred and total budget construction cost were taken into account in compiling the Valuation.

Taking into account that (i) the comparable properties are appropriately selected for valuation of the Property; (ii) the adjustment factors applied on arriving the valuation, are commonly adopted in valuation of the Property; (iii) the adjustments were applied based on the Independent Valuer's professional judgment and experience and in accordance with the HKIS Valuation Standards; (iv) the construction status as to the construction cost incurred and budgeted were taken into account, we consider the methodology of the Valuation of the Property is appropriate.

As part of our due diligence, we have also reviewed the valuation methodologies adopted for similar types of properties of certain property companies and noted that the methodology adopted in the Valuation Report is usual. Taking into consideration of the nature of the Property and that the Valuation is conducted in accordance with the aforesaid requirements, we consider that the methodology, basis and assumptions adopted by the Valuer for determining the value of the Property are appropriate and the Valuation is fair and reasonable so far as the Independent Shareholders are concerned.

**8. Evaluation of the Consideration**

***(i) Basis of the Consideration***

The Consideration is RMB315,000,000 (equivalent to HK$355,950,000), which was determined with reference to the valuation of the Project Company of approximately RMB450 million, which was prepared based on the management account of the Project Company as at 30 September 2022.

As discussed in the sub-section headed "2. Information of the Target Group and the Property – (i) The Target Group" above, the Project Company is principally engaged in property development in the PRC and its net asset value as at 30 September 2022 primarily consisted of (a) the Property; (b) prepayment, deposits and other receivables; (c) cash and bank balances; and (d) contract liabilities. Taking into account (a) the significant property interests held by the Project Company; (b) that the Project Company has not yet generated any revenue since its establishment on 16 January 2020 up to 30 September 2022; (c) that the Target Company, Hong Kong Holding Company and PRC Holding Company are investment holding companies with no business; and (d) that Mr. Chen will, through the Target Company acquire 70% equity interest in the Project Company from Shenzhen Yaoling at the consideration of RMB315,000,000 (i.e. the same amount as the Consideration of the Acquisition) before Completion, we consider that it is appropriate to use the reassessed net asset value of the Project Company (the "**Reassessed NAV**") to assess the Consideration.

Set out below is the computation of the Reassessed NAV of 100% equity interest of the Project Company as at 30 September 2022:

| | *RMB'000* *(Approximate)* |
|---|---|
| Audited net asset value of the Project Company as at 30 September 2022 *(Note 1)* | 336,161 |
| Add: Net revaluation surplus arising from the valuation of the Property attributable to the Project Company as at 30 September 2022 *(Note 2)* | 450,807 |
| Less: Deferred tax liability on the net revaluation surplus attributable to the Project Company *(Note 3)* | (49,791) |
| Less: Provision of profit tax on the net revaluation surplus attributable to the Project Company *(Note 4)* | (100,254) |
| **Equity value of the Project Company as at 30 September 2022** | **636,923** |
| Less: Discount for lack of marketability ("**DLOM**") of 20.6% *(Note 5)* | (131,206) |
| **The Reassessed NAV of the Project Company** | **505,717** |
| Equity interest of the Project Company to be acquired under the Acquisition | 70% |
| **The Group's share of the Reassessed NAV of the Project Company under the Acquisition** | **354,002** |
| The Consideration | 315,000 |
| **Discount of the Consideration to the Group's share of the Reassessed NAV of the Project Company under the Acquisition** | **11.02%** |

*Notes:*

1. Extracted from Appendix II to the Circular.

2. Represents the revaluation surplus arising the difference between the valuation of the Property of RMB1,875 million as at 30 September 2022 and the audited carrying amount of the Property of approximately RMB1,424.2 million as at 30 September 2022 as extracted from Appendix II to the Circular (the "**Net Revaluation Surplus**").

3. Represents the deferred tax liability on the Net Revaluation Surplus with reference to《土地增值稅清算管理規程》and other PRC publications on land appreciation tax.

4. Represents the provision for profit tax which is calculated as the Net Revaluation Surplus minus the deferred tax liability then multiplying by the PRC profit tax rate of 25%.

5. Refers to the average of discounts for lack of marketability for 759 private placement transactions of unregistered common stock issued by publicly traded companies from July 1980 through December 2019 as extracted from the 2021 edition of the Stout Restricted Stock Study Companion Guide (the "**Stout Study**") published by Stout Risius Ross, LLC which we consider a reliable reference given it is global investment bank and advisory firm specialising in corporate finance, valuation, financial disputes and investigations with offices located in Asia, Europe and North America. Although the average of discounts for lack of marketability is determined with reference to samples which are dated more than three years ago, taking into account that (a) the marketability discount of approximately 20.6% is with reference to the 2021 edition of the Stout Restricted Stock Study Companion Guide which is published only one year before the date of the Valuation and there is generally a time lag between the data collection and publication; and (b) the adoption of discounts for lack of marketability with reference to the Stout Study is common in certain valuation reports for acquiring a private company by companies listed on the Stock Exchange, we consider that such average of discount for lack of marketability as extracted from the Stout Study is appropriate and representative for the computation of the Reassessed NAV.

As shown above, the Consideration represents a discount of approximately 11.02% to the Group's share of the Reassessed NAV of the Project Company under the Acquisition based on the independent valuation of the Property prepared by the Valuer.

The Valuer has adopted the direct comparison approach in valuing the Property as at 30 September 2022 which we consider appropriate in estimating the market value of the Property. For details of our assessment on the appropriateness of the valuation methodology adopted by the Valuer, please refer to the section headed "7. Valuation of the Property" above.

Based on the above, we consider the Consideration to be fair and reasonable.

***(ii) The Consideration Shares***

Pursuant to the Equity Sale and Purchase Agreement, part of the Consideration in the sum of HK$106,800,000 is to be satisfied by the allotment and issue of 534,000,000 Consideration Shares (the "**Share Issue**") at the Issue Price of HK$0.2 per Consideration Share by the Company to Mr. Chen at Completion. As disclosed in the Letter from the Board, the Issue Price was determined after arm's length negotiation between the Company and Mr. Chen Weiwu with reference to the recent price performance of the Shares and the prevailing market conditions.

(a) *Price comparison of the Issue Price*

The Issue Price of HK$0.2 per Consideration Share represents:

(1) a premium of approximately 9.89% over the closing price of HK$0.182 per Share as quoted on the Stock Exchange on 31 October 2022, the date of the Equity Sale and Purchase Agreement (the "**Last Trading Day**");

(2) a premium of approximately 10.13% over the average closing price of approximately HK$0.1816 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Day;

(3) a premium of approximately 8.46% over the average closing price of approximately HK$0.1844 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;

(4) a premium of approximately 2.46% over the average closing price of approximately HK$0.1952 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day;

(5) a premium of approximately 2.35% over the average closing price of approximately HK$0.1954 per Share as quoted on the Stock Exchange for the last 60 consecutive trading days up to and including the Last Trading Day;

(6) a premium of approximately 8.81% over the average closing price of approximately HK$0.1838 per Share as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the Last Trading Day;

(7) a premium of approximately 26.18% over the average closing price of approximately HK$0.1585 per Share as quoted on the Stock Exchange for the last 180 consecutive trading days up to and including the Last Trading Day;

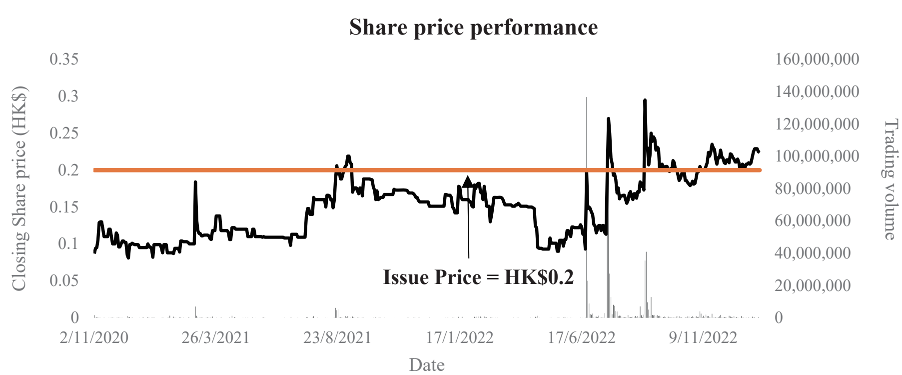
(8) a premium of approximately 27.88% over the average closing price of approximately HK$0.1564 per Share as quoted on the Stock Exchange for the last 360 consecutive trading days up to and including the Last Trading Day;

(9) a discount of approximately 10.71% to the closing price of HK$0.224 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and

(10) a premium of approximately 8.40% over the unaudited NAV per Share of approximately HK$0.1845 per Share as at 30 September 2022.

*(b) Analysis of the historical Share price performance*

Set out below is a chart of the closing prices of the Shares on the Stock Exchange for the period from 2 November 2020 to the Last Trading Day (the "**Review Period**") and up to the Latest Practicable Date, being approximately two years preceding the Last Trading Day:




*Source: Bloomberg*

As shown in the chart above, during the Review Period, the Share price fluctuated between HK$0.081 per Share (on 10 December 2020) and HK$0.295 per Share (on 31 August 2022) and generally closed below the Issue Price (454 trading days, accounting for approximately 91.9% of a total of 494 trading days during the Review Period). The average closing price of the Shares during the period from 2 November 2020 (i.e. the beginning of the Review Period) to 31 October 2022 (i.e. the Last Trading Day) were approximately HK$0.1430 per Share, representing a discount of approximately 28.50% to the Issue Price of HK$0.2 per Consideration Share.

Following the announcement relating to the possible acquisition of the Target Company on 31 August 2022 and up to the Last Trading Day, the Share price had been trading between HK$0.179 and HK$0.25 per Share, which were relatively high as compared to the prior period in the Review Period. The Share price closed at HK$0.182 per Share on 31 October 2022, the Last Trading Day. Immediately after the publication of the announcement after trading hours on 31 October 2022 in relation to the Acquisition, the Share price rose to HK$0.19 per Share on 1 November 2022, representing an increase of approximately 4.4% over the previous trading day, indicating a positive market reaction on the Acquisition. Since then and up the Latest Practicable Date, the Share price fluctuated between HK$0.19 and HK$0.235 per Share. As at the Latest Practicable Date, the Share price closed at HK$0.224 per Share, representing a premium of approximately 12.0% over the Issue Price.

Taking into account that (a) the Issue Price represents a considerable premium of approximately 49.81% over the audited NAV per Share of approximately HK$0.1335 as at 31 March 2022; (b) the premiums of the Issue Price over the closing Share prices for various periods in the 360 trading days up to and including the Last Trading Day are significant, in the range of approximately 2.35% to 27.88%; and (c) the Share price generally closed below the Issue Price (454 trading days, accounting for approximately 91.9% of a total of 494 trading days) during the Review Period, we consider that the Issue Price is fair and reasonable as far as the Independent Shareholders are concerned.

***(iii) The Convertible Bonds***

Pursuant to the Equity Sale and Purchase Agreement, part of the Consideration in the amount of HK$249,150,000 (equivalent to approximately RMB220,486,726) is to be satisfied by the issue of the Convertible Bonds upon Completion.

In evaluating the fairness and reasonableness of the principal terms of the Convertible Bonds, we have, on a best effort basis, researched and identified an exhaustive list of convertible bonds or notes (the "**Comparable CBs**") issued or to be issued by companies listed on the Stock Exchange as consideration for acquisitions conducted by the respective listed companies which were announced during the period from 1 May 2021 to the Last Trading Day (being approximately 1.5 year) (the "**Comparable Period**"). Based on the aforesaid criteria, we have identified an exhaustive list of 13 Comparable CBs.

The Independent Shareholders should note that the principal business, market capitalisation, profitability and prospects of the Company and the terms of the Convertible Bonds are not the same as, or even substantially vary from, those of the Comparable CBs and their respective issuers. We consider that the Comparable CBs, whether issued to connected persons or independent third parties, are relevant to our analysis given they are providing a general reference on recent market practice or normal commercial terms.

We consider that the Comparable CBs represent fair and representative samples given (a) the Comparable CBs adequately cover the prevailing market conditions and sentiments of the capital market in Hong Kong; (b) the Comparable CBs identified during the Comparable Period represent recent structures of convertible bonds or notes issued as consideration for acquisitions by companies listed on the Stock Exchange; (c) similarity of the nature of the convertible bond or note exercises; and (d) the sufficient number (i.e. size of 13) of the Comparable CBs identified.

Details of the Comparable CBs are set out below:

| Date of initial announcement | Company name (stock code) | Principal amount | Connected transaction *(Yes/No)* | Term to maturity *(Number of years)* | Coupon rate *(p.a.)* | Premium of the conversion price over the closing price per share on/prior to the date of agreements | Premium of the conversion price over the average closing price per share for the last five consecutive trading days prior to/up to and including the date of agreement | Premium/(discount) of the conversion price over/(to) the average closing price per share for the last ten consecutive trading days prior to/up to and including the date of agreement | Major adjustment events on conversion price |
|---|---|---|---|---|---|---|---|---|---|
| 30 September 2022 | China CBM Group Company Limited (8270.HK) | HK$11,000,000 | Yes | 2 | 0% | 0.48% | 0% | 0% | Share consolidation or subdivision, capitalisation of profits or reserves, capital distribution and issue shares wholly for cash at a price less than 90% of the market price |
| 28 September 2022 | Titan Invo Technology Limited (872.HK) | HK$26,500,000 | No | 3 | 5% | 10.42% | 9.69% | 8.25% | Not disclosed |
| 19 August 2022 | Central Development Holdings Limited (475.HK) | HK$52,000,000 | Yes | 3 | 0% | 0% | 0.82% | (0.27%) | Share consolidation, subdivision or reclassification, capitalisation of profits and reserves and rights issue of shares or options over shares |
| 11 July 2022 | Town Health International Medical Group Limited (3886.HK) | HK$356,000,000 | No | 2 *(Note)* | 0% | 53.54% | 63.09% | 64.86% | Share consolidation or subdivision, issue of Shares by way of capitalisation of profits or reserves, capital or reserve distribution, rights issue of or options over shares, rights issue of other securities, issue of Shares and other securities at less than conversion price and modification of conversion rights |
| 23 May 2022 | Beaver Group (Holding) Company Limited (8275.HK) | HK$10,000,000 | No | 2 | 2.5% | 33.33% | 30.29% | 38.65% | Share consolidation or subdivision, capitalisation of profits or paying a scrip dividend, capital distribution, issue shares by way of rights, options or warrants to subscribe for new shares at less than 90% of the current market price, issue of any securities by way of rights, issue any options or warrants to subscribe new shares at a price less than 90% of the current market price, issue of any securities wholly for cash which carry rights of conversion into or subscription for shares at a consideration per share less than 90% of the current market price, modification of the rights of conversion, exchange, subscription or redesignation attaching to any such securities as mentioned above so that the consideration per share is less than 90% of the current market price |
| 21 April 2022 | Ibo Technology Company Limited (2708.HK) | HK$24,509,804 | No | 2 | 0% | 3.32% | 0% | 0.48% | Share consolidation or subdivision, capitalisation of profits or reserves, capital distribution and offer new shares for subscription by way of rights or grant any options or warrants to subscribe for new shares at a price less than 80% of the market price |

| Date of initial announcement | Company name (stock code) | Principal amount | Connected transaction *(Yes/No)* | Term to maturity *(Number of years)* | Coupon rate *(p.a.)* | Premium of the conversion price over the closing price per share on/prior to the date of agreements | Premium of the conversion price over the average closing price per share for the last five consecutive trading days prior to/up to and including the date of agreement | Premium/(discount) of the conversion price over/(to) the average closing price per share for the last ten consecutive trading days prior to/up to and including the date of agreement | Major adjustment events on conversion price |
|---|---|---|---|---|---|---|---|---|---|
| 26 October 2021 | China Rongzhong Financial Holdings Company Limited (3963.HK) | HK$3,811,500 | Yes | 3 | 0% | 19.38% | 10.79% | 12.41% | Share consolidation or subdivision or reclassification, capitalisation of profits or reserves and capital distribution |
| 21 October 2021 | Apex Ace Holding Limited (6036.HK) | HK$20,000,000 | Yes | 5 | 0.5% | 18.64% | 16.67% | 18.64% | Share consolidation or subdivision, capitalisation of profits or reserves, capital distribution, rights issues of shares and other securities or rights to acquire shares, issues at less than current market price, issue of convertible securities, modification of rights of conversion etc, other offers to shareholders, issue shares for the acquisition of any asset at a total effective consideration per share which is less than 90% of the then market price, issue of shares by way of a scrip dividend and when the company or bondholder determines that an adjustment should be made |
| 19 October 2021 | Jinxin Fertility Group Limited (1951.HK) | HK$1,814,706,000 | No | 1.4 | 0.75% | 20.19% | 21.63% | 24.79% | Share consolidation or subdivision of Shares, capitalisation of profits or reserves, capital distribution, rights issue of or options over shares, rights issue of other securities, issue of shares in cash at a price less than 80% of the relevant market price, other issue of securities at less than at a price less than the relevant market price, modification of conversion rights, other offers to the shareholders and other adjustment supported by the determination of the approved investment bank at the request of the company |
| 23 September 2021 | InvesTech Holdings Limited (1087.HK) | HK$30,000,000 | Yes | 3 | 1.5% | 6.38% | 4.31% | 3.38% | Alteration to the value of shares due to consolidation or subdivision, issue (other than in lieu of a cash dividend) of shares credited as fully paid, capital distribution and the issue, grant or modification of shares, securities, options, warrants or other rights for any purpose at a price less than 95% of the fair market value and other offers to shareholders |
| 9 August 2021 | DeTai New Energy Group Limited (559.HK) | HK$185,201,000 | No | 2 | 0% | 0% | 6.88% | 29.67% | Share consolidation or sub-division, capitalisation of profits or reserves, capital distribution, rights issue or options at less than 80% of the current market price, rights issue of other securities, issue or grant any options, warrants or other rights to subscribe for or purchase shares at a price which is less than 80% of the current market price |

| Date of initial announcement | Company name (stock code) | Principal amount | Connected transaction (Yes/No) | Term to maturity (Number of years) | Coupon rate (p.a.) | Premium of the conversion price over the closing price per share on/prior to the date of agreements | Premium of the conversion price over the average closing price per share for the last five consecutive trading days prior to/up to and including the date of agreement | Premium/(discount) of the conversion price over/(to) the average closing price per share for the last ten consecutive trading days prior to/up to and including the date of agreement | Major adjustment events on conversion price |
|---|---|---|---|---|---|---|---|---|---|
| 9 July 2021 | Expert Systems Holdings Limited (8319.HK) | HK$75,600,000 | Yes | 5 | 2.5% | 5.66% | 7.01% | 9.80% | Share subdivision or consolidation or reclassification, capitalisation of profits or reserves, capital distribution, rights issues, issue of shares or other securities at a price less than current market price, modification of rights of conversion and other offers to shareholders |
| 11 June 2021 | VBG International Holdings Limited (8365.HK) | HK$30,000,000 | No | 2 | 5% | 11.11% | 11.11% | 12.99% | Customary adjustment provisions |
| | | | **Max** | 5 | 5% | 53.54% | 63.09% | 64.86% | |
| | | | **Min** | 1.4 | 0% | 0% | 0% | (0.27%) | |
| | | | **Average** | 2.7 | 1.37% | 14.03% | 14.02% | 17.20% | |
| | | | **Median** | 2 | 0.5% | 10.42% | 9.69% | 12.41% | |
| **31 October 2022** | **The Company** | **HK$249,150,000** | **Yes** | **5** | **0** | **9.89%** | **10.13%** | **8.46%** | Share consolidation, sub-division and reclassification, capitalisation of profits or reserves, capital distribution, rights issues of shares, options, warrants or other securities, issue or modification of shares, other securities or rights at a price less than 80% of the market price and other offers made to shareholders |

*Source: the website of the Stock Exchange*

*Note:* calculated as the average of the maturity dates of 1, 2 and 3 years of three tranches of the convertible bond, respectively.

*(a) Maturity and coupon rate*

As shown in the table above, the Comparable CBs have maturity terms ranging from approximately 1.4 years to 5 years with coupon rates between zero to 5% per annum. The maturity term and coupon rate of the Convertible Bonds are five years and zero, respectively, which are in line with the market and the zero coupon rate is more favorable than most of the Comparable CBs. We consider the setting of a longer maturity term of five years with zero coupon rate for the Convertible Bonds will allow the Company to avoid a cash outflow in short term and save immediate finance costs as well as potential refinancing costs in the future.

*(b) Conversion price*

The Conversion Price of HK$0.2 per Conversion Share equals to the Issue Price, which represents significant premium over the closing Share prices for various periods in the 360 trading days up to and including the Last Trading Day as well as the audited NAV per Share, in the range of approximately 2.35% to 49.81%, as mentioned in the sub-section headed "8. Evaluation of the Consideration – (ii) The Consideration Shares – (a) Price comparison of the Issue Price" above.

As shown in the table above, the conversion prices of the Comparable CBs ranged from:

(1) equivalent price to a premium of approximately 53.54% over the closing price per share on/prior to the date of agreement, with an average and a median of a premium of approximately 14.03% and 10.42%, respectively;

(2) equivalent price to a premium of approximately 63.09% over the average closing price per share for the last five consecutive trading days prior to/up to and including the date of agreement, with an average and a median of a premium of approximately 14.02% and 9.69%, respectively; and

(3) a discount of approximately 0.27% to a premium of approximately 64.86% to/over the average closing price per share for the last ten consecutive trading days prior to/up to and including the date of agreement, with an average and a median of a premium of approximately 17.20% and 12.41%, respectively.

The premiums, as represented by the Conversion Price over the closing price per Share on the Last Trading Day and the average closing price per Share for the last five and ten consecutive trading days up to and including the Last Trading Day, are approximately 9.89%, 10.13% and 8.46%, respectively, which are within the ranges, and close to the averages and medians, of those of the Comparable CBs.

Based on the above, we consider the Conversion Price to be fair and reasonable.

*(c) Adjustments to conversion price*

Pursuant to the terms of Convertible Bonds, the Conversion Price will be subject to adjustment upon the occurrence of, among other things, (1) consolidation, subdivision and reclassification of the Shares; (2) capitalisation of profits or reserves; (3) capital distribution by the Company to the Shareholders; (4) rights issue of the Shares, options or warrants or other securities; (5) issue of the Shares or other securities at a price less than 80% of the market price of the Shares; (6) modification of the rights of conversion, exchange or subscription of securities at a price less than 80% of the market price of the Shares; and (7) other offers made by the Company or its subsidiaries or other persons to the Shareholders in connection with an offer to which the Shareholders are generally entitled to participate.

In assessing the fairness and reasonableness of the adjustment terms of the Convertible Bonds, we have reviewed the relevant adjustment terms of the Comparable CBs and noted that the conversion prices of the Comparable CBs are subject to adjustment upon occurrence of similar adjustment events as the Convertible Bonds including, among other things, share consolidation, subdivision or reclassification, capitalisation of profits or reserves, capital distribution, rights issue, issue/modification of shares or other securities at a price less than a certain percentage of current market price and other offers made to the shareholders. Therefore, we consider that the adjustment terms of the Convertible Bonds on the Conversion Price are usual and normal which are comparable to those of other convertible bonds in the market.

**9. Financial effects of the Acquisition**

Upon Completion, the Target Company shall become a wholly-owned subsidiary of the Company and the financial statements of the Target Group shall be consolidated into the consolidated financial statements of the Company. The unaudited pro forma financial information of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**") is set out in Appendix III to the Circular.

*(i) Earnings*

The construction of the project on the Puning Land has been completed in 2022 and part of the units have been delivered as of the Latest Practicable Date. As disclosed in the Letter from the Board, the Project Company has already launched pre-sale of the Property and received good responses from the market. As of 31 December 2021, approximately 70% of the total number of sellable units were sold; as of 30 June 2022, the sale amount of the project already amounted to approximately RMB1,735 million, with only approximately RMB588 million worth of properties unsold, and the contract liabilities further increased to approximately RMB1,744.0 million as at 30 September 2022. Upon Completion, the financial statements of the Target Group will be consolidated into the consolidated financial statements of the Company and 70% of the net profit of the Project Company will be attributable to the Company. The Directors expect that the Project Company would contribute to the results to the Group as the Property completes construction and the residential and commercial units in the Property are gradually delivered or leased out.

*(ii) Equity attributable to the Shareholders*

As set out in the Unaudited Pro Forma Financial Information, assuming Completion took place on 30 September 2022, the pro forma consolidated equity attributable to the Shareholders ("**NAV**") would be approximately HK$854.9 million, representing an increase of approximately 60.1%, from approximately HK$534.1 million as at 30 September 2022. The pro forma NAV upon Completion has taken into account, among other things, the acquisition of the Target Company, the Share issue and the issue of the Convertible Bonds.

We set out below the NAV and pro forma NAV, on a per Share basis, of the Group based on the Unaudited Pro Forma Financial Information:

| | **The Group as at 30 September 2022** | **The Group immediately upon Completion** |
|---|---|---|
| NAV *(HK$)* | 534,139,887 | 854,939,000 |
| Total number of Shares in issue | 2,894,466,570 | 3,428,466,570 |
| **NAV per Share *(HK$)*** | **0.1845** | **0.2494** |
| **Percentage increase in NAV per Share** | | **35.2%** |

As shown in the table above, the pro forma NAV per Share is expected to be increased by approximately 35.2% to approximately HK$0.2494 immediately upon Completion, since the Issue Price of the Consideration Shares of HK$0.2 per Consideration Share is higher than the NAV per Share of HK$0.1845 as 30 September 2022.

***(iii) Gearing***

The gearing ratio of the Group, defined as the sum of total bank and other borrowings, bill payables and convertible bonds minus cash and bank balances and divided by total equity attributable to the Shareholders, is expected to remain net cash position after Completion, primarily attributable to the liabilities portion related to the issue of the Convertible Bonds is expected to be offset by the increase in cash and bank balances of the Target Company.

***(iv) Working capital***

As at 30 September 2022, the Group has cash and bank balances of approximately HK$290.9 million. Given that all of the Consideration is to be satisfied by the issue of the Consideration Shares and the zero-coupon Convertible Bonds with a maturity of five years, we consider that the Acquisition would not have a material impact on the working capital of the Group.

The Directors confirm that, after due and careful enquiry and taking into account the existing cash and bank balances, internal resources, available credit facilities and the effect of the transactions, the Group will have sufficient working capital for its present requirements for a period of 12 months from the date of the Circular.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial performance and position of the Group will be upon Completion.

**10. Shareholding structure**

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Completion and the issue and allotment of the Consideration Shares; and (iii) immediately after the Completion and the allotment and issue of the Consideration Shares and the Conversion Shares (assuming no further Shares are issued between the Latest Practicable Date and the Completion Date):

| | **As at the Latest Practicable Date** | | **Immediately after the Completion and the allotment and issue of the Consideration Shares** | | **Immediately after the Completion and the allotment and issue of the Consideration Shares and the Conversion Shares** *(Note)* | |
|---|---|---|---|---|---|---|
| | *No. of Shares* | *Approx. %* | *No. of Shares* | *Approx. %* | *No. of Shares* | *Approx. %* |
| Mr. Chen Weiwu | 1,451,654,977 | 50.15 | 1,985,654,977 | 57.92 | 3,231,404,977 | 69.13 |
| Shenzhen Yaoling | 585,600,000 | 20.23 | 585,600,000 | 17.08 | 585,600,000 | 12.53 |
| Public Shareholders | 857,211,593 | 29.62 | 857,211,593 | 25.00 | 857,211,593 | 18.34 |
| **Total** | **2,894,466,570** | **100.00** | **3,428,466,570** | **100.00** | **4,674,216,570** | **100.00** |

*Note:*

For illustration purpose only. In practice, the issue of the Conversion Shares is subject to the Company meeting the public float requirement under the Listing Rules.

Assuming that there was no further issue of Shares between the Latest Practicable Date and the Completion Date, the shareholding in the Company held by existing public Shareholders would be diluted from approximately 29.62% as at the Latest Practicable Date to approximately 25.00% upon Completion and allotment and issue of the Consideration Shares. It should be noted that the exercise of the conversion right under the Convertible Bonds by Mr. Chen is subject to the Company meeting the public float requirement under the Listing Rules. Hence, the Convertible Bonds would not be convertible into Conversion Shares immediately upon Completion. Following Completion, although the shareholding of the existing public Shareholders will be diluted by approximately 4.62 percentage point, the Independent Shareholders would be able to enjoy interests in the Target Company and therefore the Property, which is expected to contribute to the results of the Group following completion of construction of the Property and the delivery or leasing of the residential and commercial properties in the future.

Taking into account that (i) the terms of the Equity Sale and Purchase Agreement (including the Consideration, the Issue Price and the Conversion Price) are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole as discussed in the section headed "8. Evaluation of the Consideration" above; (ii) the reasons for and benefits of the Acquisition as discussed in the section headed "3. Reasons for and benefits of the Acquisition" above, in particular the Shareholders would be able to enjoy interests in the Target Company which is expected to contribute positively to the results of the Group; (iii) the issue of the Consideration Shares and the zero-coupon Convertible Bonds instead of cash payment for the Consideration will not cause cash outflow of the Company and thereby minimise the impact of the Acquisition on the cashflow and working capital of the Group, which in turns maintain the financial flexibility of the Group for further business development when suitable opportunities arise; and (iv) the exercise of the conversion right under the Convertible Bonds by Mr. Chen is subject to the Company meeting the public float requirement under the Listing Rules and hence the shareholding of the existing public Shareholders will only be diluted by approximately 4.62 percentage point immediately upon Completion, we consider that the dilution effect on the shareholding of the existing public Shareholders to be acceptable.

## OPINION AND RECOMMENDATION

In arriving at our recommendation in respect of the Equity Sale and Purchase Agreement and the Acquisition, we have considered the principal factors and reasons as discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- **Expansion of the Group's existing property development business**

  After completion of the Restructuring and the Previous Acquisitions, the Group's core business segments comprise the property sub-leasing and investment business in Beijing, the PRC, and the property development business through its 90% equity interest in the Huachuangwen Land. While the property sub-leasing and investment business will continue to provide a stable revenue stream to the Group, the property development business has become a growth driver for the Group as evidenced by the turnaround in profit for FY2022 and 2022H1 which was attributable to the revenue generated from the Tangshang Property. The Project Company has also launched pre-sale of the Property and received good responses from the market, with contract liabilities amounted to approximately RMB1,744.0 million as at 30 September 2022 which represented the pre-sale amount of development properties received from customers. The construction of the project on the Puning Land has been completed in 2022 and part of the units have been delivered as of the Latest Practicable Date.

  As disclosed in the 2022 Annual Report, the Group will (i) remain proactive in reviewing its pace of business expansion to maintain its property development business; and (ii) maintain open-minded in identifying new property development projects in the PRC in the coming few years which could strengthen the financial profitability of the Group. As such, we consider that the Acquisition is in line with the business strategy of the Group to further expand its property development business so as to achieve sustainable growth of the Group.

- **Industry outlook**

  The Puning Land is located at the intersection of Beihuan Avenue and Tielanshan Road, Puning City, the PRC.

  During the period from 2017 to 2021, with a moderate growth in supply of commodity properties as evidenced by the amount of completed investment in property development, the average selling price of commodity properties in Puning also increased at a CAGR of approximately 10.2%, indicating a steady demand for properties. According to Puning Bureau of Statistics, for the ten months ended 31 October 2022, the property market in Puning was retracted as compared to the corresponding period in 2021 with decrease in both total investment in property development and sales area. This was primarily attributable to the recurrent outbreak of COVID-19, the introduction and effecting of various regulations and policies including the "Three Red Lines" policy and recent debt default of certain large property developers which have adversely affected the Chinese property market, including the property market in Puning.

Nonetheless, while the growth in Puning's property market may be sluggish in the current period, we consider that the outlook for the property market in Puning, the PRC, will be cautiously optimistic in the long run, providing a favorable environment for the Group's property development business.

- **Consideration**

The Consideration of RMB315,000,000 was determined with reference to the Valuation of the Project Company of approximately RMB450.0 million, which was prepared based on the management account of the Project Company as at 30 September 2022 and the 70% equity interest in the Project Company held by the Target Company. The Consideration represents a discount of approximately 11.02% to the Group's share of the Reassessed NAV of the Project Company under the Acquisition based on the independent valuation of the Property which is conducted by the Valuer based on the direct comparison approach. We consider the valuation methodology adopted by the Valuer is appropriate.

The Consideration shall be satisfied as to (i) HK$106,800,000 (equivalent to approximately RMB94,513,274) by the issue and allotment of the Consideration Shares; and (ii) HK$249,150,000 (equivalent to approximately RMB220,486,726) by the issue of the Convertible Bonds. This is an approximately 3:7 split between equity and debt financing. In view of the size of the Acquisition, the internal resources and working capital requirement of the Group, the potential lengthy negotiations with banks for any debt financing which may not be in favorable terms and the impact on the shareholdings of the existing Shareholders and the gearing ratio of the Group, we regard this Split to be an appropriate method of financing.

- **Issue Price of the Consideration Shares compared to market and NAV**

  The Issue Price of HK$0.2 per Consideration Share represents significant premiums over the closing Share prices for various periods in the 360 trading days up to and including the Last Trading Day, in the range of approximately 2.35% to 27.88%.

  In addition, the Share price generally closed below the Issue Price (454 trading days, accounting for approximately 91.9% of a total of 494 trading days) during the Review Period, being approximately two years preceding the Last Trading Day.

  The Issue Price also represents a premium of approximately 8.40% over the unaudited NAV per Share of approximately HK$0.1845 as at 30 September 2022.

  On the above basis, we consider the Issue Price to be fair and reasonable.

- **Terms of the Convertible Bonds**

  The principal terms of the Convertible Bonds are fair and reasonable after considering the following:

  (i) the setting of the Convertible Bonds with zero coupon and a maturity term of five years allows the Company to avoid an immediate cash outflow and minimise its finance costs and repayment pressure given the size of the Acquisition and the Group's existing financial resources;

  (ii) the premiums of the Conversion Price over the closing Share prices for various periods in the 360 trading days up to and including the Last Trading Day are significant, in the range of approximately 2.35% to 27.88%.

  (iii) the premiums as represented by the Conversion Price over the closing Share price on the Last Trading Day and the average closing price of the Shares for the last five and ten consecutive trading days up to and including the Last Trading Day are within the ranges, and close to the averages and medians, of those of the Comparable CBs; and

  (iv) the adjustment terms on the Conversion Price represent usual and normal adjustment terms which are comparable to those of the Comparable CBs.

- **Enhancement in NAV per Share**

  The unaudited pro forma NAV per Share on completion of the Acquisition is approximately HK$0.2494, being approximately 35.2% higher than the NAV per Share of the Group of approximately HK$0.1845 as at 30 September 2022.

- **Decrease in the Independent Shareholders' percentage shareholding**

  The Independent Shareholders' holdings would be diluted upon the Completion from approximately 29.62% to approximately 25.00%, and may be further diluted upon conversion of the Convertible Bonds, subject to the public float requirement under the Listing Rules being fulfilled. We consider that a considerable degree of dilution was inevitable once it was decided to finance the Acquisition mainly by equity unless a rights issue was made which had longer timetable and greater execution risk. The dilution is an unattractive feature in itself, but in our view should be viewed in the context of the Acquisition as a whole, which we consider fair on the grounds summarised above.

Based on the above, we consider that the Equity Sale and Purchase Agreement is on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the Equity Sale and Purchase Agreement, is in the ordinary and usual course of business of the Company, in the interests of the Company and its shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Equity Sale and Purchase Agreement.

Yours faithfully,
For and on behalf of
**Rainbow Capital (HK) Limited**
**Larry Choi**
*Managing Director*

*Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 6 (advising on corporate finance) regulated activity under the SFO. He has over ten years of experience in the corporate finance industry.*

## 1. FINANCIAL INFORMATION

The audited consolidated financial statements of the Group for the three financial years ended 31 March 2020, 2021 and 2022, including the independent auditors' report thereon and the notes thereto, and the unaudited consolidated financial statements of the Group for the six months ended 30 September 2022, have been disclosed in the respective annual reports and interim report of the Company. The auditor of the Company has not issued any qualified opinion on the Group's consolidated financial statements for the three financial years ended 31 March 2020, 2021 and 2022. The annual reports of the Company for the three financial years ended 31 March 2020, 2021 and 2022 and the interim report of the Company for the six months ended 30 September 2022 are published on the websites of HKEXnews (http://www.hkexnews.hk) and the Company (http://www.ts674.com) respectively.

The 2020 financial statements are set out from page 63 to 228 in the 2020 Annual Report which was published on 28 July 2020. The 2020 Annual Report is available on the websites of the Stock Exchange (http://www.hkexnews.com) and the Company (http://www.ts674.com) and is accessible via the following hyperlink: https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0728/2020072800454.pdf

The 2021 financial statements are set out from page 70 to 244 in the 2021 Annual Report which was published on 23 July 2021. The 2021 Annual Report is available on the websites of the Stock Exchange (http://www.hkexnews.com) and the Company (http://www.ts674.com) and is accessible via the following hyperlink: https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0723/2021072300936.pdf

The 2022 financial statements are set out from page 78 to 232 in the 2022 Annual Report which was published on 22 July 2022. The 2022 Annual Report is available on the websites of the Stock Exchange (http://www.hkexnews.com) and the Company (http://www.ts674.com) and is accessible via the following hyperlink: https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0722/2022072200675.pdf

The unaudited financial statements for the six months ended 30 September 2022 are set out from pages 20 to 52 in the 2022 Interim Report which was published on 23 December 2022. The 2022 Interim Report is available on the websites of the Stock Exchange (http://www.hkexnews.com) and the Company (http://www.ts674.com) and is accessible via the following hyperlink:
https://www1.hkexnews.hk/listedco/listconews/sehk/2022/1223/2022122300605.pdf

## 2. INDEBTEDNESS

As at the close of business on 30 November 2022, being the latest practicable date for the purpose of this indebtedness prior to the printing of this circular, the Enlarged Group had approximately HK$493.7 million outstanding indebtedness, the amount of which denominated in RMB has been converted into HK$ at the exchange rate of RMB1 to HK$1.101239 which was the exchange rate prevailing at 30 November 2022, comprising the following debts:

| | *HK$' million* |
|---|---|
| (i) Amounts due to non-controlling shareholders of subsidiaries | 30.5 |
| (ii) Lease liabilities | 463.2 |
| | 493.7 |

### (i) Amounts due to non-controlling interest

Amounts due to non-controlling shareholders of subsidiaries were unsecured, interest free and had no fixed repayment term.

### (ii) Lease liabilities

Lease liabilities of the Enlarged Group were secured by the rental deposits paid and not guaranteed.

### Contingent liabilities

As of 30 November 2022, the Enlarged Group had contingent liabilities in respect of the guarantees of approximately RMB1,020.0 million (equivalent to HK$1,123.3 million) provided to various domestic banks in the PRC to provide loan and mortgage facilities to purchasers of its properties prior to the transfer of land title deeds.

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities, as at the close of business on 30 November 2022, the Enlarged Group did not have any (i) debt securities issued and outstanding, authorised or otherwise created but unissued, term loans, distinguishing between guaranteed, unguaranteed, secured and unsecured; (ii) other borrowings or indebtedness in the nature of borrowing; (iii) mortgages and charges; and (iv) any contingent liabilities or guarantees.

## 3. WORKING CAPITAL STATEMENT

The Directors are of the opinion that, after due and careful enquiry and taking into account the existing bank balances and cash, internal resources, available credit facilities and the effect of the transactions, the Enlarged Group will have sufficient working capital for its present requirements for a period of 12 months from the date of this circular. The Company has obtained the Directors' statement of sufficiency of working capital issued by CCTH CPA Limited. The Company has obtained the relevant confirmation as required under Rule 14.66(12).

## 4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there was no material adverse change in the financial or operation position of the Group since 31 March 2022, being the date to which the latest published audited consolidated accounts of the Group were made up.

## 5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group attained a solid fiscal year in the 2021/22 financial year amid the macroeconomic challenges due to the resurgence of COVID-19 pandemic. The property market cooled down and the financial institutions' risk preference started to shrink. The pandemic has put forward higher requirements for the Group to review and perform in terms of its future strategy planning during the year ended 31 March 2022. Despite tremendous uncertainties, the Directors of the Group have implemented various appropriate measures to lower the cost which improve the performance of the Group. The Board is expecting the businesses to remain cautious, meanwhile, to also maintain open-minded in identifying new property development projects in the PRC in the coming few years which could strengthen the financial profitability for the Group.

The management team and the Board are made up of highly qualified and competent individuals who are experienced in the real estate development industry in PRC. The team possesses significant knowledge, resources and networks in China of which the Company expects to be able to leverage for its future growth in the property development, property sub-leasing and investment projects in the PRC.

The Group has continued its efforts to consolidate and realign its businesses to enable the Group to achieve improvements in its financial position and to meet its performance objectives. The Group is working towards attaining a sustainable growth whilst continuously exploring and diversifying other suitable investment opportunities (if any) to enhance the overall earning potential, and ultimately maximising the shareholder value.

The Group plans to make investment in more property sub-leasing, development and investment projects in the PRC. The Company believes that this would bring steady returns to the shareholders of the Company.

During the year ended 31 March 2022, the property development business in the PRC contributed revenue of approximately HK$176.7 million and segment recorded profit of approximately HK$20.5 million to the Group, which was contributed by the Group's completed property development projects, namely, Tangshang Hanlin Mansion*(唐商翰林居)in Dongguan land situates at Caole Village, Xiegang Town, Dongguan City, the PRC in 2021. As at the Latest Practicable Date, the Group has no other ongoing property project and has no plan of further property project except the project at Puning Land.

As to property sub-leasing and investment business, for the year ended 31 March 2022, this business segment recorded revenue of approximately HK$80.2 million compared to approximately HK$56.2 million for the last financial year, representing an increase of about 42.8%. It is expected that the segment will continue to bring stable income to the Group, and the Group will continue to look for suitable opportunities to acquire properties for leasing or sub-leasing purpose.

As to money lending business, no income was recognised for this segment during the year ended 31 March 2022 and the management would continue to find new opportunities for this segment.

## (1) ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

*The following is the text of a report set out on pages II-1 to II-4, received from the Company's reporting accountants, CCTH CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.*

CCTH CPA LIMITED
中正天恒會計師有限公司

## ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA TANGSHANG HOLDINGS LIMITED

### Introduction

We report on the historical financial information of Reach Glory Holdings Limited (致榮控股有限公司) (the "**Target Company**") and its subsidiaries (excluding the Project Company) (collectively referred to as the "**Reach Glory Group**") set out on pages II-5 to II-24 which comprises the consolidated statements of financial position as at 31 December 2020 and 2021 and 30 September 2022, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the periods from 9 January 2020 (date of establishment) to 31 December 2020, year ended 31 December 2021 and nine months ended 30 September 2022 (together the "**Relevant Periods**") and a summary of significant policies and other explanatory information (together the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-5 to II-24 forms an integral part of this report, which has been prepared for inclusion in the circular of China Tangshang Holdings Limited (the "**Company**") dated 20 January 2023 (the "**Circular**") in connection with the very substantial acquisition and connected transaction in relation to acquisition of 100% equity interest in the Target Company by the Company (the "**Proposed Acquisition**").

### *Director's responsibilities for the historical financial information*

The sole director of the Target Company is responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information, and for such internal control as the director of the Target Company 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 (the "**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgment, 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 and presentation set out in note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

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

***Opinion***

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the consolidated financial position of the Reach Glory Group as at 31 December 2020 and 2021 and 30 September 2022 and of the Reach Glory Group's consolidated financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

***Review of stub period comparative financial information***

We have reviewed the stub period comparative financial information of the Reach Glory Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the nine months ended 30 September 2021 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The sole director of the Target Company is responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

***Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange 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-5 have been made.

*Dividends*

We refer to note 9 to the Historical Financial Information which states that no dividends have been paid by the Target Company in respect of the Relevant Periods.

**CCTH CPA Limited**
*Certified Public Accountants*
Hong Kong

Ng Kam Fai
Practising Certificate Number P06573
20 January 2023

Unit 1510–1517, 15/F., Tower 2,
Kowloon Commercial Centre,
No. 51 Kwai Cheong Road, Kwai Chung,
New Territories, Hong Kong

## I. HISTORICAL FINANCIAL INFORMATION OF THE REACH GLORY GROUP

**Preparation of the Historical Financial Information**

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

The consolidated financial statements of the Reach Glory Group for the Relevant Periods (the "**Underlying Financial Statements**"), on which the Historical Information is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA and were audited by CCTH CPA Limited, in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in Hong Kong dollars ("**HK$**") except where otherwise indicated.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Notes | For the period from 9 January 2020 (date of establishment) to 31 December 2020 | Year ended 31 December 2021 | Nine months ended 30 September 2021 | Nine months ended 30 September 2022 |
|---|---|---|---|---|---|
| | | *HK$* | *HK$* | *HK$* (Unaudited) | *HK$* |
| Revenue | 5 | – | – | – | – |
| Other operating expenses | | (98,600) | (15,890) | (15,890) | (15,890) |
| Loss before income tax | 6 | (98,600) | (15,890) | (15,890) | (15,890) |
| Income tax expense | 7 | – | – | – | – |
| Loss and total comprehensive expense for the period/year | | (98,600) | (15,890) | (15,890) | (15,890) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | As at 31 December 2020 HK$ | As at 31 December 2021 HK$ | As at 30 September 2022 HK$ |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Amount due to a director | 10 | 20,800 | 36,690 | 52,580 |
| **Total current liabilities** | | 20,800 | 36,690 | 52,580 |
| **Net current liabilities** | | (20,800) | (36,690) | (52,580) |
| **Net liabilities** | | (20,800) | (36,690) | (52,580) |
| **CAPITAL AND RESERVES** | | | | |
| Share capital | 11 | 77,800 | 77,800 | 77,800 |
| Reserves | 12 | (98,600) | (114,490) | (130,380) |
| **Total capital deficiency** | | (20,800) | (36,690) | (52,580) |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital | Accumulated losses | Total |
|---|---|---|---|
| | *HK$* | *HK$* | *HK$* |
| **Capital injection upon establishment** | – | – | – |
| Capital contribution during the period | 77,800 | – | 77,800 |
| Loss for the period | – | (98,600) | (98,600) |
| At 31 December 2020 and 1 January 2021 | 77,800 | (98,600) | (20,800) |
| Loss for the year | – | (15,890) | (15,890) |
| At 31 December 2021 and 1 January 2022 | 77,800 | (114,490) | (36,690) |
| Loss for the period | – | (15,890) | (15,890) |
| **At 30 September 2022** | 77,800 | (130,380) | (52,580) |

| | Share capital | Accumulated losses | Total |
|---|---|---|---|
| | *HK$* | *HK$* | *HK$* |
| | (Unaudited) | (Unaudited) | (Unaudited) |
| At 1 January 2021 | 77,800 | (98,600) | (20,800) |
| Loss for the period | – | (15,890) | (15,890) |
| At 30 September 2021 | 77,800 | (114,490) | (36,690) |

## CONSOLIDATED STATEMENT OF CASH FLOW

| | For the period from 9 January 2020 (date of establishment) to 31 December 2020 | Year ended 31 December 2021 | Nine months ended 30 September 2021 | Nine months ended 30 September 2022 |
|---|---|---|---|---|
| | *HK$* | *HK$* | *HK$* | *HK$* |
| | | | (Unaudited) | |
| **Cash flows from operating activities** | | | | |
| Loss before income tax | (98,600) | (15,890) | (15,890) | (15,890) |
| Operating cash flows before working capital change | (98,600) | (15,890) | (15,890) | (15,890) |
| Increase in amounts due to a director | 20,800 | 15,890 | 15,890 | 15,890 |
| **Net cash used in operating activities** | (77,800) | – | – | – |
| **Cash flows from financing activities** | | | | |
| Proceeds from capital injection | 77,800 | – | – | – |
| **Net cash generated from financing activities** | 77,800 | – | – | – |
| **Net increase in cash and cash equivalents** | – | – | – | – |
| **Cash and cash equivalents at beginning of the period/year** | – | – | – | – |
| **Cash and cash equivalents at end of the period/year** | – | – | – | – |

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1. Corporate information

The Target Company was incorporated in the British Virgin Islands (the "**BVI**") as a limited liability company on 9 January 2020. Its registered office and its principal place of business is located at 3rd Floor, J & C Building, Road Town, Tortola, British Virgin Islands and 13/F, Bupa Centre, 141 Connaught Road West, Hong Kong respectively. The Target Company and its subsidiaries (excluding Puning Huachuangwen Industrial Development Co., Ltd.*（普寧華創文實業開發有限公司）, the "**Project Company**") (collectively referred to as the "**Reach Glory Group**") are principally engaged in investment holding.

The sole director of the Target Company considers Mr. Chen Weiwu (the "**Vendor**"), as the ultimate owner of the Target Company. Mr. Chen is also the controlling shareholder and a director of China Tangshang Holdings Limited (the "**Company**").

On 31 October 2022, the Company entered into the sale and purchase agreement with the Vendor, pursuant to which the Company has conditionally agreed to acquire 100% equity interest in the Target Company for an aggregate consideration of approximately HK$359.51 million (the "**Acquisition**").

To facilitate the Acquisition, the Reach Glory Group underwent an reorganization as set out in section of "Letter from the Board" in this circular. Apart from this reorganization, the Target Company has not commenced any business or operations since its incorporation.

As of the date of this report, the Target Company has directly and indirectly interests in the following subsidiaries, all of which are companies with limited liability. The particulars of which are set out as follows:

| Name of subsidiaries | Place and date of incorporation and place of operation | Issued ordinary/ registered share capital | Percentage of equity interest attributable to the Target Company | Principal activities |
|---|---|---|---|---|
| Goldmate Enterprises Limited (金美企業有限公司) ("**Goldmate**")(金美) | Hong Kong 27 March 2020 | HK$1 | 100% | Investment holding |
| New PRC holding company (the "**PRC Holding Company**") | PRC 9 December 2022 | RMB10,000,000 | 100% | Investment holding |
| The Project Company | PRC 16 January 2020 | RMB50,000,000 | 70% | Property development in the PRC |

The Target Company, Goldmate and the PRC Holding Company are all investment holding companies and has not commenced business since incorporation and they just incurred the incorporation fee and annual company secretarial fee. The purpose of this Acquisition is to acquire the business of the Project Company, which was incorporate on 16 January 2020 in PRC. To facilitate this acquisition, the Vendor will first acquire 70% equity interest of the Project Company at the consideration of RMB315,000,000 through the wholly owned subsidiary, the PRC Holding Company, of the Target Company and this is also the conditional precedent for this Acquisition. The Vendor will then sell the 100% equity interest of the Target Company to the Company at the same consideration in form of the Company's shares and convertible bonds. As a result, the substance of this acquisition is to acquire the business of the Project Company, the Historical Financial Information of the Project Company is presented in another accountants' report in this circular from page II-25 to II-58.

**2. Basis of preparation and presentation**

The Historical Financial Information has been prepared in accordance with accounting policies set out in Note 4 below which conform with Hong Kong Financial Reporting Standards ("**HKFRSs**"), Hong Kong Accounting Standards ("**HKASs**") and interpretations (hereinafter collectively referred to as the "**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The Historical Financial Information has been prepared under the historical cost basis. The measurement bases are fully described in the accounting policies below in Note 4. All HKFRSs effective for accounting period commencing from 1 January 2022 together with the relevant transitional provisions have been adopted by the Reach Glory Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

The Historical Financial Information have been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the ordinary course of business. The application of the going concern basis is on the understanding that the present financial support provided by its shareholder shall continue in the foreseeable future. Should the company be unable to continue its operations due to withdrawal of such financial support, adjustments would have to be made to reduce the value of assets to their recoverable amount, to provide for any further liabilities which might arise and to reclassify fixed assets and long term liabilities as current assets and current liabilities.

### 3. Impact on issued but not yet effective HKFRSs

Up to the date of issue of this report, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the annual period beginning on 1 October 2022 and which have not been early adopted in this Historical Financial Information.

| | |
|---|---|
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1] |
| Amendments to HKAS 1 | 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 HRFRS 16 | Lease liability in a sale and leaseback[2] |

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2024.

Except for the new and amendments to HKFRSs mentioned below, the sole director of the Project Company anticipate that the application of these new and amendments to HKFRSs, which are not yet effective, will have no material impact on the financial statements in the foreseeable future.

**4. Significant accounting policies**

***(a) Basis of consolidation***

The Historical Financial Information includes the financial information of the Target Company and its 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 (i) has power over the investee; (ii) is exposed, or has rights, to variable returns from its involvement with the investee; and (iii) has the ability to affect those returns through its power over the investee.

Consolidation of a subsidiary begins when the Target Company obtains control over the subsidiary and ceases when the Target Company loses control of the subsidiary.

***(b) Business combination***

The Reach Glory Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Target Company. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at acquisition date.

*Acquisition-related costs are expenses as incurred*

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Reach Glory Group are eliminated in full on consolidation. Where necessary, amounts reported by the subsidiary have been adjusted to conform with the Reach Glory Group's accounting policies.

When the Reach Glory Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Reach Glory Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

***(c) Financial instruments***

*(i) Financial assets*

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Reach Glory 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 market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Reach Glory Group's business model for managing the asset and the cash flow characteristics of the asset. The Reach Glory Group classifies its debt instruments as follows:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

*(ii) Impairment loss on financial assets*

The Reach Glory Group recognises loss allowances for expected credit loss ("**ECL**") on financial assets which are subject to impairment under HKFRS 9 (including deposits, other receivables and cash and cash equivalents). The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Reach Glory Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Reach Glory Group in accordance with the contract and all the cash flows that the Reach Glory Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

For debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Reach Glory Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Reach Glory Group's historical experience and informed credit assessment and including forward-looking information.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

*(iii) Write-off policy*

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the sole director of the Reach Glory Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

*(iv) Financial liabilities*

The Reach Glory Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including amount due to a director is subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

*(v)* *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

*(vi)* *Derecognition*

The Reach Glory Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Reach Glory Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the period/year.

***(d) Income taxes***

*Income taxes comprise current tax and deferred tax.*

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

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

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

***(e) Foreign currencies***

Each entity in the Reach Glory Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss and other comprehensive income.

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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

For the purpose of presenting Historical Financial Information, the assets and liabilities of the group entities are translated into the presentation currency at the exchange rates prevailing at the end of reporting period and their income and expenses are translated into Hong Kong dollars at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve.

***(f) Related parties***

(a) A person or a close member of that person's family is related to the Target Company if that person:

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

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

(iii) is a member of key management personnel of the Target Company or its parent.

(b) An entity is related to the Target Company if any of the following conditions apply:

(i) The entity and the Target Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities 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 the employees of the Target Company or an entity related to the Target Company;

(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 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 Company or to the Target Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

## 5. Revenue

The principal activity of the Target Company is investment holding. No revenue was generated by the Target Company during the Relevant Periods.

## 6. Loss before income tax

| | For the period from 9 January 2020 (date of establishment) to 31 December 2020 | Year ended 31 December 2021 | Nine months ended 30 September 2021 | Nine months ended 30 September 2022 |
|---|---|---|---|---|
| | *HK$* | *HK$* | *HK$* (Unaudited) | *HK$* |
| Loss before income tax is arrived at after charging: | | | | |
| Auditor's remuneration | – | – | – | – |
| Secretarial fees | 98,600 | 15,890 | 15,890 | 15,890 |

## 7. Income tax expense

| | For the period from 9 January 2020 (date of establishment) to 31 December 2020 | Year ended 31 December 2021 | Nine months ended 30 September 2021 | Nine months ended 30 September 2022 |
|---|---|---|---|---|
| | *HK$* | *HK$* | *HK$* (Unaudited) | *HK$* |
| Current tax for the period/year | | | | |
| – Hong Kong Profits Tax | – | – | – | – |

No provision for Hong Kong Profits Tax has been made in the Historical Financial Information as the Reach Glory Group has no assessable profits derived from Hong Kong during the Relevant Periods.

| | For the period from 9 January 2020 (date of establishment) to 31 December 2020 | Year ended 31 December 2021 | Nine months ended 30 September 2021 | Nine months ended 30 September 2022 |
|---|---|---|---|---|
| | *HK$* | *HK$* | *HK$* (Unaudited) | *HK$* |
| Loss before income tax | (98,600) | (15,890) | (15,890) | (15,890) |
| Tax at statutory tax rate | 16,269 | 2,622 | 2,622 | 2,622 |
| Expenses not deductible for tax purpose | (16,269) | (2,622) | (2,622) | (2,622) |
| Income tax expense | – | – | – | – |

At 31 December 2020, 31 December 2021 and 30 September 2022, the Reach Glory Group had tax losses arising in the Hong Kong of HK$16,269, HK$2,622 and HK$2,622 respectively, that can be used to offset against future taxable profits. No deferred tax asset had been recognised in respect of these tax losses.

**8. Director's emoluments**

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

**9. Dividends**

No dividend was paid or proposed by the Target Company in respect of each of the Relevant Periods.

**10. Amount due to a director**

The amount due to a director was unsecured, interest free and repayable on demand.

## 11. Share capital

| | *HK$* |
|---|---|
| **Registered:** | |
| At 9 January 2020 (date of establishment), 31 December 2020, 1 January 2021, 31 December 2021, 1 January 2022 and 30 September 2022 | 77,800 |
| **Paid up:** | |
| At 9 January 2020 (date of establishment) | – |
| Capital contribution during the period | 77,800 |
| At 31 December 2020, 1 January 2021, 31 December 2021, 1 January 2022 and 30 September 2022 | 77,800 |

The Target Company was incorporated in BVI with limited liability. Upon incorporation, the Target Company issued 10,000 ordinary shares of US$1 each to its shareholder for a consideration of US$10,000 (equivalent to HK$77,800).

## 12. Reserves

The following describes the nature and purpose of each reserve within equity.

| **Reserves** | **Description and purpose** |
|---|---|
| Accumulated losses | Cumulative net gains and losses recognised in the statement of profit or loss and other comprehensive income. |

## 13. Statement of financial position of the Target Company

| | Notes | As at 31 December 2020 HK$ | As at 31 December 2021 HK$ | As at 30 September 2022 HK$ |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current asset** | | | | |
| Investment in subsidiaries | | 1 | 1 | 1 |
| **Total assets** | | 1 | 1 | 1 |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Amount due to a director | | 12,000 | 20,800 | 36,690 |
| Amount due to a subsidiary | | 1 | 1 | 1 |
| **Total current liabilities** | | 12,001 | 20,801 | 36,691 |
| **Net current liabilities** | | (12,001) | (20,801) | (36,691) |
| **Net liabilities** | | (12,000) | (20,800) | (36,690) |
| **CAPITAL AND RESERVES** | | | | |
| Share capital | | 77,800 | 77,800 | 77,800 |
| Reserves | | (89,800) | (98,600) | (114,490) |
| **Total capital deficiency** | | (12,000) | (20,800) | (36,690) |

## 14. Subsidiaries

| Name of Subsidiaries | Place and Date of establishment | Registered And paid capital | Percentage of attributable equity Interest held by the Target Company 31 December 2020 | 31 December 2021 | 30 September 2022 | At the date of this report | Principal activities |
|---|---|---|---|---|---|---|---|
| Goldmate (金美) | Hong Kong 27 March 2020 | HK$1 | 100% | 100% | 100% | 100% | Investment holding |
| PRC Holding Company | PRC 9 December 2022 | RMB10,000,000 | N/A | N/A | N/A | 100% | Investment holding |
| The Project Company | PRC 16 January 2020 | RMB50,000,000 | N/A | N/A | N/A | 70% | Property development in the PRC |

*Note:*

(1) The Target Company and its subsidiaries adopt 31 December as their financial year end date.

(2) The PRC Holding Company incorporated on 9 December 2022.

## 15. Effects of COVID-19 epidemic

Since early 2020, the epidemic of Coronavirus Disease 2019 (the "**COVID-19 outbreak**") has spread across China and other countries and it has affected the business and economic activities of the Reach Glory Group to some extent.

The overall financial effect of the COVID-19 outbreak cannot be reliably estimated as of the date of issuance of this Historical Financial Information. The Reach Glory Group will pay close attention to the development of the COVID-19 outbreak and continue to evaluate its impact on the financial position and operating results of the Reach Glory Group.

## 16. Subsequent consolidated financial statements

No audited consolidated financial statements of the Reach Glory Group have been prepared in respect of any period subsequent to 30 September 2022.

## (2) ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF THE PROJECT COMPANY

*The following is the text of a report set out on pages II-25 to II-28, received from the Company's reporting accountants, CCTH CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.*

CCTH CPA LIMITED
中正天恆會計師有限公司

### ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA TANGSHANG HOLDINGS LIMITED

***Introduction***

We report on the historical financial information of Puning Huachuangwen Industrial Development Co., Ltd. (普寧華創文實業開發有限公司) (the "**Project Company**") set out on pages II-29 to II-58 which comprises the statements of financial position as at 31 December 2020 and 2021 and 30 September 2022, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for each of the periods from 16 January 2020 (date of establishment) to 31 December 2020, year ended 31 December 2021 and nine months ended 30 September 2022 (together the "**Relevant Periods**") and a summary of significant policies and other explanatory information (together the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-29 to II-58 forms an integral part of this report, which has been prepared for inclusion in the circular of China Tangshang Holdings Limited (the "**Company**") dated 20 January 2023 (the "**Circular**") in connection with the very substantial acquisition and connected transaction in relation to the acquisition of 70% of equity interest in Project Company through Target Company by the Company (the "**Proposed Acquisition**").

***Director's responsibilities for the historical financial information***

The sole director of the Project Company is responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information, and for such internal control as the director of the Project Company 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 (the "**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgment, 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 and presentation set out in note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the sole director of the Project Company, as well as evaluating the overall presentation of the Historical Financial Information.

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

***Opinion***

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Project Company as at 31 December 2020 and 2021 and 30 September 2022 and of the Project Company's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

***Review of stub period comparative financial information***

We have reviewed the stub period comparative financial information of the Project Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the nine months ended 30 September 2021 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The sole director of the Project Company is responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

***Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange 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-29 have been made.

*Dividends*

We refer to note 13 to the Historical Financial Information which states that no dividends have been paid by the Project Company in respect of the Relevant Periods.

**CCTH CPA Limited**
*Certified Public Accountants*
Hong Kong

Ng Kam Fai
Practising Certificate Number P06573
20 January 2023

Unit 1510–1517, 15/F., Tower 2,
Kowloon Commercial Centre,
No. 51 Kwai Cheong Road, Kwai Chung,
New Territories, Hong Kong

## I. HISTORICAL FINANCIAL INFORMATION OF THE PROJECT COMPANY

**Preparation of the 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 Project Company for the Relevant Periods (the "**Underlying Financial Statements**"), on which the Historical Information is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA and were audited by CCTH CPA Limited, in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (**RMB'000**) except where otherwise indicated.

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Notes | For the period from 16 January 2020 (date of establishment) to 31 December 2020 | Year ended 31 December 2021 | Nine months ended 30 September 2021 | Nine months ended 30 September 2022 |
|---|---|---|---|---|---|
| | | *RMB000* | *RMB000* | *RMB000* (Unaudited) | *RMB000* |
| Revenue | 7 | – | – | – | – |
| Other gains or losses, net | 8 | 79 | 1,011 | 540 | 715 |
| Depreciation on property, plant and equipment | | (12) | (138) | (101) | (111) |
| Staff costs | | (1,790) | (4,456) | (3,265) | (2,071) |
| Other operating expenses | | (8,640) | (11,622) | (5,068) | (8,577) |
| Finance costs | 9 | – | – | – | – |
| Loss before income tax | 10 | (10,363) | (15,205) | (7,894) | (10,044) |
| Income tax credit | 11 | 2,591 | 2,704 | 1,974 | 1,418 |
| Loss and total comprehensive expense for the period/year | | (7,772) | (12,501) | (5,920) | (8,626) |

## STATEMENT OF FINANCIAL POSITION

| | Notes | As at 31 December 2020 RMB000 | As at 31 December 2021 RMB000 | As at 30 September 2022 RMB000 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 14 | 476 | 408 | 297 |
| Deferred tax asset | | 2,591 | 5,295 | 6,713 |
| **Total non-current assets** | | 3,067 | 5,703 | 7,010 |
| **Current assets** | | | | |
| Properties under development | 15 | 921,775 | 1,215,997 | 1,424,193 |
| Prepayment, deposits and other receivables | 16 | 135 | 203,896 | 382,445 |
| Amounts due from related parties | 17 | 1,916 | 1,641 | 1,451 |
| Prepaid taxes | | 4,636 | 111,766 | 113,295 |
| Cash and bank balance | 18 | 423,031 | 130,849 | 162,796 |
| **Total current assets** | | 1,351,493 | 1,664,149 | 2,084,180 |
| **Total assets** | | 1,354,560 | 1,669,852 | 2,091,190 |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Accounts payables, accruals and other payables | 19 | 413,023 | 31,761 | 10,892 |
| Contract liabilities | 20 | – | 1,366,968 | 1,744,002 |
| Amounts due to related parties | 17 | 19 | 75 | 135 |
| Amount due to a shareholder | 21 | 899,290 | 141,321 | – |
| Loan from a related company | 22 | – | 100,000 | – |
| **Total current liabilities** | | 1,312,332 | 1,640,125 | 1,755,029 |
| **Net current assets** | | 39,161 | 24,024 | 329,151 |
| **Net assets** | | 42,228 | 29,727 | 336,161 |
| **CAPITAL AND RESERVES** | | | | |
| Share capital | 23 | 50,000 | 50,000 | 50,000 |
| Reserves | 24 | (7,772) | (20,273) | 286,161 |
| **Total equity** | | 42,228 | 29,727 | 336,161 |

## STATEMENT OF CHANGES IN EQUITY

| | Share capital (Note 23) RMB000 | Accumulated losses (Note 24) RMB000 | Capital reserve (Note 24) RMB000 | Total RMB000 |
|---|---|---|---|---|
| **Capital injection upon establishment** | – | – | – | – |
| Capital contribution during the period | 50,000 | – | – | 50,000 |
| Loss for the period | – | (7,772) | – | (7,772) |
| At 31 December 2020 and 1 January 2021 | 50,000 | (7,772) | – | 42,228 |
| Loss for the year | – | (12,501) | – | (12,501) |
| At 31 December 2021 and 1 January 2022 | 50,000 | (20,273) | – | 29,727 |
| Loss for the period | – | (8,626) | – | (8,626) |
| Deemed contribution arising from settlement of amount due to a shareholder *(Note 21)* | – | – | 315,060 | 315,060 |
| **At 30 September 2022** | 50,000 | (28,899) | 315,060 | 336,161 |

| | Share capital RMB000 (Unaudited) | Accumulated losses RMB000 (Unaudited) | Capital reserve RMB000 (Unaudited) | Total RMB000 (Unaudited) |
|---|---|---|---|---|
| At 1 January 2021 | 50,000 | (7,772) | – | 42,228 |
| Loss for the period | – | (5,920) | – | (5,920) |
| **At 30 September 2021** | 50,000 | (13,692) | – | 36,308 |

## STATEMENT OF CASH FLOW

| | For the period from 16 January 2020 (date of establishment) to 31 December 2020 | Year ended 31 December 2021 | Nine months ended 30 September 2021 | Nine months ended 30 September 2022 |
|---|---|---|---|---|
| | *RMB000* | *RMB000* | *RMB000* | *RMB000* |
| | | | (Unaudited) | |
| **Cash flows from operating activities** | | | | |
| Loss before income tax | (10,363) | (15,205) | (7,894) | (10,044) |
| **Adjustments for:** | | | | |
| – Bank interest income | (59) | (567) | (396) | (476) |
| – Depreciations charges | 12 | 138 | 101 | 111 |
| Operating cash flows before working capital changes | (10,410) | (15,634) | (8,189) | (10,409) |
| Increase in properties under development | (921,775) | (280,622) | (222,947) | (203,132) |
| Increase in prepayments, deposits and other receivables | (135) | (203,761) | (6,800) | (178,549) |
| (Increase)/decrease in amounts due from related parties | (1,916) | 275 | 223 | 190 |
| Increase in restricted cash | – | (101,078) | (143,693) | (47,406) |
| Increase/(decrease) in accounts payables, accruals and other payables | 413,023 | (381,262) | (306,786) | (25,933) |
| Increase in contract liabilities | – | 1,366,968 | 1,128,295 | 377,034 |
| Increase in amounts due to related parties | 19 | 56 | 45 | 60 |
| **Net cash (used in)/generated from operation** | (521,194) | 384,942 | 440,148 | (88,145) |
| Interest received | 59 | 567 | 396 | 476 |
| Tax paid | (4,636) | (107,130) | (82,421) | (1,529) |
| **Net cash (used in)/generated from operating activities** | (525,771) | 278,379 | 358,123 | (89,198) |

| | For the period from 16 January 2020 (date of establishment) to 31 December 2020 | Year ended 31 December 2021 | Nine months ended 30 September 2021 | Nine months ended 30 September 2022 |
|---|---|---|---|---|
| | *RMB000* | *RMB000* | *RMB000* | *RMB000* |
| | | | (Unaudited) | |
| **Cash flow from investing activities** | | | | |
| Purchase of property, plant and equipment | (488) | (70) | (70) | – |
| **Net cash used in investing activities** | (488) | (70) | (70) | – |
| **Cash flows from financing activities** | | | | |
| Proceeds from capital injection | 50,000 | – | – | – |
| Interest paid | – | (13,600) | (11,663) | – |
| Advances from/(repayment to) a shareholder | 899,290 | (757,969) | (705,317) | 173,739 |
| Proceeds from loan from a related company | – | 100,000 | 100,000 | – |
| Repayment of loan from a related company | – | – | – | (100,000) |
| **Net cash generated from/(used in) financing activities** | 949,290 | (671,569) | (616,980) | 73,739 |
| **Net increase/(decrease) in cash and cash equivalents** | 423,031 | (393,260) | (258,927) | (15,459) |
| **Cash and cash equivalents at beginning of the period/year** | – | 423,031 | 423,031 | 29,771 |
| **Cash and cash equivalents at end of the period/year** | 423,031 | 29,771 | 164,104 | 14,312 |

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1. Corporate information

The Project Company was incorporated in the People's Republic of China (the "**PRC**") as a limited liability company on 16 January 2020. Its registered office and its principal place of business is located at No. 202, Fengde Building, west of Wenzhu South Road, Xintan Village, Liusha East Street, Puning City, Guangdong Province, the PRC. The principal activity of the Project Company is property development in the PRC.

### 2. Basis of preparation and presentation

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"), Hong Kong Accounting Standards ("**HKASs**") and interpretations (hereinafter collectively referred to as the "**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The Historical Financial Information has been prepared under the historical cost basis. The measurement bases are fully described in the accounting policies below in Note 4. All HKFRSs effective for accounting period commencing from 1 January 2022 together with the relevant transitional provisions have been adopted by the Project Company in the preparation of the Historical Financial Information throughout the Relevant Periods.

The preparation of Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting assumptions and estimates. It also requires management to exercise its judgement in the process of applying the Project Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 5.

### 3. Impact on issued but not yet effective HKFRSs

Up to the date of issue of this report, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the annual period beginning on 1 October 2022 and which have not been early adopted in this Historical Financial Information.

| | |
|---|---|
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1] |
| Amendments to HKAS 1 | 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] |

[1] Effective for annual periods beginning on or after 1 January 2023.
[2] Effective for annual periods beginning on or after 1 January 2024.

Except for the new and amendments to HKFRSs mentioned below, the sole director of the Project Company anticipate that the application of these new and amendments to HKFRSs, which are not yet effective, will have no material impact on the financial statements in the foreseeable future.

**4. Significant accounting policies**

**(a) Properties under development**

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised. Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

In accordance with HKAS 23 Borrowing Costs, the borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

**(b) Financial instruments**

***(i) Financial assets***

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Project Company 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 market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

*Debt instruments*

Subsequent measurement of debt instruments depends on the Project Company's business model for managing the asset and the cash flow characteristics of the asset. The Project Company classifies its debt instruments as follows:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

*(ii)* ***Impairment loss on financial assets***

The Project Company recognises loss allowances for expected credit loss ("ECL") on financial assets which are subject to impairment under HKFRS 9 (including deposits, other receivables and cash and cash equivalents). The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Project Company is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Project Company in accordance with the contract and all the cash flows that the Project Company expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

For debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Project Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Project Company's historical experience and informed credit assessment and including forward-looking information.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

*(iii)* ***Write-off policy***

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the sole director of the Project Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

*(iv)* ***Financial liabilities***

The Project Company classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

*Financial liabilities at amortised cost*

Financial liabilities at amortised cost including accounts payable, accruals and other payables, amount due to a shareholder, amounts due to related parties, and loan from a related company are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

***(v) Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

***(vi) Derecognition***

The Project Company derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Project Company issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the period/year.

**(c) Impairment of non-financial assets**

At the end of each reporting periods, the Project Company reviews the carrying amounts of property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Value in use is based on the estimated future cash flows expected to be derived from the asset, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

**(d) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Project Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

| | |
|---|---|
| Furniture, fixtures and equipment | 3 years |
| Motor vehicles | 3 – 5 years |

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

**(e) Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amount of cash, and 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 Project Company's cash management.

**(f) Revenue recognition**

***Revenue arising from the sale of properties***

Revenue arising from the sale of properties developed for sale in the ordinary course of business is recognised when legal assignment is completed, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property.

Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under contract liabilities. When the advance payments are regarded as providing a significant financing benefit to the Project Company, interest expense arising from the adjustment of time value of money will be accrued by the Project Company during the period between the payment date and the completion date of legal assignment. This accrual increases the balance of the contract liability during the period of construction, and therefore increases the amount of revenue recognised when control of the completed property is transferred to the customer. The interest is expensed as accrued unless it is eligible to be capitalised under HKAS 23 (see Note 4(g)).

***Interest income***

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

***Contract assets and liabilities***

A contract asset represents the Project Company's right to consideration in exchange for services that the Project Company has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Project Company's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Project Company's obligation to transfer services to a customer for which the Project Company has received consideration (or an amount of consideration is due) from the customer.

***Contract Costs***

Contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventories, property and plant and equipment or intangible assets.

Incremental costs of obtaining a contract are those costs that the Project Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

**(g) Borrowing costs**

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**(h) Income taxes**

Income taxes comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

**(i) Employees benefits**

***(i) Short term employee benefits***

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

***(ii) Retirement benefit cost***

The employees of the Project Company are required to participate in a government-managed retirement benefit schemes. The Project Company is required to contribute a fixed cost per employee to the government-managed retirement benefit schemes. The contributions are charged to profit or loss as they become payable.

**(j) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Project Company has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(k) Related parties**

(a) A person or a close member of that person's family is related to the Project Company if that person:

(i) has control or joint control over the Project Company;

(ii) has significant influence over the Project Company; or

(iii) is a member of key management personnel of the Project Company or its parent.

(b) An entity is related to the Project Company if any of the following conditions apply:

(i) The entity and the Project Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities 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 the employees of the Project Company or an entity related to the Project Company;

(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 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 Project Company or to the Project Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

**5. Key sources of estimation uncertainty**

In the application of the Project Company's accounting policies, which are described in note 4, the sole director of the Project Company is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**6. Operating segment information**

The Project Company has identified its operating segment based on the regular internal financial information reported to the chief decision makers about allocation of resources to assess the performance of the Project Company's business.

The principal activity of the Project Company is engaged in property development in the PRC. The sole director considers that this is the only component for internal reporting to the chief decision makers and, accordingly, the only one operating segment under the requirements of HKFRS 8 "Operating Segments".

All the segment assets and liabilities are located in the PRC.

**7. Revenue**

The principal activity of the Project Company is engaged in property development in the PRC. No revenue was generated by the Project Company during the Relevant Periods.

## 8. Other gains or losses, net

| | For the period from 16 January 2020 (date of establishment) to 31 December 2020 | Year ended 31 December 2021 | Nine months ended 30 September 2021 | Nine months ended 30 September 2022 |
|---|---|---|---|---|
| | *RMB000* | *RMB000* | *RMB000* (Unaudited) | *RMB000* |
| Interest income | 59 | 567 | 396 | 476 |
| Other income | 20 | 444 | 144 | 239 |
| | 79 | 1,011 | 540 | 715 |

## 9. Finance costs

| | For the period from 16 January 2020 (date of establishment) to 31 December 2020 | Year ended 31 December 2021 | Nine months ended 30 September 2021 | Nine months ended 30 September 2022 |
|---|---|---|---|---|
| | *RMB000* | *RMB000* | *RMB000* (Unaudited) | *RMB000* |
| Interest on loan from a related company | – | 6,936 | 6,665 | 5,064 |
| Interest on payable for acquisition of land for property development | – | 6,664 | 4,998 | – |
| | – | 13,600 | 11,663 | 5,064 |
| *Less:* Amount capitalised in properties under development | – | (13,600) | (11,663) | (5,064) |
| | – | – | – | – |

## 10. Loss before income tax

| | For the period from 16 January 2020 (date of establishment) to 31 December 2020 | Year ended 31 December 2021 | Nine months ended 30 September 2021 | Nine months ended 30 September 2022 |
|---|---|---|---|---|
| | *RMB000* | *RMB000* | *RMB000* | *RMB000* |
| | | | (Unaudited) | |
| Loss before income tax is arrived at after charging: | | | | |
| Auditor's remuneration | – | – | – | – |
| Wages and salaries | 1,790 | 4,456 | 3,265 | 2,071 |
| Penalty and compensation | 3,057 | 240 | 240 | 3,614 |
| Advertising and promotion | 3,756 | 4,904 | 3,234 | 1,859 |

## 11. Income tax credit

| | For the period from 16 January 2020 (date of establishment) to 31 December 2020 | Year ended 31 December 2021 | Nine months ended 30 September 2021 | Nine months ended 30 September 2022 |
|---|---|---|---|---|
| | *RMB000* | *RMB000* | *RMB000* | *RMB000* |
| | | | (Unaudited) | |
| Current tax for the period/year | | | | |
| – PRC Enterprise Income Tax | 2,591 | 2,704 | 1,974 | 1,418 |

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate applied to the PRC subsidiary of the Target Company is 25%.

No provision for PRC income tax has been made in the Historical Financial Information as the Project Company has no assessable profits derived from the PRC for the Relevant Periods.

The income tax credit can be reconciled to the loss before income tax per the consolidated statements of profit or loss and other comprehensive income as follows:

| | For the period from 16 January 2020 (date of establishment) to 31 December 2020 | Year ended 31 December 2021 | Nine months ended 30 September 2021 | Nine months ended 30 September 2022 |
|---|---|---|---|---|
| | *RMB000* | *RMB000* | *RMB000* (Unaudited) | *RMB000* |
| Loss before income tax | (10,363) | (15,205) | (7,894) | (10,044) |
| Tax at statutory tax rate | 2,591 | 3,801 | 1,974 | 2,511 |
| Expenses not deductible for tax purpose | – | (1,097) | – | (1,093) |
| Income tax credit | 2,591 | 2,704 | 1,974 | 1,418 |

At 31 December 2020, 31 December 2021 and 30 September 2022, the Project Company had tax losses arising in the PRC of approximately RMB2,591,000, RMB2,704,000 and RMB1,418,000 respectively, that will expire in three to five years for offsetting against future taxable profits. Deferred tax asset had been recognised in respect of these tax losses, due to the expected future taxable profits.

**12. Director's emoluments**

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

**13. Dividends**

No dividend was paid or proposed by the Project Company in respect of each of the Relevant Periods.

**14. Property, plant and equipment**

| | Furniture, fixtures and equipment *RMB000* | Motor vehicles *RMB000* | Total *RMB000* |
|---|---|---|---|
| **COST** | | | |
| At 16 January 2020 (date of establishment) | – | – | – |
| Additions | 173 | 315 | 488 |
| At 31 December 2020 and 1 January 2021 | 173 | 315 | 488 |
| Additions | 70 | – | 70 |
| At 31 December 2021 and 1 January 2022 | 243 | 315 | 558 |
| Additions | – | – | – |
| At 30 September 2022 | 243 | 315 | 558 |
| **ACCUMULATED DEPRECIATION** | | | |
| At 16 January 2020 (date of establishment) | – | – | – |
| Depreciation charge during the period | 12 | – | 12 |
| At 31 December 2020 and 1 January 2021 | 12 | – | 12 |
| Depreciation charge during the year | 64 | 74 | 138 |
| At 31 December 2021 and 1 January 2022 | 76 | 74 | 150 |
| Depreciation charge during the period | 55 | 56 | 111 |
| At 30 September 2022 | 131 | 130 | 261 |
| **CARRYING AMOUNT** | | | |
| At 31 December 2020 | 161 | 315 | 476 |
| At 31 December 2021 | 167 | 241 | 408 |
| At 30 September 2022 | 112 | 185 | 297 |

**15. Properties under development**

| | As at 31 December 2020 *RMB000* | As at 31 December 2021 *RMB000* | As at 30 September 2022 *RMB000* |
|---|---|---|---|
| Within normal operating cycle included under current assets | 921,775 | 1,215,997 | 1,424,193 |
| The balance comprises | | | |
| – Land cost | 820,000 | 820,000 | 820,000 |
| – Construction cost | 101,775 | 382,397 | 585,529 |
| – Borrowing costs capitalised | – | 13,600 | 18,664 |
| | 921,775 | 1,215,997 | 1,424,193 |

The properties under development are all located in the PRC.

Properties under development comprise certain construction and development costs and leasehold interest in land located in the PRC with lease term of 70 years.

During the period from 16 January 2020 to 31 December 2020, year ended 31 December 2021 and period ended 30 September 2022, borrowing costs of approximately RMBNil, RMB13,600,000 and RMB5,064,000 respectively arising from a loan from a related company recognised specifically for the properties under development were capitalised.

**16. Prepayment, deposits and other receivables**

| | As at 31 December 2020 *RMB000* | As at 31 December 2021 *RMB000* | As at 30 September 2022 *RMB000* |
|---|---|---|---|
| Other receivables | – | 200,528 | 377,956 |
| *Less:* expected credit losses recognised | – | (4,389) | (6,040) |
| | – | 196,139 | 371,916 |
| Prepayment | 38 | 28 | 191 |
| Staff advances and deposits | 97 | 316 | 916 |
| Contract costs | – | 7,413 | 9,422 |
| At end of the period/year | 135 | 203,896 | 382,445 |

The below table reconciles the loss allowance of other receivables for the Relevant Periods:

| | Period from 16 January 2020 (date of incorporation) 31 December 2020 | Year ended 31 December 2021 | Nine months ended 30 September 2022 |
|---|---|---|---|
| | *RMB000* | *RMB000* | *RMB000* |
| At beginning of year | – | – | 4,389 |
| Impairment loss recognised for the Relevant Periods | – | 4,389 | 1,651 |
| At end of period/year | – | 4,389 | 6,040 |

**17. Amounts due from/(to) related parties**

All of the amounts due from/(to) related parties were unsecured, interest free and repayable on demand.

**18. Cash and bank balances**

| | As at 31 December 2020 | As at 31 December 2021 | As at 30 September 2022 |
|---|---|---|---|
| | *RMB000* | *RMB000* | *RMB000* |
| Cash and bank balances presented in the statement of financial position | 423,031 | 130,849 | 162,796 |
| *Less:* restricted cash | – | (101,078) | (148,484) |
| Cash and bank balances presented in the statement of cash flows | 423,031 | 29,771 | 14,312 |

*Note:*

(a) At the end of each of the Relevant Periods, the cash and cash equivalents for the Project Company was cash and bank balance denominated in RMB. RMB is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Project Company is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(b) At the end of each of the Relevant Periods, restricted cash of approximately RMBNil, RMB101,078,000 and RMB148,484,000 respectively held in the designated bank accounts of the Project Company are pledged to the banks until the customers' building ownership certificate of the respective properties have been obtained and transferred to the banks.

## 19. Accounts payables, accruals and other payables

| | As at 31 December 2020 *RMB000* | As at 31 December 2021 *RMB000* | As at 30 September 2022 *RMB000* |
|---|---|---|---|
| Accounts payables *(note (a))* | 410,854 | 26,373 | 2,313 |
| Accruals and other payables *(note (b))* | 2,169 | 5,388 | 8,579 |
| At end of the period/year | 413,023 | 31,761 | 10,892 |

### (a) Accounts payables

The following is an aged analysis of accounts payables at the end of the Relevant Periods, presented based on the invoice date:

| | As at 31 December 2020 *RMB000* | As at 31 December 2021 *RMB000* | As at 30 September 2022 *RMB000* |
|---|---|---|---|
| Within 3 months | 640 | 25,990 | 1,562 |
| From 3 to 6 months | 410,214 | 61 | 218 |
| From 6 to 12 months | – | 59 | 272 |
| More than 1 year | – | 263 | 261 |
| | 410,854 | 26,373 | 2,313 |

### (b) Accruals and other payables

| | As at 31 December 2020 *RMB000* | As at 31 December 2021 *RMB000* | As at 30 September 2022 *RMB000* |
|---|---|---|---|
| Deposits from contractors | 922 | 1,424 | 854 |
| Accrued wages and salaries | 642 | 1,073 | 276 |
| Other tax payables | 593 | 1,897 | 656 |
| Others | 12 | 994 | 6,793 |
| At end of the period/year | 2,169 | 5,388 | 8,579 |

## 20. Contract liabilities

Contract liabilities primarily relate to advances from customer for sales of development properties before the criteria for revenue recognition have been met.

| | As at 31 December 2020 *RMB000* | As at 31 December 2021 *RMB000* | As at 30 September 2022 *RMB000* |
|---|---|---|---|
| At beginning of year | – | – | 1,366,968 |
| Increase in contract liabilities as receipts in advance | – | 1,366,968 | 377,034 |
| At end of period/year | – | 1,366,968 | 1,744,002 |

**21. Amount due to a shareholder**

Shenzhen Yaoling Investment Company Limited ("Shenzhen Yaoling"), which owned 90% equity interest of the Project Company, advanced funding to the Project Company for the property development purpose. Such advances were unsecured, interest free and repayable on demand.

On 30 September 2022, Shenzhen Yaoling passed a resolution to waive the outstanding balance of the amount due from the Project Company amounted to approximately RMB315,060,000. Such balance was recognised in the capital reserve as a deemed contribution by a shareholder.

**22. Loan from a related company**

During the year ended 31 December 2021, a loan of RMB100,000,000 was borrowed from a related company with an annual interest rate for 8% and the repayment period was 18 months. Such loan was fully repaid before 30 September 2022.

**23. Share capital**

| | *RMB000* |
|---|---|
| **Registered:** | |
| At 16 January 2020 (date of establishment), 31 December 2020, 1 January 2021, 31 December 2021, 1 January 2022 and 30 September 2022 | 50,000 |
| **Paid up:** | |
| At 16 January 2020 (date of establishment) | – |
| Capital contribution during the period | 50,000 |
| At 31 December 2020, 1 January 2021, 31 December 2021, 1 January 2022 and 30 September 2022 | 50,000 |

The Project Company was incorporated in the PRC with limited liability. Upon incorporation, its registered capital is RMB50,000,000.

**24. Reserves**

The following describes the nature and purpose of each reserve within equity.

| **Reserves** | **Description and purpose** |
|---|---|
| Accumulated losses | Cumulative net gains and losses recognised in the statement of profit or loss and other comprehensive income. |
| Capital reserve | Deemed capital contribution by a shareholder from settlement of amount due to a shareholder and transferred to equity. |

**25. Capital risk management**

The sole director of the Project Company manages its capital to ensure that the Project Company will be able to continue as a going concern while maximising the return to its investor through the optimisation of debt and equity balance. The Project Company's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the Project Company consists of capital and reserves.

The sole director of the Project Company reviews the capital structure on a regular basis. As part of this review, the sole director considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the sole director, the Project Company will balance its overall capital structure through capital contribution and raising of new debts.

**26. Summary of financial instruments by category**

| | As at 31 December 2020 | As at 31 December 2021 | As at 30 September 2022 |
|---|---|---|---|
| | *RMB000* | *RMB000* | *RMB000* |
| **Financial assets at amortised cost** | | | |
| – Other receivables | – | 196,139 | 317,916 |
| – Amounts due from related parties | 1,916 | 1,641 | 1,451 |
| – Cash and bank balances | 423,031 | 130,849 | 162,796 |
| | 424,947 | 328,629 | 482,163 |
| **Financial liabilities at amortised cost** | | | |
| – Accounts payables, accruals and other payables | 412,430 | 29,864 | 10,236 |
| – Amounts due to related parties | 19 | 75 | 135 |
| – Amount due to a shareholder | 899,290 | 141,321 | – |
| – Loan from a related company | – | 100,000 | – |
| | 1,311,739 | 271,260 | 10,371 |

The carrying amounts of the Project Company's financial assets and liabilities measured at amortised cost approximate their fair values due to their short maturities.

**27. Financial risk management objectives and policies**

The Project Company's financial instruments include other receivables, amounts due from related parties, cash and balances, accounts payables, accruals and other payables, amounts due to related parties, amount due to a shareholder, and loan from a related company. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments are set out below:

**(a) Market risk**

The Project Company's activities had minimum exposure to the market risks of changes in foreign currency exchange rates and interest rates.

***(i) Currency risk***

The Project Company mainly operates in the PRC with all transactions settled in its functional currencies. Therefore the Project Company does not have significant exposure to risk resulting from changes in foreign currency exchange rates.

***(ii) Interest rate risk***

The Project Company has no floating interest-bearing assets and liabilities. Any change in interest rates in respect of the bank balances of the Project Company is regarded insignificant as these bank balances are short-term in nature. Accordingly, no sensitivity analysis to interest rate risk is presented.

**(b) Credit risk**

The Project Company is exposed to credit risk and the Project Company's maximum exposure to credit risk in relation to financial assets is the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Project Company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Project Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition, having considered available reasonable and supportive forwarding-looking information.

Especially the following indicators are incorporated:

– internal credit rating;

– external credit rating;

– actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;

– actual or expected significant changes in the operating results of the debtor/customer;

– significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customer in the Project Company and changes in the operating results of the customer.

***(i) Other receivables***

| **Category** | **Project Company's definition of categories** | **Basis for recognition of expected credit loss provision** |
|---|---|---|
| Performing | Customers have a low risk of default and a strong capacity to meet contractual cash flows | 12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime |
| Underperforming | Receivables for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due | Lifetime expected losses |
| Non-performing | Interest and/or principal repayments are 60 days past due | Lifetime expected losses |
| Write-off | Interest and/or principal repayments are 120 days past due and there is no reasonable expectation of recovery | Asset is written off |

The Project Company accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. For other receivables, management made periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. In calculating the expected credit loss rates, the Project Company considers historical loss rates for the other of receivables and adjusts for forward looking macroeconomic data.

As at 31 December 2020, 31 December 2021 and 30 September 2022, the internal credit rating of other receivables was performing. The Project Company has assessed that the expected credit loss rate for these receivables is immaterial under 12 months expected losses method. Expected credit losses of approximately RMBNil, RMB4,389,000, and RMB1,651,000 were recognised for the period from 16 January 2020 (date of establishment) to 31 December 2020, year ended 31 October 2021 and nine months ended 30 September 2022 respectively.

*(ii) Cash at bank*

The table below shows the details of bank deposit balances maintained at the end of the Relevant Periods:

| | | As at 31 December 2020 | As at 31 December 2021 | As at 30 September 2022 |
|---|---|---|---|---|
| | *Rating* | *RMB000* | *RMB000* | *RMB000* |
| Bank balances | A1 | 423,031 | 130,849 | 162,796 |

The rating represents long-term credit rating provided by Moody's, an internationally recognised credit rating agency. A rating within the "A" category is judged to be upper-medium grade and are subject to low credit risk under the rating regime of Moody's. Given that significant portion of the bank deposits are placed with banks that are independently rated with high credit rating with no default history in past years, management of the Project Company considers that the credit risk on the bank deposits balances is limited.

**(c) Liquidity risk**

Liquidity risk mainly represents the risk that the Project Company will not be able to meet its financial obligations. The sole director of the Project Company is of the view that the liquidity risk exposed to the Project Company is not regarded significant.

The following tables detail the contractual maturities of the Project Company for their non-derivative financial liabilities, which are based on undiscounted cash flows of financial liabilities based on the earliest date on which the Project Company can be required to pay. The tables include both interest and principal cash flows, if any. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of reporting period.

| | On demand *RMB000* | Less than 1 year *RMB000* | Over 1 year *RMB000* | Total undiscounted cash flows *RMB000* | Carrying amount *RMB000* |
|---|---|---|---|---|---|
| **As at 31 December 2020** | | | | | |
| *Non-derivative financial liabilities* | | | | | |
| – Accounts payables, accruals and other payables | 412,430 | – | – | 412,430 | 412,430 |
| – Amounts due to related parties | 19 | – | – | 19 | 19 |
| – Amount due to a shareholder | 899,290 | – | – | 899,290 | 899,290 |
| | 1,311,739 | – | – | 1,311,739 | 1,311,739 |
| **As at 31 December 2021** | | | | | |
| *Non-derivative financial liabilities* | | | | | |
| – Accounts payables, accruals and other payables | 29,864 | – | – | 29,864 | 29,864 |
| – Amounts due to related parties | 75 | – | – | 75 | 75 |
| – Amount due to a shareholder | 141,321 | – | – | 141,321 | 141,321 |
| – Loan from a related company | – | 100,000 | – | 100,000 | 100,000 |
| | 171,260 | 100,000 | – | 271,260 | 271,260 |
| **As at 30 September 2022** | | | | | |
| *Non-derivative financial liabilities* | | | | | |
| – Accounts payables, accruals and other payables | 10,236 | – | – | 10,236 | 10,236 |
| – Amounts due to related parties | 135 | – | – | 135 | 135 |
| | 10,371 | – | – | 10,371 | 10,371 |

**(d) Liquidity risk**

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The sole director of the Project Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost approximate their fair values.

**28. Related party transaction**

In addition to those disclosed in this Historical Financial Information, the Project Company had the following transaction with a related company:

| | For the period from 16 January 2020 (date of establishment) to 31 December 2020 | Year ended 31 December 2021 | Nine months ended 30 September 2021 | Nine months ended 30 September 2022 |
|---|---|---|---|---|
| | *RMB000* | *RMB000* | *RMB000* (Unaudited) | *RMB000* |
| Interest paid/payable to a related company | – | 6,936 | 6,665 | 5,064 |

**29. Note to the statement of cash flow**

| | Amount due to a shareholder | Loan from a related company | Total |
|---|---|---|---|
| | *RMB000* | *RMB000* | *RMB000* |
| **At 1 January 2022** | 141,321 | 100,000 | 241,321 |
| **Financing cash flows:** | | | |
| – Advance from a shareholder | 173,739 | – | 173,739 |
| – Repayment to a related company | – | (100,000) | (100,000) |
| **Total changes from cash flows** | 173,739 | (100,000) | 73,739 |
| **Non-cash changes:** | | | |
| – Deemed contribution arising from settlement of amount due to a shareholder | (315,060) | – | (315,060) |
| **Total non-cash changes** | (315,060) | – | (315,060) |
| **At 30 September 2022** | – | – | – |
| **At 1 January 2021** | 899,290 | – | 899,290 |
| **Financing cash flows:** | | | |
| – Advance from a shareholder | – | 100,000 | 100,000 |
| – Interest paid | – | (13,600) | (13,600) |
| – Repayment to a related company | (757,969) | – | (757,969) |
| **Total changes from cash flows** | (757,969) | 86,400 | (671,569) |

| | Amount due to a shareholder | Loan from a related company | Total |
|---|---|---|---|
| | *RMB000* | *RMB000* | *RMB000* |
| **Non-cash changes:** | | | |
| – Interest expenses capitalised as properties under development | – | 13,600 | 13,600 |
| **Total non-cash changes** | – | 13,600 | 13,600 |
| **At 31 December 2021** | 141,321 | 100,000 | 241,321 |
| **At 16 January 2020 (date of establishment)** | – | – | – |
| **Financing cash flows:** | | | |
| – Advance from a shareholder | 899,290 | – | 899,290 |
| **Total changes from cash flows** | 899,290 | – | 899,290 |
| **At 31 December 2020** | 899,290 | – | 899,290 |

## 30. Capital commitments

At the end of the Relevant Periods, capital commitments not provided for in the financial statements were as follows:

| | As at 31 December 2020 | As at 31 December 2021 | As at 30 September 2022 |
|---|---|---|---|
| | *RMB000* | *RMB000* | *RMB000* |
| **Contracted but not provided for:** | | | |
| – Construction related cost | 214,602 | 289,679 | 109,342 |

## 31. Contingent liabilities

At the end of the Relevant Periods, the contingent liabilities of the Project Company were as follows:

| | As at 31 December 2020 | As at 31 December 2021 | As at 30 September 2022 |
|---|---|---|---|
| | *RMB000* | *RMB000* | *RMB000* |
| Guarantees granted to financial institutions on behalf of purchasers of property units | – | 629,330 | 877,430 |

The Project Company arranges with various domestic banks in the PRC to provide loan and mortgage facilities to purchasers of its properties prior to the transfer of building ownership certificate. In line with the consumer banking practices in the PRC, these banks require the Project Company to provide guarantees in respect of these loans including the principal, interest and other incidental costs. If a purchaser defaults on loan repayment, the relevant mortgagee bank is entitled to deduct the amount repayable from the restricted cash account. These guarantees would be released by the banks upon the receipt by the banks of the building ownership certificates of the respective properties when the certificate have been issued by the relevant authorities.

The sole director of the Project Company considers that it is not probable for the Project Company to sustain a loss under these guarantees as during the period of these guarantees, the Project Company can take over the ownerships of the related properties under default and resell the properties at prices which are well above the amounts paid/payable by the Project Company to the banks under the guarantees, accordingly no provision for the guarantees has been made in the financial statements.

**32. Effects of COVID-19 epidemic**

Since early 2020, the epidemic of Coronavirus Disease 2019 (the "**COVID-19 outbreak**") has spread across China and other countries and it has affected the business and economic activities of the Project Company to some extent.

The overall financial effect of the COVID-19 outbreak cannot be reliably estimated as of the date of issuance of this Historical Financial Information. The Project Company will pay close attention to the development of the COVID-19 outbreak and continue to evaluate its impact on the property market, the financial position and operating results of the Project Company.

**33. Subsequent financial statements**

No audited financial statements of the Project Company have been prepared in respect of any period subsequent to 30 September 2022.

## (A) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

*The following is the text of a report, prepared of inclusion in this circular, received from the reporting accountants of the Company, CCTH CPA Limited, Certified Public Accountants, Hong Kong.*

CCTH CPA LIMITED
中正天恆會計師有限公司

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

**To the Directors of China Tangshang Holdings Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Tangshang Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 September 2022, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Group for the year ended 31 March 2022 and related notes as set out on pages III-5 to III-16 of Appendix III of the circular issued by the Company dated 20 January 2023 (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on page III-5 in Appendix III of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of 100% equity interest in the Target Company and its subsidiaries and indirect acquisition of 70% equity interest in Project Company (the "**Proposed Acquisition**") on the Group's financial position as at 30 September 2022 as if the Proposed Acquisition had taken place at 30 September 2022 and on the Group's consolidated financial performance and cash flows for the year ended 31 March 2022 as if the Proposed Acquisition had taken place at 1 April 2021. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's consolidated statement of financial position at 30 September 2022 set out in the Company's published annual report for the year ended 30 September 2022 on which an audit report has been published.

**Directors' Responsibilities for the Unaudited Pro forma Financial Information**

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

**Our Independence and Quality Control**

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

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 complied the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules with reference to AG 7 issued by the HKICPA.

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

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration.

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

– the related pro forma adjustments give appropriate effect to those criteria; and

– the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

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

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

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

**Opinion**

In our opinion:

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

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

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

**CCTH CPA Limited**
*Certified Public Accountants*
Hong Kong

**Ng Kam Fai**
Practising Certificate Number P06573

20 January 2023

## (B) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

**Basis of preparation of the unaudited pro forma financial information of the Enlarged Group**

In connection with the Proposed Acquisition, the unaudited pro forma information of the Enlarged Group, comprising the Group, the Reach Glory Group and the Project Company, and the Previous Acquisition of 55% of equity interest of Dongguan Huachuang Industry Development Limited ("**DHLL**") from the non-controlling shareholder which was completed on 6 July 2022, has been prepared to illustrate the effect of the Proposed Acquisition on the Group's financial position as at 30 September 2022 as if the Proposed Acquisition had taken place on 30 September 2022 and as if it had taken place on 1 April 2021 for the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared based on (i) the information of the consolidated statement of financial position of the Group as at 30 September 2022 which has been extracted from the published interim report of the Group for the six months ended 30 September 2022; and (ii) the information on the audited consolidated statement of financial position of the Reach Glory Group and the audited statement of financial position of the Project Company as at 30 September 2022, which has been extracted from the accountants' report set out in Appendix II to this circular.

The unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flow of the Enlarged Group is prepared based on (i) the information of the audited consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flow for the year ended 31 March 2022 of the Group which has been extracted from the published annual report of the Group for the year ended 31 March 2022; and (ii) the information on the consolidated statement of comprehensive income and the consolidated statement of cash flow of the Reach Glory Group and the statement of comprehensive income and the statement of cash flow of the Project Company for the year ended 31 December 2021, which has been extracted from the accountants' reports set out in Appendix II to this circular.

The unaudited pro forma financial information has been prepared by the directors of the Company for illustrative purpose only and is based on a number of assumptions, estimates, uncertainties and currently available information.

Accordingly, the unaudited pro forma financial information of the Enlarged Group does not purport to describe the actual financial position, financial performance, and cash flows of the Enlarged Group that would have been attained has the Proposed Acquisition been completed as at 30 September 2022 or 1 April 2021, nor purport to predict the Enlarged Group's future financial position, financial performance and cash flows.

The unaudited pro forma financial information should be read in conjunction with the financial information of the Group as set out in the published interim report of the Company for the six months period ended 30 September 2022, the published annual report of the Company for the year ended 31 March 2022 and other financial information included elsewhere in the Circular.

**(1) Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group**

| | The Group as at 30 September 2022 | Reach Glory Group as at 30 September 2022 | Project Company as at 30 September 2022 | Proforma adjustments | | | The Enlarged Group |
|---|---|---|---|---|---|---|---|
| | *HK$000* | *HK$000* | *HK$000* | *HK$000* | *HK$000* | *HK$000* | *HK$000* |
| | | | *(Note 1)* | *(Note 2)* | *(Note 4)* | *(Note 5)* | |
| **Non-current assets** | | | | | | | |
| Property, plant and equipment | 3,100 | – | 328 | | | | 3,428 |
| Investment properties | 244,229 | – | – | | | | 244,229 |
| Investment in subsidiary | – | – | – | 359,510 | (359,510) | | – |
| Deferred tax assets | – | – | 7,406 | | | | 7,406 |
| Finance lease receivables | 233,393 | – | – | | | | 233,393 |
| **Total non-current assets** | 480,722 | – | 7,734 | | | | 488,456 |

| | The Group as at 30 September 2022 | Reach Glory Group as at 30 September 2022 | Project Company as at 30 September 2022 | Proforma adjustments | | | The Enlarged Group |
|---|---|---|---|---|---|---|---|
| | *HK$000* | *HK$000* | *HK$000* | *HK$000* | *HK$000* | *HK$000* | *HK$000* |
| | | | *(Note 1)* | *(Note 2)* | *(Note 4)* | *(Note 5)* | |
| **Current assets** | | | | | | | |
| Completed properties held for sale | 414,440 | – | – | | | | 414,440 |
| Properties under development | – | – | 1,571,169 | | 497,331 | | 2,068,500 |
| Prepayments, deposits, and other receivables | 153,693 | – | 421,912 | | | | 575,605 |
| Contract cost | 8,191 | – | – | | | | 8,191 |
| Finance lease receivables | 43,580 | – | – | | | | 43,580 |
| Amounts due from related parties | 2 | – | 1,601 | | | | 1,603 |
| Prepaid tax | 1,246 | – | 124,987 | | | | 126,233 |
| Cash and bank | 290,944 | – | 179,597 | | | | 470,541 |
| **Total current assets** | 912,096 | – | 2,299,266 | | | | 3,708,693 |
| **Total assets** | 1,392,818 | – | 2,307,000 | | | | 4,197,149 |

| | The Group as at 30 September 2022 | Reach Glory Group as at 30 September 2022 | Project Company as at 30 September 2022 | Proforma adjustments | | | The Enlarged Group |
|---|---|---|---|---|---|---|---|
| | *HK$000* | *HK$000* | *HK$000* | *HK$000* | *HK$000* | *HK$000* | *HK$000* |
| | | | *(Note 1)* | *(Note 2)* | *(Note 4)* | *(Note 5)* | |
| **Current liabilities** | | | | | | | |
| Trade and other payables | 93,447 | – | 12,016 | | | 1,475 | 106,938 |
| Contract liabilities | 229,294 | – | 1,923,982 | | | | 2,153,276 |
| Amount due to non-controlling shareholder of a subsidiary | 30,115 | – | – | | | | 30,115 |
| Amounts due to related parties | – | 53 | 149 | | | | 202 |
| Lease liabilities | 48,458 | – | – | | | | 48,458 |
| Current tax liabilities | 10 | – | – | | | | 10 |
| Deferred tax liabilities | – | – | – | | 165,529 | | 165,529 |
| **Total current liabilities** | 401,324 | 53 | 1,936,147 | | | | 2,504,528 |
| **Net current assets/(liabilities)** | 510,772 | (53) | 363,119 | | | | 1,204,165 |
| **Total assets less current liabilities** | 991,494 | (53) | 370,853 | | | | 1,692,621 |
| **Non-current liabilities** | | | | | | | |
| Convertible bonds | – | – | – | 169,532 | | | 169,532 |
| Lease liabilities | 420,120 | – | – | | | | 420,120 |
| **Total non-current liabilities** | 420,120 | – | – | | | | 589,652 |
| **Total liabilities** | 821,444 | (53) | 1,930,560 | | | | 3,094,180 |
| **Net assets/(liabilities)** | 571,374 | (53) | 370,853 | | | | 1,102,969 |
| **Capital and reserves** | | | | | | | |
| Share capital | 144,723 | 78 | 55,160 | 26,700 | (55,238) | | 171,423 |
| Reserves | 389,417 | (131) | 315,693 | 163,278 | (183,266) | (1,475) | 683,516 |
| | 534,140 | (53) | 370,853 | | | | 854,939 |
| **Non-controlling interests** | 37,234 | – | – | | 210,796 | | 248,030 |
| **Total equity/(capital deficiency)** | 571,374 | (53) | 370,853 | | | | 1,102,969 |

## (2) Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Enlarged Group

| | The Group Year ended 31 March 2022 | Reach Glory Group Year ended 31 December 2021 | Project Company Year ended 31 December 2021 | Proforma adjustments | | | The Enlarged Group |
|---|---|---|---|---|---|---|---|
| | *HK$000* | *HK$000* | *HK$000* | *HK$000* | *HK$000* | *HK$000* | *HK$000* |
| | | | *(Note 6)* | *(Note 3)* | *(Note 5)* | *(Note 7)* | |
| **Revenue** | 256,890 | – | – | | | | 256,890 |
| Other gains or losses, net | (19,862) | – | 1,218 | | | | (18,644) |
| Cost of completed properties sold | (132,690) | – | – | | | | (132,690) |
| Depreciation on property, plant and equipment | (2,802) | – | (166) | | | | (2,968) |
| Staff costs | (10,634) | – | (5,369) | | | | (16,003) |
| Other operating expenses | (29,283) | (16) | (14,002) | | (1,475) | | (44,776) |
| Finance costs | (36,849) | – | – | (62) | | (13,570) | (50,481) |
| **Profit/(loss) before income tax** | 24,770 | (16) | (18,319) | | | | (8,672) |
| Income tax (expenses)/credit | (9,092) | – | 3,258 | | | | (5,834) |
| **Profit/(loss) for the year** | 15,678 | (16) | (15,061) | | | | (14,506) |
| **Other comprehensive income** | | | | | | | |
| **Items that may be reclassified subsequently to profit or loss** | | | | | | | |
| – Exchange difference arising on translating foreign operations | 22,583 | – | – | | | | 22,583 |
| – Release of foreign exchange reserve upon disposal of subsidiaries | (2) | – | – | | | | (2) |
| **Other comprehensive income for the year, net of tax** | 22,581 | – | – | | | | 22,581 |
| **Total comprehensive income/(loss) for the year** | 38,259 | (16) | (15,061) | | | | 8,075 |

## (3) Unaudited Pro Forma Consolidated Statement of Cash Flows of the Enlarged Group

| | The Group Year ended 31 March 2022 | Reach Glory Group Year ended 31 December 2021 | Project Company Year ended 31 December 2021 | Proforma adjustments | | | The Enlarged Group |
|---|---|---|---|---|---|---|---|
| | *HK$000* | *HK$000* | *HK$000* | *HK$000* | *HK$000* | *HK$000* | *HK$000* |
| | | | *(Note 6)* | *(Note 3)* | *(Note 5)* | *(Note 7)* | |
| **Operating activities** | | | | | | | |
| Profit/(loss) before income tax | 24,770 | (16) | (18,319) | (62) | (1,475) | (13,570) | (8,672) |
| *Adjustments for:* | | | | | | | |
| – Interest income | (468) | – | (683) | | | | (1,151) |
| – Interest expenses | 36,849 | – | – | 62 | | 13,570 | 50,481 |
| – Depreciation of property, plant and equipment | 2,802 | – | 166 | | | | 2,968 |
| – Loss on derecognition of investment properties | 2,928 | – | – | | | | 2,928 |
| – Loss on modification of finance lease receivables | 6,205 | – | – | | | | 6,205 |
| – Loss on termination of lease contracts | 4,764 | – | – | | | | 4,764 |
| – Gain on disposal of right-of-use assets | (1,845) | – | – | | | | (1,845) |
| – Fair value loss on investment properties | 11,547 | – | – | | | | 11,547 |
| – Gain on disposal of subsidiaries | (5) | – | – | | | | (5) |
| **Operating cash flows before movements in working capital** | 87,547 | (16) | (18,836) | | | | 67,220 |
| Decrease/(increase) in trade and other receivables | 53,707 | – | (374,561) | | | | (320,854) |
| Increase in contract costs | (9,394) | – | – | | | | (9,394) |
| Increase in properties under development and completed properties held for sale | (19,579) | – | (338,093) | | | | (357,672) |
| Increase in finance lease receivables | (10,289) | – | – | | | | (10,289) |
| Decrease/(increase) in restricted cash | 69,906 | – | (121,779) | | | | (51,873) |
| Increase/(decrease) in trade and other payables | 72,920 | – | (458,946) | | 1,475 | | (384,551) |
| Increase in contract liabilities | 124,821 | – | 1,646,923 | | | | 1,771,744 |

| | The Group Year ended 31 March 2022 | Reach Glory Group Year ended 31 December 2021 | Project Company Year ended 31 December 2021 | Proforma adjustments | | | The Enlarged Group |
|---|---|---|---|---|---|---|---|
| | *HK$000* | *HK$000* | *HK$000* | *HK$000* | *HK$000* | *HK$000* | *HK$000* |
| | | | *(Note 6)* | *(Note 3)* | *(Note 5)* | *(Note 7)* | |
| **Cash generated from/(used in) operations** | 369,639 | (16) | 334,708 | | | | 704,331 |
| Interest received | 468 | – | 683 | | | | 1,151 |
| Tax paid | (15,005) | – | – | | | | (15,005) |
| **Net cash generated from/(used in) operating activities** | 355,102 | (16) | 335,391 | | | | 690,477 |
| **Investing activities** | | | | | | | |
| Disposal of subsidiaries, net of cash disposed | (18) | – | – | | | | (18) |
| Increase in amounts due from non-controlling shareholders of subsidiaries | 5,349 | – | – | | | | 5,349 |
| Increase in amounts due to non-controlling shareholders of subsidiaries | 1,673 | – | – | | | | 1,673 |
| Decrease in amounts due from related parties | 1 | – | – | | | | 1 |
| Purchases of property, plant and equipment | (237) | – | (84) | | | | (321) |
| **Net cash generated from/(used in) investing activities** | 6,768 | – | (84) | | | | 6,684 |
| **Financing activities** | | | | | | | |
| Increase in bank borrowings/loan from related party | 26,783 | 16 | 120,480 | | | | 147,279 |
| Repayment of bank borrowings | (225,970) | – | – | | | | (225,970) |
| Repayment to non-controlling shareholder of a subsidiary | – | – | (913,201) | | | | (913,201) |
| Interest paid | (51,056) | – | (16,385) | | | | (67,441) |
| Repayment of principal portion of the lease liabilities | (30,652) | – | – | | | | (30,652) |
| **Net cash (used in)/generated from financing activities** | (280,895) | 16 | (809,106) | | | | (1,089,985) |

| | The Group Year ended 31 March 2022 | Reach Glory Group Year ended 31 December 2021 | Project Company Year ended 31 December 2021 | Proforma adjustments | | | The Enlarged Group |
|---|---|---|---|---|---|---|---|
| | *HK$000* | *HK$000* | *HK$000* | *HK$000* | *HK$000* | *HK$000* | *HK$000* |
| | | | *(Note 6)* | *(Note 3)* | *(Note 5)* | *(Note 7)* | |
| **Net increase/(decrease) in cash and cash equivalents** | 80,975 | – | (473,799) | | | | (392,824) |
| **Cash and cash equivalents at beginning of the year** | 61,590 | – | 502,392 | | | | 563,982 |
| Effects of foreign exchange rate changes | 2,191 | – | 7,933 | | | | 10,124 |
| **Cash and cash equivalents at end of the year** | 144,756 | – | 36,526 | | | | 181,282 |

## Notes to the unaudited pro forma financial information

(1) The assets and liabilities of the Project Company as at 30 September 2022 are translated at the exchange rate of 1 Renminbi (“**RMB**”) to 1.1032 Hong Kong Dollars (“**HK$**”) prevailing at 30 September 2022. No representation is made that RMB amount have been, could have been, or could be converted into HK$ or vice versa.

(2) On 31 October 2022, the Company entered into the Sale and Purchase Agreement with Mr. Chen Weiwu, the sole controlling and beneficiary shareholder of the Target Company and a director of the Company. Pursuant to the Sale and Purchase Agreement, the Company has agreed to acquire 100% equity interest in the Target Company for the Consideration of RMB315,000,000 which shall be payable by the Company by way of (i) issue and allotment of 534,000,000 Consideration Shares to Mr. Chen at an issue price of HK$0.2 per Consideration Share, resulting in a total value of HK$106,800,000 of Consideration Shares, and (ii) issue of Convertible Bonds in the principal amount of HK$249,150,000 at a conversion price of H$0.2 per share.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group has been prepared as if completion of the Proposed Acquisition had taken place on 30 September 2022. The consideration payable by the Group for the acquisition pursuant to the Sale and Purchase Agreement is calculated as follows:

| | *Notes* | *HK$'000* | *HK$'000* |
|---|---|---|---|
| **Issues of Share Consideration** | *(a)* | | |
| – Share capital | | 26,700 | |
| – Equity | | 81,168 | |
| | | | 107,868 |
| **Issues of Convertible Bonds** | *(b)* | | |
| – Liability component | | 169,532 | |
| – Equity component | | 82,110 | |
| | | | 251,642 |
| Total Consideration | | | 359,510 |

(a) For the purpose of this unaudited pro forma financial information, the fair value of the Consideration Shares is calculated based on the price of HK$0.202 per share of the Company quoted on the Stock Exchange as at 30 September 2022 with a total share consideration of approximately HK$107,868,000. The issue of 534,000,000 Consideration Shares with par value of HK$0.05 will result in the increase in share capital of HK$26,700,000 and share premium (included in the reserves) of HK$81,168,000.

(b) The Company has engaged an independent professional valuer to perform a valuation on the fair value of the Convertible Bonds and the valuation date is 30 September 2022. Based on the valuation report, the fair value of the liability component of Convertible Bonds was calculated by discounting the future cash flows at the effective interest rate of 7.7%. The fair value of the liability component of Convertible Bonds of approximately HK$169,532,000 is credited under non-current liabilities since the maturity date of the Convertible Bonds will be made on the date falling on the fifth anniversary of the issue date of the Circular. The fair value of the equity component representing the conversion rights of the Convertible Bonds is calculated by binomial option pricing model. The fair value of the equity component of Convertible Bonds of approximately HK$82,110,000 is credited in convertible bonds reserve.

(c) The Directors believed that the valuation of Consideration Shares and Convertible Bonds as at 30 September 2022 for the preparation of this pro forma financial information would provide more relevant information to the users of this Circular.

(3) On 6 July 2022, the Previous Acquisition was completed. The cost of investment consisted of (i) cash consideration of RMB40,000,000 (equivalent to approximately HK$47,718,000); (ii) issue of 450,000,000 shares; and (iii) issue of Convertible Bonds in the principal amount of HK$27,120,000.

Details of the Previous Acquisition were disclosed in the Company's announcement dated 30 July 2021 and the Company's circular dated 30 September 2021. On 18 July 2022, the Company received a conversion notice from Shenzhen Yaoling for exercise of the conversion rights attached to the Convertible Bonds in respect of the entire principal amount of HK$27,120,000 at conversion price of HK$0.2 per conversion share, a total number of 135,600,000 conversion share shall be issued to Shenzhen Yaoling. Details of the Convertible Bonds were disclosed in the Company's announcement dated 6 July 2022 and 18 July 2022, respectively.

After the issuance of shares and the conversion of convertible bonds, the share capital and reserves was increased by approximately HK$29,280,000 and HK$87,942,000 respectively. The interest expense on the liability components of convertible bonds amounted to approximately HK$62,000 was recognised in Unaudited Pro Forma Consolidated Statement of Comprehensive Income of the Enlarged Group.

(4) Upon completion of the Proposed Acquisition, 100% equity interest in the Reach Glory Group and 70% of equity interest in the Project Company will be held by the Company. The net identifiable assets and liabilities of the Reach Glory Group and the Project Company will be accounted for in the consolidated financial statements of the Company at their fair value under the acquisition method of accounting. The adjustment represents (1) the recognition of the gain on bargaining purchase (note d below), amounted to approximately HK$132,296,000, which was credited to reserves of the unaudited proforma consolidated statement of financial position of the Enlarged Group; and (2) the elimination of the enlarged share capital and reserves of Reach Glory Group and the Project Company, amounted to approximately HK$53,238,000 and HK$315,562,000 respectively, which was debited to share capital and reserves of the unaudited proforma consolidated statement of financial position of the Enlarged Group. The corresponding non-controlling interest of approximately HK$210,796,000 represented 30% of the fair value of the identifiable assets and liabilities of the Project Company.

The gain on bargaining purchase arising from the Proposed Acquisition is calculated below:

| | *Notes* | *HK$'000* | *HK$'000* |
|---|---|---|---|
| Total Consideration | *(a)* | | 359,510 |
| **Fair value of the assets and liabilities of the Project Company** | | | |
| Property, plant and equipment | | 328 | |
| Deferred tax asset | | 7,406 | |
| Properties under development | *(b)* | 2,068,500 | |
| Prepayment, deposits and other receivables | | 421,912 | |
| Amounts due from related parties | | 1,601 | |
| Prepaid taxes | | 124,987 | |
| Cash and bank balances | | 179,597 | |
| Accounts payables, accruals and other payables | | (12,016) | |
| Contract liabilities | | (1,923,982) | |
| Amounts due to related parties | | (149) | |
| Deferred tax liabilities | *(c)* | (165,529) | |
| | | 702,655 | |
| 70% of equity interest | | 491,859 | |
| *Less:* Fair value of net assets acquired of the Reach Glory Group | | (53) | |
| Fair value of net asset acquired | | | 491,806 |
| Gain on bargaining purchase | *(d)* | | (132,296) |

For the purposes of the calculation of the gain on bargaining purchase arising from the Proposed Acquisition, the following bases and assumptions are adopted:

(a) The fair value of the consideration is amounted to approximately HK$359,510,000, details refer to Note (2) in above.

(b) The fair value of the properties under development is estimated to be approximately RMB1,875,000,000 (equivalent to approximately HK$2,068,500,000) at 30 September 2022, as valued by a professional property valuer. The fair value change in properties under development amounted to approximately HK$497,331,000 and the corresponding deferred tax liabilities amounted to approximately HK$165,529,000 was recognised (Note c).

(c) Deferred tax liabilities of approximately HK$165,529,000 included deferred land appreciation tax of approximately HK$54,929,000 and deferred corporate income tax of approximately HK$110,600,000 related to the adjustments of the development properties to their fair value (Note b).

The deferred land appreciation tax is calculated at a rate of 30% on the appreciation of land value, being the fair value of the properties as at 30 September 2022 less property development expenditures, including borrowing costs, which are considered to be deductible pursuant to the relevant PRC land appreciation tax regulations.

The deferred corporate income tax is calculated based on 25% of the valuation surplus of the development properties, being excess of fair value of the development properties (Note b) over the aggregate of the property development expenditures incurred and aforementioned deferred land appreciation tax.

(d) The fair value of the other assets and liabilities of the Reach Glory Group and the Project Company is estimated to be approximate to their respective carrying amounts at 30 September 2022. The gain on bargaining purchase of approximately HK$132,296,000 was credited to reserve under unaudited pro forma consolidated statement of financial position of the Enlarged Group.

The Proposed Acquisition is accounted for using the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standard ("**HKFRS**") 3 "Business Combinations". The Directors believe that the acquired items constitute a business in accordance with HKFRS 3. The recognition of gain of bargaining purchase of approximately HK$132,296,000 arose from the Proposed Acquisition as if the Proposed Acquisition was completed on 31 March 2022.

Upon completion of the Acquisition, the actual goodwill of the Enlarged Group, for accounting purpose, will need to be recalculated based on the fair value of the net identifiable assets and liabilities of the Reach Glory Group and the Project Company at the date of completion of the Proposed Acquisition. The actual financial effects may be different from the amounts presented above.

(5) The adjustment represents the recognition of other acquisition costs amounting to approximately HK$1,475,000 as estimated by the Directors which mainly comprises legal and professional fees.

(6) The statement of comprehensive income and statement of cash flow of the Project Company were translated at the average exchange rate of RMB into HK$ in the year of 2021.

(7) This was the imputed interest expenses of the convertible bond assuming the Proposed Acquisition was on 31 March 2022.

(8) No other adjustments have been made to reflect any trading results or other transactions of the Group, subsequent to 31 March 2022.

*The following is the text of a property valuation report prepared for inclusion in this document, received from APAC Asset Valuation and Consulting Limited, an independent property valuer, in connection with their valuations as of 31 October 2022 of the Property to be acquired by the Group.*

**APAC Asset Valuation and Consulting Limited**
5/F, Blissful Building, 243 – 247 Des Voeux Road Central, Hong Kong
Tel: (852) 2357 0085
Fax: (852) 2951 0799

China Tangshang Holdings Limited
Unit 1201, 12/F
29 Austin Road, Tsim Sha Tsui
Hong Kong

20 January 2023

Dear Sirs,

**RE: VALUATION OF PUNING TANGSHANG ZHONGYANG GARDEN (普寧唐商中央花園), BEIHUAN AVENUE, PUNING, JIEYANG, GUANGDONG PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA (THE "PROPERTY") (THE "PRC")**

In accordance with the instructions from China Tangshang Holdings Limited (the "**Company**") for us to value the Property situated in The People's Republic of China (the "**PRC**"), we confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at 31 October 2022 (the "**valuation date**") for the purpose of incorporation into the circular issued by the Company.

## BASIS OF VALUATION

Our valuation of the Property is our opinion of its market value 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.

We confirm that the valuations are undertaken in accordance with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited published by The Stock Exchange of Hong Kong Limited, and the HKIS Valuation Standards 2020 issued by the Hong Kong Institute of Surveyors.

## VALUATION ASSUMPTIONS

Our valuation has been made on the assumption that the owners sell the Property on the open markets without the benefit or burden of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which would serve to affect the values of the Property.

No allowance has been made in our valuation report for any charge, mortgage or amount owing on the Property nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

## VALUATION METHODOLOGY

In valuing the Property which is under development in the PRC, we have valued the Property on the basis that the Property will be developed and completed in accordance with the latest development scheme provided to us and all consents, approvals and licences from relevant government authorities for the development scheme have been or will be obtained without any onerous conditions. We have adopted the direct comparison method by making reference to comparable sales evidences as available in the relevant market, and have taken into account the expended and outstanding construction costs to reflect the quality of the completed development.

## TITLE AND ASSUMPTIONS

We have been provided with copies of extracts of title documents relating to the Property. However, we have not caused title searches to be made for the Property at the relevant government bureaus in the PRC and have not inspected the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuation for the Property in the PRC, we have relied on the legal opinion provided by the Company's PRC legal adviser, China Commercial Law Firm（廣東華商律師事務所）, regarding the title and other legal matters to the Property.

## SOURCES OF INFORMATION

We have relied to a very considerable extent on information given by the Company and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, site area and all other relevant matters. No on-site measurement has been taken. Dimensions, measurements and areas included in the valuation report are only approximations. We have taken every reasonable care both during inspecting the information provided to us and in making relevant enquiries. We have no reason to doubt the truth and accuracy of the information provided to us by the Company, which is material to our valuation. We were also advised by the Company that no material facts have been omitted from the information provided to us.

## SITE INSPECTIONS

Subject to the current pandemic conditions, we are not able to carry out physical site inspection of the property and we have inspected the Property by means of video conference on 27 October 2022 by Mr. Pang Kin Fai (MSc in Real Estate). We have inspected the surrounding environment of the Property, the external of common areas and facilities (such as greenery area, recreational facilities and school) and each of the building of the Property. As the Property was under construction works at the time of our inspection, we have not inspected the interior of the Property. However, we have not carried out detailed measurements to verify the correctness of the areas in respect of the Property but have assumed that the areas shown on the title documents handed to us are correct. We have not carried out investigations on the site to determine the suitability of the ground conditions and the services for any future development. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

## LIMITATION OF LIABILITIES

This valuation report is issued on the understanding that you have drawn our attention to all matters of which they are aware concerning the Property which may have an impact on our valuation report up to the valuation date. We have no responsibility to update this valuation report for events and circumstances occurring after the date of completion of our assessment but will be pleased to discuss further instructions as may be required.

**CURRENCY**

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

Our valuation report is attached.

Yours faithfully,

For and on behalf of
**APAC Asset Valuation and Consulting Limited**
**Vincent K. F. Pang**
**MHKIS, MRICS, RPS (GP)**
*Director*

*Note:* Mr. Vincent K. F. Pang is a Registered Professional Surveyor in General Practice Division with over 26 years valuation experience on properties in Hong Kong and the PRC.

Encl.

## VALUATION REPORT

| Property | Description and tenure | Particulars of occupancy | Market value in existing state as at 31 October 2022 |
|---|---|---|---|
| Puning Tangshang Zhongyang Garden (普寧唐商中央花園), Beihuan Avenue, Puning, Jieyang, Guangdong Province, The PRC | Puning Tangshang Zhongyang Garden (the "**Property**") is a residential development to be erected on a parcel of land with a site area of 44,654.86 sq. m.<br><br>The Property is located at the junction of Beihuan Avenue and Tieshanlan Road. The locality of the Property is characterized by a mixture of residential and industrial developments of various ages and heights.<br><br>According to the latest development proposal provided by the Company, the Property is planned to be developed into a residential development with a total gross floor area of approximately 213,187.36 sq. m. and 1,480 carparking spaces. The Property is planned to be completed in 2022. Details of the areas are as follow: | The Property was under construction as at the valuation date. | RMB1,905,000,000 |

| Portion | Approximate gross floor area (sq.m.) |
|---|---|
| Residential | 205,931.20 |
| Retail | 7,256.16 |
| Total: | 213,187.36 |

The land use rights of the Property have been granted for terms expiring on 30 June 2090 for residential use and 30 June 2060 for commercial services use respectively.

1. Pursuant to the Real Estate Title Certificate – Yue (2021) Pu Ning Shi Bu Dong Chang Quan Di No. 0000044 dated 5 January 2021, the land use rights of the Property with a site area of 44,654.86 sq. m. were granted to 普寧華創文實業開發有限公司 (the "**Project Company**") for land use rights terms expiring on 30 June 2090 for residential use and 30 June 2060 for retail commercial use respectively.

2. Pursuant to the Planning Permit for Construction Use of Land – Di Zi Di No. 4452812020R022 issued by Puning Natural Resources Bureau, the Project Company is permitted to use a parcel of land with site area of 53,933 sq m for the development of residential and retail commercial uses.

3. Pursuant to the Planning Permit for Construction Works – Jian Zi Di No. 4452812020G032 issued by Puning Natural Resources Bureau, the development scheme of the Property is approved.

4. Pursuant to two Construction Work Commencement Permits Nos. 445281202012110101 and 445281202101080101, the construction works of the Property were approved for commencement.

5. Pursuant to three Pre-sale Permits – Pu Jian Shou Xu Zi (2021) Nos. 01, 06 and 14 all issued by Puning Residential and Urban and Village Construction Bureau in 2021, portion of the Property with a total gross floor area of 213,279.18 sq m were allowed for pre-sale.

6. As advised by the Company, as at the valuation date, the total construction cost incurred for the Property was approximately RMB543,817,000 whereas the total budget construction cost was approximately RMB656,301,000. In the course of our valuation, we have taken into account the said amounts in our valuation.

7. According to the information provided, portion of the Property with a total gross floor area of approximately 190,159.68 sq m and 92 car parking spaces were pre-sold at a total consideration of about RMB1,821,000,000. We have taken into account this consideration in our valuation. The market value of the proposed development if completed as at the date of valuation was about RMB2,258,700,000.

8. We have been provided with a legal opinion on the Property issued by the Company's PRC legal adviser, which contains, inter alia, the followings:

   i. The Project Company has acquired the relevant Real Estate Title Certificate of the Property and is the legal owner of the land use rights of the Property and is entitled to occupy, use, marking profit from and disposed of the Property;

ii. the Project Company has acquired the relevant Planning Permit for Construction Use of Land, Planning Permit for Construction Works and Construction Work Commencement Permit, the land use planning conditions, planning of construction works and commencement of construction works were approved by the Government;

iii. the Project Company has acquired the relevant Pre-sale Permit of the Property and can pre-sale the Property legally; and

iv. the land use rights of the property are free from mortgage and other encumbrances.

*Set out below is the management discussion and analysis of the Group for each of the three years ended 31 March 2020, 2021 and 2022 and the six months ended 30 September 2022.*

## FOR THE YEAR ENDED 31 MARCH 2020

### FINANCIAL REVIEW

#### Consolidated results

For the year ended 31 March 2020, the Group recorded revenue of approximately HK$78.4 million compared to approximately HK$81.4 million for the last financial year, representing a decrease of about 3.7%, and loss for the year ended 31 March 2020 of approximately HK$33.7 million compared to approximately HK$15.0 million for the last financial year, representing an increase of about 124.7%. The significant increase in loss was primarily resulted from (i) fair value loss on investment properties of approximately HK$24.3 million after adoption of HKFRS 16 Lease and, (ii) provision for financial guarantee of approximately HK$20.6 million.

### BUSINESS REVIEW

#### Exhibition-related business

China Resources Advertising & Exhibition Company Limited, a direct wholly-owned subsidiary of the Company (together with its subsidiaries, the "**CRA Group**") is principally engaged in exhibition-related business. The CRA Group has acted as an organiser and contractor for exhibitions and meeting events held in Hong Kong. It has developed over 20 years of relationship with the Hong Kong Trade Development Council ("**HKTDC**") and has become one of the major agents organising trade fairs for PRC groups whilst most of which were co-organised with the HKTDC. The clients of the CRA Group are primarily PRC based including numerous sub-councils of the China Council for the Promotion of International Trade in the PRC. For the year ended 31 March 2020, this business segment recorded revenue of approximately HK$12.3 million compared to approximately HK$26.0 million for the last financial year, representing a decrease of about 52.7%. The drop in revenue was mainly due to the adverse impact of the coronavirus disease 2019 (the "**COVID-19**") pandemic on the exhibition industry. The segment recorded loss for the year ended 31 March 2020 of approximately HK$2.9 million compared to loss of approximately HK$4.0 million for the last financial year, representing a decrease of about 27.5%.

### Property sub-leasing, development and investment business

For the year ended 31 March 2020, this business segment recorded revenue of approximately HK$65.5 million compared to approximately HK$45.3 million for the last financial year, representing an increase of about 44.6%, the increase in revenue was mainly resulted from: (i) the increase in rent for new tenants and renewal tenants in sub-leasing certain properties in Nanjing, PRC; and (ii) acquisition of a PRC company engaging in subleasing business in Shenzhen in October 2018, which contributed approximately HK$14.7 million of revenue for the year ended 31 March 2020. This business segment recorded profit for the year ended 31 March 2020 of approximately HK$11.0 million as compared to profit of approximately HK$6.6 million for the last financial year, representing an increase of about 66.7%.

## FINANCIAL SERVICES BUSINESS

### Money lending

During the year ended 31 March 2020, the Group conducted money lending business in Hong Kong and recognised interest income for approximately HK$0.6 million (2019: HK$2.5 million). The Group will continue to explore opportunities prudently to develop this business sector but at the same time will maintain a balance and review its loan portfolio so as to control the risks of debt default.

### Securities, futures and asset management

The Group was successfully granted Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) licenses by Securities and Futures Commission ("**SFC**") in May 2019 and Type 2 (dealing in futures contracts) license by SFC in June 2019. By obtaining these licenses, the management considers this would enable the Group to further diversify its business within the financial services sector, and thereby provide viable business development opportunities to the Group.

### Liquidity and financial resources

As at 31 March 2020, the Group had bank and other borrowings, bills payables and convertible bonds in total of approximately HK$178.7 million. As at 31 March 2019, the Group had bank borrowings and convertible bonds in total of approximately HK$126.6 million. The gearing ratio of the Group as at 31 March 2020 was 28.1% (2019: 6.4%). Such ratio was calculated with reference to the bank and other borrowings, bills payables and convertible bonds, and deduction of cash and cash equivalents, over the Company's equity attributable to owners of the Company. As at 31 March 2020, the Group had net current assets of approximately HK$54.7 million (2019: net current assets of approximately HK$79.7 million). The current ratio of the Group as at 31 March 2020 was approximately 1.2 compared with 1.4 as at 31 March 2019.

The maturity profile of the Group's bank and other borrowings is set out as follows:

| | **2020** | **2019** |
|---|---|---|
| | *HK$ Million* | *HK$ Million* |
| Repayable: | | |
| Within one year | 67.0 | 43.6 |
| More than one year, but not exceeding two years | 17.3 | — |
| More than two years, but not exceeding three years | 8.2 | — |
| Total | 92.5 | 43.6 |

The carrying amounts of all the Group's bank and other borrowings were denominated in RMB. As at 31 March 2020, approximately HK$54.7 million the Group's bank and other borrowings balance was charged at fixed rate, and approximately HK$37.8 million charged at floating rate. The bank and other borrowings carry effective interest rates ranged from 4.15% to 8.23% (2019: 5.66% to 6.84%).

The revenue of the Group, being mostly denominated in Renminbi and Hong Kong dollar, matches the currency requirement of the Group's expenses while other foreign currencies were immaterial. During the year ended 31 March 2020, no financial instrument was entered into by the Group used for hedging purpose. The Group was not exposed to any exchange rate risk or any related hedges.

**Fund raising activities**

In prior years, the Group completed the following fund raising exercise to strengthen its financial position and raised the gross proceeds of approximately HK$42.0 million, with the net proceeds of approximately HK$41.8 million after deduction of issuance expenses. Details of which are set out as follows:

| Date of announcement | Description of fund raising activities | Intended use of proceeds | Actual use of proceeds as at 31 March 2020 | Unutilised amount as at 31 March 2020 |
|---|---|---|---|---|
| 31 August 2018 | Issue of convertible bonds in an aggregate principal amount of HK$42,031,080 | Approximately HK$27.2 million for money lending business of the Group in Hong Kong | Nil | Approximately HK$27.2 million was reserved to be used to provide additional resources for the expansion and development of the Group's money lending business when such expansion and development plan materialises |
| | | Approximately HK$14.6 million for general working capital of the Group | Approximately HK$14.6 million was used for general working capital of the Group as intended | Nil |

| Date of announcement | Description of fund raising activities | Intended use of proceeds | Actual use of proceeds as at 31 March 2020 | Unutilised amount as at 31 March 2020 |
|---|---|---|---|---|
| 26 July 2017 | Issue of convertible bonds in an aggregate principal amount of HK$46,341,960 | Approximately HK$32.1 million for potential acquisition | Nil | Approximately HK$32.1 million was reserved to be used by the Group to acquire entire share capital of the Topper Genius Investments Limited (峰智投資有限公司), which indirectly hold 35% of the equity interest in Dongguan Huachuangwen Land Ltd* (東莞市華創文置地有限公司) through Topper Genius Investments Limited |
| | | Approximately HK$14.0 million for general working capital of the Group | Approximately HK$14.0 million was used for general working capital of the Group as intended | Nil |

**Charges**

As at 31 March 2020, all of the bank and other borrowings of the Group in the total amount of approximately HK$92.5 million were secured by personal and corporate guarantees provided by Mr. Yang Lei, a director of certain subsidiaries of the Company, his spouse and a related company, which is beneficially owned by Mr. Yang Lei and his spouse (the "**Related Company**"), a related party and the independent third party companies. Certain assets of Mr. Yang Lei, his spouse, a related party, the Related Company, the independent third party companies and investment properties of the Group with carrying amounts of approximately HK$118.7 million were also pledged to secure the aforesaid bank and other borrowings of the Group.

On 3 September 2019, 南京垠坤投資實業有限公司(Nanjing Yinkun Investment Corporation Co. Ltd.*), an indirect non-wholly owned subsidiary of the Company, provided the guarantees in respect of a loan facility for the principal amount of up to RMB100 million provided to an independent third party from a financial institution in the PRC. Such facility shall be matured in 36 months, RMB80 million and RMB20 million were drawn down in September 2019 and January 2020 respectively.

Save as disclosed above, the Group did not have any charges on assets as at 31 March 2020.

**Contingent liabilities**

As at 31 March 2020, the Group had no material contingent liabilities.

**Emolument policy**

As at 31 March 2020, the Group employed a total number of 110 (2019: 98) employees. The remuneration of the employees of the Group is amounted to approximately HK$21.8 million for the year ended 31 March 2020 (2019: HK$16.2 million). The Group remunerates its employees based on their performance, experience and prevailing industry practices. The emoluments of the Directors and senior management of the Company are decided by the remuneration committee of the Company, having regard to the Company's operating results, individual performance and comparable market statistics.

The Group periodically reviews its remuneration package in order to attract, motivate and retain its employees. Discretionary bonuses may be rewarded to the Directors and employees depending on the Group's operating results and their performance.

Further, the Company has also adopted a share option scheme for the primary purpose of providing incentives or rewards to any the Director, employee and other eligible participant who made significant contribution to the Group. The Group also provides external training courses to its staff to improve their skills and services on an ongoing basis.

**Significant investments held, material acquisitions and disposals of subsidiaries, associates and joint ventures, and future plans for material investments or capital assets**

On 9 April 2020, the Company entered into the equity sale and purchase agreement with Mr. Chen Weiwu, the 53.8% shareholder of the Company, to acquire entire share capital of the Topper Genius Investments Limited ("**Topper Genius**") and its subsidiaries (the "**Topper Group**") (the "**Dongguan Acquisition**"). Upon the completion of the Dongguan Acquisition, the Company will indirectly hold 35% of the equity interest in the Dongguan Huachuangwen Land Ltd.* (東莞市華創文置地有限公司) (the "**Dongguan Project Company**") through the Topper Genius, thereby commencing its property development business in the PRC. The consideration of the Dongguan Acquisition shall be settled by way of cash payment of HK$36,861,538 (equivalent to approximately RMB33,544,000) and issue and allotment of 800,000,000 consideration shares of the Company. The Dongguan Acquisition was already completed on 27 July 2020. Details of the Dongguan Acquisition were disclosed in the Company's announcement dated 9 April 2020 and the circular dated 22 June 2020, respectively.

Save as disclosed above, there was no significant investments held, no material acquisitions or disposals of subsidiaries, associates or joint ventures.

**Outlook**

The outbreak of COVID-19 has resulted in major impact to businesses especially in exhibition segment and the future is challenging and unpredictable in global business environment. The pandemic has put forward higher requirements for the Group to review and perform in terms of its future strategy planning. Despite the challenges currently facing, the PRC economy has shown stable growth momentum, supported by the sustainable development and continuous improvement in the macro economy. As a result of the adverse impact of COVID-19, the Directors of the Group are expecting the businesses to remain cautious and will take appropriate measures as and when it is necessary to minimise the financial impact, meanwhile to also look for potential investment opportunities which could strengthen the financial profitability for the Group.

The management team and the Board of Directors are made up of highly qualified and competent individuals who are experienced in the real estate development industry in PRC. The team possesses significant knowledge, resources and networks in China of which the Company expects to be able to leverage for its future development in the property sub-leasing, development and investment projects in the PRC.

The Group has continued its efforts to consolidate and realign its businesses to enable the Group to achieve improvements in its financial position and to meet its performance objectives. The Group is working towards attaining a sustainable growth whilst continuously exploring and diversifying other suitable investment opportunities (if any) to enhance the overall earning potential, and ultimately maximising the shareholder value.

**Currency risk**

The Group mainly operates in Hong Kong and the PRC with most of the transactions settled in their respective functional currencies in which the group entities operate. Therefore the Group does not have significant exposure to risk resulting from changes in foreign currency exchange rates.

## FOR THE YEAR ENDED 31 MARCH 2021

## FINANCIAL REVIEW

**Consolidated results**

For the year ended 31 March 2021, the Group recorded revenue of approximately HK$56.7 million compared to approximately HK$78.4 million for the last financial year, representing a decrease of about 27.7%, and loss for the year ended 31 March 2021 of approximately HK$47.6 million compared to approximately HK$33.7 million for the last financial year, representing an increase of about 41%. The significant increase in loss was primarily resulted from (i) fair value loss on investment properties of approximately HK$56 million, and (ii) provision for financial guarantee of approximately HK$22.9 million.

## BUSINESS REVIEW

### Exhibition-related business

China Resources Advertising & Exhibition Company Limited, a direct wholly-owned subsidiary of the Company (together with its subsidiaries, the "**CRA Group**") is principally engaged in exhibition-related business. The CRA Group has acted as an organiser and contractor for exhibitions and meeting events held in Hong Kong. It has developed over 20 years of relationship with the Hong Kong Trade Development Council ("**HKTDC**") and has become one of the major agents organising trade fairs for PRC groups whilst most of which were co-organised with the HKTDC. The clients of the CRA Group are primarily PRC based including numerous sub-councils of the China Council for the Promotion of International Trade in the PRC. For the year ended 31 March 2021, this business segment recorded revenue of approximately HK$0.5 million compared to approximately HK$12.3 million for the last financial year, representing a decrease of about 95.9%. The drop in revenue was mainly due to the impact of the coronavirus disease 2019 (the "**COVID-19**") pandemic on the exhibition industry. The segment had been disrupted by the business travel restrictions imposed by nations of our own and across the world and the fact that many exhibitions had been canceled or postponed. The segment recorded loss for the year ended 31 March 2021 of approximately HK$0.7 million compared to loss of approximately HK$2.9 million for the last financial year, representing a decrease of about 75.9%. The CRA Group has been disposed during the year to mitigate loss as the outlook of this business sector is still uncertain in view of the continuous travel restrictions across the world.

### Property sub-leasing and investment business

For the year ended 31 March 2021, this business segment recorded revenue of approximately HK$56.2 million compared to approximately HK$65.5 million for the last financial year, representing a decrease of about 14.2%, this business segment recorded loss for the year ended 31 March 2021 of approximately HK$0.3 million as compared to profit of approximately HK$11.0 million for the last financial year. The increase in loss was mainly resulted from the fair value loss on investment properties.

**Property development business**

During the year ended 31 March 2021, the Company acquired the entire equity interest in Topper Genius Investment Limited at a total consideration of (i) cash of HK$36.7 million (equivalent to RMB33.5 million) and (ii) 800 million shares of the Company. During the year, no income was recognised (2020: nil). The segment recorded loss of approximately HK$11.0 million (2020: nil). The management would develop this business and achieve sustainable growth of the Group. The Group aims to achieve such objectives by pursuing the growth oriented strategies, including investment in more property sub-leasing business segment and investments projects in property development business segment in the PRC.

## FINANCIAL SERVICES BUSINESS

**Money lending**

During the year ended 31 March 2021, no interest income was recognised (2020: HK$0.6 million). The management would continue to find new opportunity for this segment.

**Securities, futures and asset management**

The Group returned its Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 9 (asset management) licenses to Securities and Futures Commission in November 2020 as no suitable business opportunities have been identified. The management would like to focus more on the other business segments of the Group.

**Liquidity and financial resources**

As at 31 March 2021, the Group had bank borrowings in total of approximately HK$289.5 million (31 March 2020: bank and other borrowings, bills payables and convertible bonds of approximately HK$178.7 million).

The maturity profile of the Group's bank and other borrowings is set out as follows:

| | 2021 | 2020 |
|---|---|---|
| | *HK$ Million* | *HK$ Million* |
| Repayable: | | |
| Within one year | 289.5 | 67.0 |
| More than one year, but not exceeding two years | — | 17.3 |
| More than two years, but not exceeding three years | — | 8.2 |
| Total | 289.5 | 92.5 |

The carrying amounts of all the Group's bank and other borrowings were denominated in RMB. As at 31 March 2021, the Group's bank and other borrowings balance of approximately HK$289.5 million was charged at a fixed interest rate. The bank and other borrowings carry effective interest rates 7.24% per annum (2020: from 4.15% to 8.23%).

During the year ended 31 March 2021, all convertible bonds has converted to ordinary shares of the Company. Please refer to the Company's announcement date 30 July 2020 for details.

The gearing ratio of the Group as at 31 March 2021 was 31.1% compared with 28.1% as at 31 March 2020. The Directors consider the Group as in a healthy financial position. Such ratio was calculated with reference to the bank and other borrowings, bills payables and convertible bonds and deduction of cash and cash equivalents over the Company's equity attributable to owners of the Company. As at 31 March 2021, the Group had net current assets of approximately HK$492.8 million as compared with the net current assets as at 31 March 2020 of approximately HK$54.7 million. The current ratio of the Group as at 31 March 2021 was 1.6 compared with 1.2 as at 31 March 2020.

The revenue of the Group, being mostly denominated in Renminbi and Hong Kong dollar, matches the currency requirement of the Group's expenses while other foreign currencies were immaterial. During the year ended 31 March 2021, no financial instrument was entered into by the Group used for hedging purpose. The Group was not exposed to any exchange rate risk or any related hedges.

**Fund raising activities**

In prior years, the Group completed the following fund raising exercise to strengthen its financial position and raised the gross proceeds of approximately HK$42.0 million, with the net proceeds of approximately HK$41.8 million after deduction of issuance expenses. Details of which are set out as follows:

| Date of announcement | Description of fund raising activities | Intended use of proceeds | Actual use of proceeds as at 31 March 2020 | Unutilised amount as at 31 March 2020 |
|---|---|---|---|---|
| 31 August 2018 | Issue of convertible bonds in an aggregate principal amount of HK$42,031,080 | Approximately HK$27.2 million for money lending business of the Group in Hong Kong | Nil | Approximately HK$27.2 million was reserved to be used to provide additional resources for the expansion and development of the Group's money lending business when such expansion and development plan materialises |
| | | Approximately HK$14.6 million for general working capital of the Group | Approximately HK$14.6 million was used for general working capital of the Group as intended | Nil |

| Date of announcement | Description of fund raising activities | Intended use of proceeds | Actual use of proceeds as at 31 March 2020 | Unutilised amount as at 31 March 2020 |
|---|---|---|---|---|
| 26 July 2017 | Issue of convertible bonds in an aggregate principal amount of HK$46,341,960 | Approximately HK$32.1 million for potential acquisition | Approximately HK$32.1 million was reserved to be used by the Group to acquire entire share capital of the Topper Genius Investments Limited (峰智投資有限公司), which indirectly hold 35% of the equity interest in Dongguan Huachuangwen Land Ltd* (東莞市華創文置地有限公司) through Topper Genius Investments Limited | Nil |
| | | Approximately HK$14.0 million for general working capital of the Group | Approximately HK$14.0 million | Nil |

**Charges**

As at 31 March 2021, the Group's bank and other borrowings were secured by i) corporate guarantees provided by related companies of a non-controlling Shareholder, and a subsidiary of the Group; ii) personal guarantees provided by Mr. Chen Weiwu, the director of the Group and his spouse; iii) entire equity interest of a subsidiary of the Group; and iv) properties under development of the Group with carrying amounts of HK$770.4 million.

As at 31 March 2020, personal and corporate guarantees were given to banks and financial institutions for certain bank and other borrowings by Mr. Yang Lei, a director of certain subsidiaries of the Company, his spouse, and a related company, which is beneficially owned by Mr. Yang Lei and his spouse, a related party and the independent third party companies. Further, certain assets of Mr. Yang Lei, his spouse and a related party have been pledged to secure the bank and other borrowings.

On 3 September 2019, 南京垠坤投資實業有限公司(Nanjing Yinkun Investment Corporation Co. Ltd.*), an indirect non-wholly owned subsidiary of the Company, provided the guarantees in respect of a loan facility for the principal amount of up to RMB100 million to an independent third party from a financial institution in the PRC.

On 29 October 2020, 南京垠坤投資實業有限公司(Nanjing Yinkun Investment Corporation Co. Ltd.*), an indirect non-wholly owned subsidiary of the Company, provided the guarantees in respect of a loan facility for the principal amount of up to RMB40 million provided to an independent third party from a financial institution in the PRC.

The financial guarantees mentioned above has been transferred to third party upon disposal of the subsidiary during the year ended 31 March 2021.

Save as disclosed above, the Group did not have any charges on assets as at 31 March 2021.

**Contingent liabilities**

At the respective reporting dates, the contingent liabilities of the Group were as follows:

| | **2021** | **2020** |
|---|---|---|
| | *HK$* | *HK$* |
| Guarantees granted to financial institutions on behalf of purchasers of property units | 136,822,542 | — |

The Group arranges with various domestic banks in the PRC to provide loan and mortgage facilities to purchasers of its properties prior to the transfer of land title deeds. In line with the consumer banking practices in the PRC, these banks require the Group to provide guarantees in respect of these loans including the principal, interest and other incidental costs. If a purchaser defaults on a loan, the relevant mortgagee bank is entitled to deduct the amount repayable from the restricted cash account. These guarantees provided by the Group to the banks would be released by the banks upon the receipt of the building ownership certificate of the respective properties by the banks from the customers when it is issued by the relevant authorities.

The Directors consider that it is not probable of the Group to sustain a loss under these guarantees as during the period of these guarantees, the Group can take over the ownerships of the related properties under default and sell the properties to recover the amounts paid by the Group to the banks. The Group has not recognised these guarantees. The Directors also consider that the market value of the underlying properties is able to cover the outstanding mortgage loans guaranteed by the Group in event that the purchasers default payments to banks for their mortgage loans.

**Emolument policy**

As at 31 March 2021, the Group employed a total number of 44 (2020: 110) employees. The remuneration of the employees of the Group is amounted to approximately HK$16.2 million for the year ended 31 March 2021 (2020: HK$21.8 million). The Group remunerates its employees based on their performance, experience and prevailing industry practices. The emoluments of the Directors and senior management of the Company are decided by the remuneration committee of the Company, having regard to the Company's operating results, individual performance and comparable market statistics.

The Group periodically reviews its remuneration package in order to attract, motivate and retain its employees. Discretionary bonuses may be rewarded to the Directors and employees depending on the Group's operating results and their performance.

Further, the Company has also adopted a share option scheme for the primary purpose of providing incentives or rewards to any the Director, employee and other eligible participant who made significant contribution to the Group. The Group also provides external training courses to its staff to improve their skills and services on an ongoing basis.

**Significant investments held, material acquisitions and disposals of subsidiaries, associates and joint ventures, and future plans for material investments or capital assets**

During the year ended 31 March 2021, the Company entered into the equity sale and purchase agreement with Mr. Chen Weiwu, director of the Company, to acquire entire share capital of the Topper Genius Investments Limited ("**Topper Genius**") and its subsidiaries (the "**Acquisition**"). Upon the Completion of the Acquisition, the Company indirectly wholly hold 35% of the equity interest in the Dongguan Huachuangwen Land Ltd.*（東莞市華創文置地有限公司）through Topper Genius, thereby commencing its property development business in the PRC. The Consideration was settled by way of cash payment of approximately HK$36,723,000 (equivalent to approximately RMB33,544,000) and issue and allotment of 800,000,000 consideration shares of the Company. Details of the Acquisition were disclosed in the Company's announcements dated 9 April 2020 and circular dated 22 June 2020, respectively.

During the year ended 31 March 2021, BoRen Cultural Development Limited (the "**BoRen Cultural**"), a wholly-owned subsidiary of the Group, entered into the sale and purchase agreement (the "**SP Agreement**") with the Purchaser in relation to the disposal of Elite-China Cultural Development Limited and its subsidiaries ("**Elite-China**"), pursuant to which BoRen Cultural has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase the entire shares of Elite-China (representing 60% of the issued share capital of Elite-China) at the total Consideration of approximately HK$800,000 in accordance with the terms and conditions of the SP Agreement. Elite-China is a company incorporated in Hong Kong with limited liability and is owned as to 60% by BoRen Cultural. It is principally engaged in investment holding. As at the date of the announcement, Elite-China indirectly holds 100% of the equity interest in 南京垠坤投資實業有限公司(Nanjing Yinkun Investment Corporation Co. Ltd.*) through 南京創意東八區科技有限責任公司(Nanjing Creative Eastern 8 Zone Technology Co., Ltd.*) which established in the PRC and is principally engaged in subleasing business in Nanjing, the PRC. Completion took place on 21 December 2020 in accordance with the terms and conditions of the SP Agreement. Following the completion, those subsidiaries are no longer be held by the Group. Details of disposal were disclosed in the Company's announcement dated 1 December 2020 and circular dated 22 January 2021, respectively.

During the year ended 31 March 2021, 北京名創商業管理有限公司 (Beijing Mingchuang Business Management Co., Ltd.*) (the "**Beijing Mingchuang**"), an indirect wholly-owned subsidiary of the Company, entered into the lease contracts with Beijing Tian'an Innovation Technology and Estates Limited (the "**BTIT**"), a related party of the Group, pursuant to which Beijing Mingchuang agreed conditionally to rent the properties, and BTIT agreed conditionally to lease the properties. For further details, please refer to the Company's announcement dated 11 December 2020 and circular dated 25 January 2021, respectively.

Save as disclosed above, there was no significant investments held, no material acquisitions or disposals of subsidiaries, associates or joint ventures during the year ended 31 March 2021.

**Outlook**

The outbreak of COVID-19 pandemic since early 2020 has resulted in major impact to businesses during the year ended 31 March 2021, especially in exhibition segment and the future is challenging and unpredictable in global business environment. The pandemic has put forward higher requirements for the Group to review and perform in terms of its future strategy planning. Despite the challenges currently facing, the PRC economy has shown stable growth momentum, supported by the sustainable development and continuous improvement in the macro economy. Under the containment policies in the PRC, the pandemic gradually got under control, the Directors of the Group are expecting the businesses to remain cautious and will take appropriate measures as and when it is necessary to minimise the financial impact, meanwhile to also look for potential investment opportunities which could strengthen the financial profitability for the Group.

The management team and the Board of Directors are made up of highly qualified and competent individuals who are experienced in the real estate development industry in PRC. The team possesses significant knowledge, resources and networks in China of which the Company expects to be able to leverage for its future growth in the property development, property sub-leasing and investment projects in the PRC.

The Group has continued its efforts to consolidate and realign its businesses to enable the Group to achieve improvements in its financial position and to meet its performance objectives. The Group is working towards attaining a sustainable growth whilst continuously exploring and diversifying other suitable investment opportunities (if any) to enhance the overall earning potential, and ultimately maximising the shareholder value.

**Currency risk**

The Group mainly operates in Hong Kong and the PRC with most of the transactions settled in their respective functional currencies in which the group entities operate. Therefore the Group does not have significant exposure to risk resulting from changes in foreign currency exchange rates.

## FOR THE YEAR ENDED 31 MARCH 2022

## FINANCIAL REVIEW

**Consolidated results**

For the year ended 31 March 2022, the Group recorded revenue of approximately HK$256.9 million compared to approximately HK$56.2 million from continuing operations for the last financial year, representing an increase of about 357.4%, and profit for the year ended 31 March 2022 of approximately HK$15.7 million compared to approximately a loss of HK$47.6 million for the last financial year, representing a decrease of loss of about 132.9%. The significant increase in profit was primarily resulted from 1) completion of disposal of lossmaking subsidiaries during the year ended 31 March 2021; 2) implementation of various measures on cost control and on reduction expenditures; 3) no provision of financial guarantee was made; 4) decrease in fair value loss on investment properties during the year ended 31 March 2022 and 5) recognition on revenue of property development business during the year.

## BUSINESS REVIEW

**Property sub-leasing and investment business**

For the year ended 31 March 2022, this business segment recorded revenue of approximately HK$80.2 million compared to approximately HK$56.2 million for the last financial year, representing a increase of about 42.8%, this business segment recorded profit for the year ended 31 March 2022 of approximately HK$15.4 million as compared to loss of approximately HK$0.3 million for the last financial year. The increase in profit was mainly resulted from the decrease in fair value loss on investment properties.

**Property development business**

During the year ended 31 March 2022, the property development business in the PRC contributed revenue of approximately HK$176.7 million (2021: Nil) and segment recorded profit of approximately HK$20.5 million (2021: loss of approximately HK$11.0 million) to the Group. The increase in segment revenue was attributable to the increase of booked gross floor area ("**GFA**") delivered to the property owners during the year, which was contributed from the Group's completed property development projects, namely, Tangshang Hanlin Mansion*(唐商翰林居)in Dongguan land situates at Caole Village, Xiegang Town, Dongguan City, the PRC designated for urban residential use and business service use (R2 Class II residential land(R2二類居住用地)). The construction of the property was completed in December 2021, there were approximately 9,672.1 sq.m. booked GFA delivered and recognised into the revenue during the year. The completed properties are held for sale and the management expects part of the remaining GFA will recognise in the next financial year. The Group will remain proactive in reviewing its pace of business expansion to maintain this business and achieve sustainable growth of the Group, the management may adjust its project development plans and schedules in response to changing market conditions, as and when appropriate.

**FINANCIAL SERVICES BUSINESS**

**Money lending**

During the year ended 31 March 2022, no interest income was recognised (2021: Nil). The management would continue to find new opportunity for this segment.

**Securities, futures and asset management**

The Group returned its Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 9 (asset management) licenses to Securities and Futures Commission in November 2020 as no suitable business opportunities have been identified. The management would like to focus more on the other business segments of the Group.

**Liquidity and financial resources**

As at 31 March 2022, the Group had bank borrowings in total of approximately HK$99.2 million (2021: HK$289.5 million).

The maturity profile of the Group's bank and other borrowings is set out as follows:

| | 2022 | 2021 |
|---|---|---|
| | *HK$ Million* | *HK$ Million* |
| Repayable: | | |
| Within one year | 99.2 | 289.5 |
| More than one year, but not exceeding two years | — | — |
| More than two years, but not exceeding three years | — | — |
| Total | 99.2 | 289.5 |

The carrying amounts of all the Group's bank borrowings were denominated in RMB. As at 31 March 2022, the Group's bank borrowings balance of approximately HK$99.2 million was charged at a fixed interest rate. The bank borrowings carry effective interest rates of 7.24% per annum (2021: 7.24% per annum).

During the year ended 31 March 2021, all convertible bonds had converted to ordinary shares of the Company. Please refer to the Company's next day disclosure return date 30 July 2020 for details.

The gearing ratio of the Group as at 31 March 2022 was not applicable (since the Group maintained net cash position as at 31 March 2022) compared with 31.1% as at 31 March 2021. The Directors consider the Group as in a healthy financial position. Such ratio was calculated with reference to the bank borrowings deduction of cash and bank balances over the Company's equity attributable to owners of the Company. As at 31 March 2022, the Group had net current assets of approximately HK$531.3 million as compared with the net current assets as at 31 March 2021 of approximately HK$492.8 million. The current ratio of the Group as at 31 March 2022 was 1.6 compared with 1.6 as at 31 March 2021.

The revenue of the Group, being mostly denominated in Renminbi and Hong Kong dollar, matches the currency requirement of the Group's expenses while other foreign currencies were immaterial. During the year ended 31 March 2022, no financial instrument was entered into by the Group used for hedging purpose. The Group was not exposed to any exchange rate risk or any related hedges.

**Fund raising activities**

In prior years, the Group completed the following fund raising exercise to strengthen its financial position and raised the gross proceeds of approximately HK$42.0 million, with the net proceeds of approximately HK$41.8 million after deduction of issuance expenses. Details of which are set out as follows:

| Date of announcement | Description of fund raising activities | Intended Use of Proceeds | Amount of Net Proceeds Brought Forward to the year ending 31 March 2021 | Amount utilized up to 31 March 2021 | Amount of Net Proceeds Brought Forward to the year ended 31 March 2022 | Amount utilized up to 31 March 2022 | Amount of unutilized proceeds | Expected timeline/ Intended use of unutilized proceeds |
|---|---|---|---|---|---|---|---|---|
| 31 August 2018 | Issue of convertible bonds in an aggregate principal amount of HK$42,031,080, which has been converted into ordinary shares of the Company on 30 July 2020 | Money lending business of the Group in Hong Kong: approximately HK$27.2 million (as per the announcement of the Company dated 25 August 2021, the use of proceeds have been reallocated to general working capital) | HK$27.2 million | Nil | HK$27.2 million | HK$27.2 million | Nil | NA |
| | | General working capital of the Group: approximately HK$14.6 million | HK$14.6 million | HK$14.6 million | nil | nil | nil | NA |

| Date of announcement | Description of fund raising activities | Intended Use of Proceeds | Amount of Net Proceeds Brought Forward to the year ending 31 March 2021 | Amount utilized up to 31 March 2021 | Amount of Net Proceeds Brought Forward to the year ended 31 March 2022 | Amount utilized up to 31 March 2022 | Amount of unutilized proceeds | Expected timeline/ Intended use of unutilized proceeds |
|---|---|---|---|---|---|---|---|---|
| 26 July 2017 | Issue of convertible bonds in an aggregate principal amount of HK$46,341,960, which has been converted into ordinary shares of the Company on 30 July 2020 | Potential acquisition (Note 1) approximately HK$32.1 million | HK$32.1 million | Nil | HK$32.1 million | HK$32.1 million | Nil | NA |
| | | General working capital of the Group: approximately HK$14.0 million | nil | nil | nil | nil | nil | NA |

*Note 1:*

The proceeds of approximately HK$32.1 million was utilized to settle the consideration of an acquisition in July 2020.

## Charges

As at 31 March 2022, certain bank borrowings of the Group in the total amount of approximately HK$99.2 million were secured by i) corporate guarantees provided by related companies of a non-controlling shareholder, and a subsidiary of the Group; ii) personal guarantees provided by Mr. Chen Weiwu, the director of the Group and his spouse; iii) entire equity interest of a subsidiary of the Group; and iv) completed properties held for sale of the Group with carrying amounts of approximately HK$837.0 million.

As at 31 March 2021, the Group's bank borrowings were secured by i) corporate guarantees provided by related companies of a non-controlling shareholder, and a subsidiary of the Group; ii) personal guarantees provided by Mr. Chen Weiwu, the director of the Group and his spouse; iii) entire equity interest of a subsidiary of the Group; and iv) properties under development of the Group with carrying amounts of approximately HK$770.4 million.

Save as disclosed above, the Group did not have any other charges on assets as at 31 March 2022.

**Contingent liabilities**

At the respective reporting dates, the contingent liabilities of the Group were as follows:

| | **2022** | **2021** |
|---|---|---|
| | *HK$* | *HK$* |
| Guarantees granted to financial institutions on behalf of purchasers of property units | 415,660,013 | 136,822,542 |

The Group arranges with various domestic banks in the PRC to provide loan and mortgage facilities to purchasers of its properties prior to the transfer of building ownership certificate. In line with the consumer banking practices in the PRC, these banks require the Group to provide guarantees in respect of these loans including the principal, interest and other incidental costs. If a purchaser defaults on loan repayment, the relevant mortgagee bank is entitled to deduct the amount repayable from the restricted cash account. These guarantees would be released by the banks upon the receipt by the banks of the building ownership certificates of the respective properties when the certificate have been issued by the relevant authorities.

The directors consider that it is not probable for the Group to sustain a loss under these guarantees as during the period of these guarantees, the Group can take over the ownerships of the related properties under default and sell the properties at prices which are well above the amounts paid/payable by the Group to the banks under the guarantees, accordingly no provision for the guarantees has been made in the consolidated financial statements.

**Emolument policy**

As at 31 March 2022, the Group employed a total number of 53 (2021: 44) employees. The remuneration of the employees of the Group is amounted to approximately HK$10.6 million for the year ended 31 March 2022 (2021: HK$15.1 million). The Group remunerates its employees based on their performance, experience and prevailing industry practices. The emoluments of the Directors and senior management of the Company are decided by the remuneration committee of the Company, having regard to the Company's operating results, individual performance and comparable market statistics.

The Group periodically reviews its remuneration package in order to attract, motivate and retain its employees. Discretionary bonuses may be rewarded to the Directors and employees depending on the Group's operating results and their performance.

Further, the Company has also adopted a share option scheme for the primary purpose of providing incentives or rewards to any the Director, employee and other eligible participant who made significant contribution to the Group. The Group also provides external training courses to its staff to improve their skills and services on an ongoing basis.

**Significant investments held, material acquisitions and disposals of subsidiaries, associates and joint ventures, and future plans for material investments or capital assets**

Reference is made to the Company's announcement dated 30 July 2021 and circular dated 30 September 2021 in relation to, among other things, a very substantial acquisition and connected transaction, respectively. Capitalised terms used under this sub-heading shall have the same meaning as in the said announcement and circular unless otherwise defined in this report.

On 30 July 2021, the Company entered into the equity sale and purchase agreement with Shenzhen Yaoling, the non-controlling shareholder of an indirect subsidiary of the Company, Dongguan Huachuangwen Land Ltd.*（東莞市華創文置地有限公司）("**Huachuangwen Land**"), to acquire 55% equity interest of Huachuangwen Land (the "**Dongguan Acquisition**"). Upon the completion of the Dongguan Acquisition, the Company will hold 90% of the equity interest in Huachuangwen Land and the financial statements of Huachuangwen Land will continue to be consolidated into the consolidated financial statements of the Group. The consideration shall be settled by way of (i) cash of RMB40,000,000 (equivalent to approximately HK$48,000,000); (ii) issue and allotment of 450,000,000 shares of the Company at an issue price of HK$0.2 per share, resulting in a total value of HK$90,000,000 of shares and (iii) issue of convertible bonds of the Company in the principal amount of HK$27,120,000 (equivalent to approximately RMB22,600,800). Details of the Dongguan Acquisition were disclosed in the Company's announcement dated 30 July 2021 and the Company's circular dated 30 September 2021.

Subsequently, the Dongguan Acquisition was approved at the special general meeting of the Company on 20 October 2021. On 29 October 2021, the Company announced that as additional time is required for the fulfilment of the conditions precedent to the equity sale and purchase agreement, the Company and Shenzhen Yaoling agreed in writing to extend the long stop date from 31 October 2021 to 31 December 2021 (or such other date as the parties may agree in writing).

On 31 December 2021, the Company announced that as additional time is required for the fulfilment of the conditions precedent to the equity sale and purchase agreement, the Company and Shenzhen Yaoling agreed in writing to extend the Long Stop Date from 31 December 2021 to 31 January 2022 (or such other date as the parties may agree in writing). On 31 January 2022, the Company announced that as additional time is required for the fulfilment of the conditions precedent to the equity sale and purchase agreement, the Company and Shenzhen Yaoling agreed in writing to extend the long stop date from 31 January 2022 to 31 March 2022 (or such other date as the parties may agree in writing).

On 31 March 2022, the Company announced that as additional time is required for the fulfilment of the conditions precedent to the equity sale and purchase agreement, the Company and Shenzhen Yaoling agreed in writing to extend the long stop date from 31 March 2022 to 30 June 2022 (or such other date as the parties may agree in writing). As at 31 March 2022, the Dongguan Acquisition has not yet completed. Save as disclosed above, there was no significant investments held, no material acquisitions or disposals of subsidiaries, associates or joint ventures during the year ended 31 March 2022.

**Outlook**

The Group attained a solid fiscal year in the 2021/22 financial year amid the macroeconomic challenges due to the resurgence of COVID-19 pandemic. The property market cooled down and the financial institutions' risk preference started to shrink. The pandemic has put forward higher requirements for the Group to review and perform in terms of its future strategy planning during the year ended 31 March 2022. Despite tremendous uncertainties, the Directors of the Group have implemented various appropriate measures to lower the cost which improve the performance of the Group. The Board is expecting the businesses to remain cautious, meanwhile, to also maintain open-minded in identifying new property development projects in the PRC in the coming few years which could strengthen the financial profitability for the Group.

The management team and the Board are made up of highly qualified and competent individuals who are experienced in the real estate development industry in PRC. The team possesses significant knowledge, resources and networks in China of which the Company expects to be able to leverage for its future growth in the property development, property sub-leasing and investment projects in the PRC.

The Group has continued its efforts to consolidate and realign its businesses to enable the Group to achieve improvements in its financial position and to meet its performance objectives. The Group is working towards attaining a sustainable growth whilst continuously exploring and diversifying other suitable investment opportunities (if any) to enhance the overall earning potential, and ultimately maximising the shareholder value.

**Currency risk**

The Group mainly operates in Hong Kong and the PRC with most of the transactions settled in their respective functional currencies in which the group entities operate. Therefore the Group does not have significant exposure to risk resulting from changes in foreign currency exchange rates.

## FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022

## FINANCIAL REVIEW

**Consolidated results**

For the six months ended 30 September 2022, the Group recorded a revenue of approximately HK$519.6 million compared to a revenue of approximately HK$24.5 million for the corresponding period of 2021, representing a increase of revenue of approximately 2020.8%, and recorded a profit of approximately HK$80.4 million compared to a loss of approximately HK$8.8 million for the corresponding period of 2021. The significant increase in profit was primarily due to the 1) implementation of various measures on cost control and on reduction of expenditures; and 2) recognition of revenue of property development business during the period ended 30 September 2022.

The Board considers that the fair value loss on investment properties are non-cash items and has no effect on the cash flow of the Group's operations.

## BUSINESS REVIEW

### Property sub-leasing and investment business

For the six months ended 30 September 2022, this business segment recorded a revenue of approximately HK$28.3 million compared to a revenue of approximately HK$24.5 million for the corresponding period in 2021, representing an increase of revenue of about 15.5%, and recorded a profit of approximately HK$1.0 million as compared to a profit of approximately HK$2.0 million for the corresponding period of 2021. The decrease in the profit was mainly due to the decrease of fair value on investment properties.

### Property development business

During the period ended 30 September 2022, the property development business in the PRC contributed revenue of approximately HK$491.3 million (2021: nil) and segment recorded profit of approximately HK$113.6 million (2021: loss of approximately HK$5.3 million) to the Group. The increase in segment revenue was attributable to the increase of booked gross floor area ("**GFA**") delivered to the property owners during the period, which was contributed from the Group's completed property development projects, namely, Tangshang Hanlin Mansion*（唐商翰林居）in Dongguan land situates at Caole Village, Xiegang Town, Dongguan City, the PRC designated for urban residential use and business service use (R2 Class II residential land（R2二類居住用地）). The construction of the property was completed in December 2021, there were approximately 27,377.5 sq.m. booked GFA delivered and recognised into the revenue during the period. The completed properties are held for sale and the management expects part of the remaining GFA will recognise in this financial year. The Group will remain proactive in reviewing its pace of business expansion to maintain this business and achieve sustainable growth of the Group, the management may adjust its project development plans and schedules in response to changing market conditions, as and when appropriate.

## FINANCIAL SERVICES BUSINESS

### Money lending

For the six months ended 30 September 2022 and 2021, no money lending business was engaged and no corresponding interest income was recognised by the Group. The management would continue to find new opportunity for this segment.

### Securities, futures and asset management

The Group returned Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 9 (asset management) licenses to Securities and Futures Commission ("**SFC**") by SFC in November 2020 as no suitable business opportunities have been identified. The management would like to focus more on the other business segments of the Group.

### Liquidity and financial resources

As at 30 September 2022, no bank borrowings were incurred by the Group (31 March 2021: approximately HK$99.2 million).

The maturity profile of the Group's bank borrowings is set out as follows:

| | **30 September 2022** *(Unaudited)* *HK$ Million* | **31 March 2022** *(Audited)* *HK$ Million* |
|---|---|---|
| Repayable: | | |
| Within one year | — | 99.2 |
| More than one year, but not exceeding two years | — | — |
| More than two years, but not exceeding five years | — | — |
| More than five years | — | — |
| Total | — | 99.2 |

The carrying amounts of the Group's bank borrowings were denominated in RMB. As at 30 September 2022, the Group's bank borrowings was nil (2021: bank borrowings carry effective interest rates 7.24% per annum).

The gearing ratio of the Group as at 30 September 2022 and 31 March 2022 were not applicable (since the Group maintained net cash position as at 30 September 2022 and 31 March 2022). The Directors consider the Group as in a healthy financial position. Such ratio was calculated with reference to the bank borrowings deduction of cash and bank balances over the Company's equity attributable to owners of the Company. As at 30 September 2022, the Group had net current assets of approximately HK$510.8 million as compared with the net current assets as at 31 March 2022 of approximately HK$531.2 million. The current ratio of the Group as at 30 September 2022 was 2.3 compared with 1.6 as at 31 March 2022.

The revenue of the Group, being mostly denominated in RMB and Hong Kong dollar, matches the currency requirement of the Group's expenses while other foreign currencies were immaterial. During the six months ended 30 September 2022, no financial instrument was entered into by the Group used for hedging purpose. The Group was not exposed to any exchange rate risk or any related hedges.

**Fund raising activities**

In previous years, the Group had completed the following fund raising exercise to strengthen its financial position:

In 2018, convertible bonds in the aggregate principal amount of approximately HK$42.0 million were issued, with the net proceeds of approximately HK$41.8 million after deduction of issuance expenses. Details of which are set out as follows:

| Date of announcement | Description of fund raising activities | Intended Use of Proceeds | Amount of Net Proceeds Brought Forward to the year ending 31 March 2022 | Amount utilized up to 31 March 2022 | Amount of Net Proceeds Brought Forward to the six months ended 30 September 2022 | Amount utilized up to 30 September 2022 | Amount of unutilized proceeds | Expected timeline/ Intended use of unutilized proceeds |
|---|---|---|---|---|---|---|---|---|
| 31 August 2018 | Issue of convertible bonds in an aggregate principal amount of HK$42,031,080, which has been converted into ordinary shares of the Company on 30 July 2020 | Money lending business of the Group in Hong Kong: approximately HK$27.2 million (as per the announcement of the Company dated 25 August 2021, the use of proceeds have been reallocated to general working capital) | HK$27.2 million | Nil | HK$27.2 million | HK$27.2 million | Nil | NA |
| | | General working capital of the Group: approximately HK$14.6 million | HK$14.6 million | HK$14.6 million | nil | nil | nil | NA |

In 2017, convertible bonds in the aggregate principal amount of approximately HK$46.3 million were issued, with the net proceeds of approximately HK$46.1 million after deduction of issuance expenses. Details of which are set out as follows.

| Date of announcement | Description of fund raising activities | Intended Use of Proceeds | Amount of Net Proceeds Brought Forward to the year ending 31 March 2022 | Amount utilized up to 31 March 2022 | Amount of Net Proceeds Brought Forward to the six months ended 30 September 2022 | Amount utilized up to 30 September 2022 | Amount of unutilized proceeds | Expected timeline/ Intended use of unutilized proceeds |
|---|---|---|---|---|---|---|---|---|
| 26 July 2017 | Issue of convertible bonds in an aggregate principal amount of HK$46,341,960, which has been converted into ordinary shares of the Company on 30 July 2020 | Potential acquisition (Note 1) approximately HK$32.1 million | nil | nil | nil | nil | nil | NA |
| | | General working capital of the Group: approximately HK$14.0 million | nil | nil | nil | nil | nil | NA |

*Note 1:*

The proceeds of approximately HK$32.1 million was utilized to settle the consideration of an acquisition in July 2020.

## Charges and guarantees

As at 30 September 2022, no bank borrowings were incurred by the Group and no charges and guarantees were secured.

As at 31 March 2022, certain bank borrowings of the Group in the total amount of approximately HK$99.2 million were secured by i) corporate guarantees provided by related companies of a non-controlling shareholder, and a subsidiary of the Group; ii) personal guarantees provided by Mr. Chen Weiwu, the director of the Group and his spouse; iii) entire equity interest of a subsidiary of the Group; and iv) completed properties held for sale of the Group with carrying amounts of HK$837 million.

**Contingent liabilities**

At the respective reporting dates, the contingent liabilities of the Group were as follows:

| | **30 September 2022** *(Unaudited)* *HK$* | **31 March 2022** *(Audited)* *HK$* |
|---|---|---|
| Guarantees granted to financial institutions on behalf of purchasers of property units | 326,302,762 | 415,660,013 |

The Group arranges with various domestic banks in the PRC to provide loan and mortgage facilities to purchasers of its properties prior to the transfer of building ownership deeds. In line with the consumer banking practices in the PRC, these banks require the Group to provide guarantees in respect of these loans including the principal, interest and other incidental costs. If a purchaser defaults on loan repayment, the relevant mortgagee bank is entitled to deduct the amount repayable from the restricted cash account. These guarantees would be released by the banks upon the receipt by the banks of the building ownership certificate of the respective properties when the certificate have been issued by the relevant authorities.

The Directors consider that it is not probable of the Group to sustain a loss under these guarantees as during the period of these guarantees, the Group can take over the ownerships of the related properties under default and sell the properties at prices which are well above the amounts paid/payable by the Group to the banks under the guarantees, accordingly no provision for the guarantees has been made in the condensed consolidated financial statements.

**Emolument policy**

As at 30 September 2022, the Group employed a total of 33 (31 March 2022: 53) employees. The remuneration of the employees of the Group amounted to approximately HK$4.5 million for the six months ended 30 September 2022 (30 September 2021: approximately HK$5.5 million). The Group remunerates its employees based on their performance, experience and prevailing industry practices. The emoluments of the Directors and senior management of the Company are reviewed and decided by the remuneration committee of the Company, having regard to the Company's operating results, individual performance and comparable market statistics.

The Group periodically reviews its remuneration package in order to attract, motivate and retain its employees. Discretionary bonuses are awarded to Directors and the employees of the Group based on its operating results and their performance.

Further, the Company has also adopted a share option scheme for the purpose of providing incentives or rewards to any Director, employee and other eligible participant who made significant contribution to the Group. The Group also provides external training courses to its staff to improve their skills and services on an on-going basis.

**Significant investments held, material acquisitions and disposals of subsidiaries, associates and joint ventures, and future plans for material investments or capital assets**

Reference is made to the Company's announcement dated 30 July 2021 and circular dated 30 September 2021 in relation to, among other things, a very substantial acquisition and connected transaction, respectively. Capitalised terms used under this sub-heading shall have the same meaning as in the said announcement and circular unless otherwise defined in this announcement.

On 30 July 2021, the Company entered into the equity sale and purchase agreement with Shenzhen Yaoling, the non-controlling shareholder of an indirect subsidiary of the Company, Dongguan Huachuangwen Land Ltd.* (東莞市華創文置地有限公司) ("**Huachuangwen Land**"), to acquire 55% equity interest of Huachuangwen Land (the "**Dongguan Acquisition**"). Upon the completion of the Dongguan Acquisition, the Company will hold 90% of the equity interest in Huachuangwen Land and the financial statements of Huachuangwen Land will continue to be consolidated into the consolidated financial statements of the Group. The consideration shall be settled by way of (i) cash of RMB40,000,000 (equivalent to approximately HK$48,000,000); (ii) issue and allotment of

450,000,000 shares of the Company at an issue price of HK$0.2 per share, resulting in a total value of HK$90,000,000 of shares and (iii) issue of convertible bonds of the Company in the principal amount of HK$27,120,000 (equivalent to approximately RMB22,600,800). Details of the Dongguan Acquisition were disclosed in the Company's announcement dated 30 July 2021 and the Company's circular dated 30 September 2021.

Subsequently, the Dongguan Acquisition was approved at the special general meeting of the Company on 20 October 2021. On 29 October 2021, the Company announced that as additional time is required for the fulfilment of the conditions precedent to the equity sale and purchase agreement, the Company and Shenzhen Yaoling agreed in writing to extend the long stop date from 31 October 2021 to 31 December 2021 (or such other date as the parties may agree in writing).

On 31 December 2021, the Company announced that as additional time is required for the fulfilment of the conditions precedent to the equity sale and purchase agreement, the Company and Shenzhen Yaoling agreed in writing to extend the Long Stop Date from 31 December 2021 to 31 January 2022 (or such other date as the parties may agree in writing). On 31 January 2022, the Company announced that as additional time is required for the fulfilment of the conditions precedent to the equity sale and purchase agreement, the Company and Shenzhen Yaoling agreed in writing to extend the long stop date from 31 January 2022 to 31 March 2022 (or such other date as the parties may agree in writing).

On 31 March 2022, the Company announced that as additional time is required for the fulfilment of the conditions precedent to the equity sale and purchase agreement, the Company and Shenzhen Yaoling agreed in writing to extend the long stop date from 31 March 2022 to 30 June 2022 (or such other date as the parties may agree in writing). As at 31 March 2022, the Dongguan Acquisition has not yet completed.

On 6 July 2022, the Acquisition has been completed, the Company holds 90% equity interest in the Huachuangwen Land, the Convertible Bonds were issued to Shenzhen Yaoling in partial settlement of the Consideration pursuant to the Equity Sale and Purchasing Agreement. On 18 July 2022, the Company received a conversion notice from Shenzhen Yaoling for exercise of the conversion rights attached to the Convertible Bonds in respect of the entire principal amount of HK$27,120,000 at conversion price of HK$0.2 per conversion share, a total number of 135,600,000 conversion share shall be issued to Shenzhen Yaoling. For further details, please refer to the Company's announcement dated 6 July 2022 and 18 July 2022, respectively.

Save as disclosed above, there were no significant investments held, no material acquisitions or disposals of subsidiaries, associates or joint ventures during the six months ended 30 September 2022.

**Prospect**

The Group attained a solid fiscal year amid the macroeconomic challenges due to the resurgence of COVID-19 pandemic. The property market has experienced a rapid decline and the industry is facing enormous challenges. The government aims to maintain healthy and stable development of the real estate industry, stabilize land prices, housing prices and market expectations. The Group has put forward higher requirements to review and perform in terms of its future strategy planning during the period ended 30 September 2022. Despite tremendous uncertainties, the Directors of the Group have implemented various appropriate measures to lower the cost which improve the performance of the Group. The Board is expecting the management to remain cautious, meanwhile, to also maintain open-minded in identifying new property development projects in the PRC which could strengthen the financial profitability for the Group.

The management team and the Board are made up of highly qualified and competent individuals who are experienced in the real estate development industry in PRC. The team possesses significant knowledge, resources and networks in China of which the Company expects to be able to leverage these advantages for its future development in the property sub-leasing, development and investment projects in the PRC.

The Group has continued its efforts to consolidate and realign its businesses to enable the Group to achieve improvements in its financial position and to meet its performance objectives. The Group is working towards attaining a sustainable growth whilst continuously exploring and diversifying other suitable investment opportunities (if any) to enhance the overall earning potential, and ultimately maximising the shareholder value.

*Set out below is the management discussion and analysis on (i) the Reach Glory Group for the period from 9 January 2020 (date of establishment) to 31 December 2020, for the financial year ended 31 December 2021, and for the nine months ended 30 September 2022; and (2) the Project Company for the period from 16 January 2020 (date of establishment) to 31 December 2020, for the financial year ended 31 December 2021, and for the nine months ended 30 September 2022:*

## CORPORATE INFORMATION

The Target Company was incorporated in the British Virgin Islands as a limited liability company on 9 January 2020. Its registered office and its principal place of business is located at 3rd Floor, J & C Building, Road Town, Tortola, British Virgin Islands, VG1110. The principal activity of the Target Company is investment holding.

The Hong Kong Holding Company was incorporated in Hong Kong as a limited company on 27 March 2020. The principal activity of the Hong Kong Holding Company is investment holding.

The PRC Holding Company was incorporated in the PRC as a limited company on 9 December 2022. The principal activity of the PRC Holding Company is investment holding.

The Project Company was incorporated in the PRC as a limited company on 16 January 2020. Its registered office and its principal place of business is located at No. 202, Fengde Building, West of Wenzhu South Road, Xintan Village, Liusha East Street, Puning City. It is principally engaged in participation in industrial investment; real estate development, real estate brokerage; real estate information consultation; property leasing; property management, building decoration engineering, building curtain wall engineering, steel structure engineering, building mechanical and electrical installation engineering, electronic and intelligent engineering; sales: building materials, decoration materials; business consulting services, information technology consulting services.

## TURNOVER

For the period from 9 January 2020 (date of establishment) to 31 December 2020, for the financial year ended 31 December 2021, and for the nine months ended 30 September 2022, the Reach Glory Group had no turnover.

For the period from 16 January 2020 (date of establishment) to 31 December 2020, for the financial year ended 31 December 2021, and for the nine months ended 30 September 2022, the Project Company had no turnover.

## INCOME TAX EXPENSE

For the period 9 January 2020 (date of establishment) to 31 December 2020, for the financial year ended 31 December 2021, and for the nine months ended 30 September 2022, there was no income tax expense for the Reach Glory Group as there was no assessible profit.

For the period from 16 January 2020 (date of establishment) to 31 December 2020, for the financial year ended 31 December 2021, and for the nine months ended 30 September 2022, there was no income tax expense for the Project Company as there was no assessible profit.

## PROFIT/LOSS FOR THE PERIOD

For the period 9 January 2020 (date of establishment) to 31 December 2020, for the financial year ended 31 December 2021, and for the nine months ended 30 September 2022, the Reach Glory Group recorded loss of RMB98,600,000, RMB15,890,000 and RMB15,890,000, respectively. The losses are mainly comprised of staff costs, other operating expenses and secretarial fees.

For the period 16 January 2020 (date of establishment) to 31 December 2020, for the financial year ended 31 December 2021, and for the nine months ended 30 September 2022, the Project Company recorded loss of RMB7,772,000, RMB12,501,000 and RMB8,626,000, respectively. The losses are mainly comprised of wages and salaries as well as advertising and promotion expenses.

## CAPITAL STRUCTURE AND FINANCIAL RESOURCES

### The Reach Glory Group

As at 31 December 2020, 31 December 2021 and 30 September 2022, the paid-up capital of the Target Company is RMB77,800,000.

As at 31 December 2020, 31 December 2021 and 30 September 2022, the paid-up capital of the Hong Kong Holding Company is HK$1.

The PRC Holding Company was just incorporated on 9 December 2022 and its registered capital is RMB10,000,000.

As at 31 December 2020, 31 December 2021 and 30 September 2022, the Reach Glory Group did not have any outstanding bank borrowings and bank facilities, while the amount due to a director during the said periods amounted to RMB20,800,000, RMB36,690,000 and RMB52,580,000, respectively.

**The Project Company**

As at 31 December 2020, 31 December 2021 and 30 September 2022, the paid-up capital of the Project Company is RMB50,000,000. The cash and bank balances during the said periods amounted to RMB423,031,000, RMB130,849,000 and RMB162,796,000, respectively.

As at 31 December 2020, 31 December 2021 and 30 September 2022, the Project Company did not have any outstanding bank borrowings and bank facilities, while the amount of loan or funding from related parties during the said periods amounted to RMB899,309,000, RMB241,396,000 and RMB315,195,000 in total, respectively.

## CHARGES ON ASSETS

As at 31 December 2020, 31 December 2021 and 30 September 2022, the Reach Glory Group did not pledge any assets.

As at 31 December 2020, 31 December 2021 and 30 September 2022, the Project Company did not pledge any assets.

## LIQUIDITY AND GEARING RATIO

The capital structure of the Reach Glory Group consists of debts, which includes amount due to a shareholder and equity attributable to owners of the Reach Glory Group, comprising paid-in capital and accumulated losses.

The net debt to equity ratio of the Reach Glory Group at the end of the relevant period is as follows:

| | As at 31 December 2020 *HK$* | As at 31 December 2021 *HK$* | As at 30 September 2022 *HK$* |
|---|---|---|---|
| Amount due to a shareholder | 20,800 | 36,690 | 52,580 |
| *Less:* Cash and bank balances | – | – | – |
| Net debt/(cash) | 20,800 | 36,690 | 52,580 |
| Equity | (20,800) | (36,690) | (52,580) |
| Net debt to equity ratio | NA | NA | NA |

The capital structure of the Project Company consists of debts, which includes accounts payable, accruals and other payable, contract liabilities, amounts due to related parties, amount due to a shareholder and loan from a related party, and equity attributable to owners of the Project Company, comprising paid-in capital, capital reserve and accumulated losses.

The net debt to equity ratio of the Project Company at the end of the relevant period is as follows:

| | As at 31 December 2020 | As at 31 December 2021 | As at 30 September 2022 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Accounts payable, accruals and other payables | 413,023 | 31,761 | 5,828 |
| Contract liabilities | – | 1,366,968 | 1,744,002 |
| Amounts due to related parties | 19 | 75 | 135 |
| Amount due to a shareholder | 899,290 | 141,321 | – |
| Loan from a related company | – | 100,000 | – |
| *Less:* Cash and bank balances | (423,031) | (130,849) | (162,796) |
| Net debt/(cash) | 889,301 | 1,509,276 | 1,587,169 |
| Equity | 42,228 | 34,116 | 336,161 |
| Net debt to equity ratio | 2,106% | 4,424% | 472% |

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Reach Glory Group had not made material acquisition and disposal of subsidiary and affiliated company for the period from 6 January 2020 (date of establishment) to 31 December 2020, for the financial year ended 31 December 2021, and for the nine months ended 30 September 2022.

Save and except the acquisition of the Puning Land, the Project Company had not made material acquisition and disposal of subsidiary and affiliated company for the period from 16 January 2020 (date of establishment) to 31 December 2020, for the financial year ended 31 December 2021, and for the nine months ended 30 September 2022.

## FUTURE PLANS FOR MATERIAL INVESTMENTS

The Reach Glory Group is an investment holding group while the business scope of the Project Company includes property development and management. The Target Group intends to develop the Puning Land into residential and commercial properties for resale and/or rental purposes.

## SIGNIFICANT INVESTMENTS HELD

The Reach Glory Group had not made any significant investment for the period from 6 January 2020 (date of establishment) to 31 December 2020, for the financial year ended 31 December 2021, and for the nine months ended 30 September 2022.

Save and except the acquisition of the Puning Land, the Project Company had not made any significant investment for the period from 16 January 2020 (date of establishment) to 31 December 2020, for the financial year ended 31 December 2021, and for the nine months ended 30 September 2022.

## CONTINGENT LIABILITIES

As at 31 December 2020, 31 December 2021 and 30 September 2022, the Reach Glory Group did not have contingent liabilities.

As at 31 December 2020, the Project Company had no contingent liabilities; as at 31 December 2021 and 30 September 2022, the Project Company had contingent liabilities of RMB629,330,000 and RMB877,430,000, respectively, being guarantees granted to financial institutions on behalf of purchasers of property units.

## EXCHANGE RISK AND HEDGING

As the Reach Glory Group is an investment holding group, the operations of the Target Company were not subject to significant exchange risk. Accordingly, no financial instruments for hedging purposes were used by the Reach Glory Group for the period from 6 January 2020 (date of establishment) to 31 December 2020, for the financial year ended 31 December 2021, and for the nine months ended 30 September 2022.

As the operations of the Project Company were principally in the PRC, the operations of the Project Company were not subject to significant exchange risk. Accordingly, no financial instruments for hedging purposes were used by the Target Company for the period from 16 January 2020 (date of establishment) to 31 December 2020, for the financial year ended 31 December 2021, and for the nine months ended 30 September 2022.

## STAFF AND REMUNERATION POLICIES

For the period from 6 January 2020 (date of establishment) to 31 December 2020, for the financial year ended 31 December 2021, and for the nine months ended 30 September 2022, no staff costs were incurred by the Reach Glory Group.

For the period from 16 January 2020 (date of establishment) to 31 December 2020, for the financial year ended 31 December 2021, and for the nine months ended 30 September 2022, wages and salaries incurred by the Project Company amounted to RMB1,790,000, RMB4,456,000 and RMB2,071,000, respectively.

## SEGMENT INFORMATION

The Target Company is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. The Project Company, incorporated on 16 January 2020, is the operating subsidiary of the Target Company. Save as the Project Company, other companies in the Reach Glory Group are investment holding companies and have no business operations since their establishment.

The Project Company has identified its operating segment based on the regular internal financial information reported to the chief decision makers about allocation of resources to assess the performance of the Project Company's business.

The principal activity of the Project Company is engaged in property development in the PRC. The sole director considers that this is the only component for internal reporting to the chief decision makers and, accordingly, the only one operating segment under the requirements of HKFRS 8 "**Operating Segments**".

All the segment assets and liabilities are located in the PRC.

During the relevant periods, there is no customer contributed 10% or more to the Project Company's revenue.

## 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. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURE

**Long positions in the ordinary shares of the Company**

| Name of Director | Nature of interest | Number of Shares held | Approximate percentage of shareholding in the Company |
|---|---|---|---|
| Mr. Chen Weiwu | Beneficial owner | 871,848,000 | 30.12% |
| | Interest of controlled corporation | 579,806,977 *(Note)* | 20.03% |

*Note:* These Shares are owned by Grand Nice International Limited ("**Grand Nice**") which is wholly and beneficially owned by Mr. Chen. By virtue of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**"), Mr. Chen is deemed to be interested in an aggregate of 1,451,654,977 Shares, representing approximately 50.15% of the issued share capital of the Company as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executives of the Company had any interests or short positions 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) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were deemed or taken to have under such provisions of the SFO); (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were otherwise required to notify the Company or the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

## 3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, other than the interests of the Directors and chief executive of the Company disclosed in the paragraph headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURE" above, the following persons had interests or short position in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company under section 336 of the SFO:

| Name of Shareholder | Nature of interest | Number of Shares held | Approximate percentage of the shareholding in the Company |
|---|---|---|---|
| Grand Nice *(Note 1)* | Beneficial owner | 579,806,977 | 20.03% |

*Notes:*

(1) Grand Nice is wholly and beneficially owned by Mr. Chen Weiwu who is an executive Director and the Chairman of the Company.

Save as disclosed above, as at the Latest Practicable Date, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position 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.

## 4. MATERIAL CONTRACTS

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

(a) the equity sale and purchase agreement dated 31 July 2021 entered into by the Company and Shenzhen Yaoling in respect of the acquisition of 55% issued share capital in Dongguan Huachuangwen Land Ltd. at the consideration of RMB137,300,000;

(b) the Equity Sale and Purchase Agreement.

## 5. MATERIAL LITIGATION

As at the Latest Practicable Date, there were no litigation or claim of material importance that is known to the Directors to be pending or threatened against the Group.

## 6. DIRECTORS' SERVICE CONTRACT

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

## 7. DIRECTORS INTEREST IN COMPETING BUSINESSES

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to Rule 8.10 of the Listing Rules.

## 8. DIRECTORS' INTEREST IN ASSETS, CONTRACTS OR ARRANGEMENT

Save as disclosed in the circular, as at the Latest Practicable Date, none of the Directors had: (i) any direct or indirect interests in any asset which have been since 31 March 2022 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or lease to any member of the Group; or (ii) any subsisting material interest in any contract or arrangement at the date of this circular which is significant in relation to the business of the Group.

## 9. WORKING CAPITAL STATEMENT

The Directors are of the opinion that, after due and careful enquiry and taking into account the existing bank balances and cash, internal resources, available credit facilities and the effect of the transactions, the Enlarged Group will have sufficient working capital for its present requirements for a period of 12 months from the date of this circular.

## 10. EXPERTS AND CONSENTS

(a) The following is the qualifications of the experts who have provided advice referred to or contained in this circular:

| Name | Qualification |
|---|---|
| Rainbow Capital | A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO (Chapter 571 of the Laws of Hong Kong) |
| APAC Asset Valuation and Consulting Limited | Independent professional valuer |
| CCTH CPA Limited | Certified Public Accountants |

(b) As at the Latest Practicable Date, the experts named above had no shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

(c) The experts named above have given and have not withdrawn their written consents to the issue of this circular with the inclusion of their letters of advice and references to their names in the form and context in which the respectively appear.

(d) As at the Latest Practicable Date, the experts named above did not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2022 (being the date to which the latest published audited financial statements of the Group were made up).

## 11. GENERAL

(a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

(b) The principal place of business of the Company in Hong Kong is located at Unit 1201, 12/F., 29 Austin Road, Tsim Sha Tsui, Hong Kong.

(c) The principal share registrar and transfer office of the Company is MUFG Fund Services (Bermuda) Limited at The Belvedere Building, 69 Pitts Bay Road, Pembroke HM08, Bermuda.

(d) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Secretaries Limited at Level 54, Hopewell Centre 183 Queen's Road East, Hong Kong.

(e) The company secretary of the Company is Kwong Oi Man Patty ("**Ms. Kwong**"). Ms. Kwong is a member of Hong Kong Institute of Certified Public Accountants.

(f) This circular is in both English and Chinese. In the event of inconsistency, the English text shall prevail.

## 12. DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.ts674.com) for the period of 14 days commencing from the date of this circular:

(a) the Equity Sale and Purchase Agreement;

(b) the written consent of each of the experts referred to in the section headed "Experts and Consents" in this appendix;

(c) the annual reports of the Company for the three years ended 31 March 2020, 31 March 2021 and 31 March 2022;

(d) the letter from the Independent Financial Adviser, the text of which is set out on pages 36 to 82 of this circular;

(e) the financial information of the Target Company and the Project Company, the text of which is set out in Appendix II to this circular;

(f) the report from CCTH CPA Limited on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular; and

(g) the valuation report in relation to the Puning Land, the text of which is set out in Appendix IV to this circular.

# CHINA TANGSHANG HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 674)**

## NOTICE OF 2023 FIRST SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the 2023 first special general meeting (the "**Meeting**") of China Tangshang Holdings Limited (the "**Company**") will be held at Unit 1201, 12/F., 29 Austin Road, Tsim Sha Tsui, Kowloon, Hong Kong on Thursday, 16 February 2023 at 3:00 p.m. to consider and, if thought fit, pass the following resolution (with or without modification) as ordinary resolution of the Company:

### ORDINARY RESOLUTION

1. "**THAT**

(a) the conditional Equity Sale and Purchase Agreement dated 31 October 2022 (the "**Agreement**") entered into between the Company as purchaser and Mr. Chen Weiwu as the vendor (the "**Vendor**"), in relation to the acquisition of the entire issued share capital of Reach Glory Holdings Limited (致榮控股有限公司) at the consideration of RMB315,000,000 (or the equivalent Hong Kong Dollars), which shall be settled by the Company to the Vendor by way of (i) the issue and allotment of 534,000,000 consideration shares (each a "**Consideration Share**") at the issue price of HK$0.2 per Consideration Share and (ii) the issue of convertible bonds in the principal amount of HK$249,150,000 ("**Convertible Bonds**"), and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares and the Convertible Bonds), be and are hereby approved, confirmed and ratified;

(b) the allotment and issue of the Consideration Shares and Convertible Bonds by the Company to the Vendor to settle part of the consideration payable by the Company in accordance with the terms and conditions of the Agreement and all transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(c) the board of directors of the Company (the "**Directors**") be and is hereby granted a specific mandate to allot and issue of (i) the Consideration Shares and (ii) the new share(s) which may be issued upon exercise of the conversion right attaching to the Convertible Bonds, in accordance with the terms and conditions of the Agreement; and

(d) any Director be and is hereby authorised to sign and execute such documents, including under seal where applicable, and do all such acts and things, as he/she considers necessary, desirable or expedient in connection with the implementation of or giving effect to the Agreement and the transactions contemplated thereunder and to agree with such variation, amendment or waiver as, in the opinion of the Directors, in the interests of the Company and its shareholders as a whole."

By Order of the Board
**China Tangshang Holdings Limited**
**Chen Weiwu**
*Chairman*

Hong Kong, 20 January 2023

*Registered office:*
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

*Head office and principal place of business in Hong Kong:*
Unit 1201, 12/F.,
29 Austin Road,
Tsim Sha Tsui,
Kowloon,
Hong Kong

*Notes:*

(i) For the purpose of determining members who are qualified for attending the Meeting, the register of members of the Company will be closed from Tuesday, 14 February 2023 to Thursday, 16 February 2023 (both days inclusive), during which no transfer of the Shares will be effected. In order to qualify for attending the Meeting, all transfers of Shares accompanied by the relevant share certificates must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Secretaries Limited, at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong by no later than 4:30 p.m. on Monday, 13 February 2023.

(ii) A member entitled to attend and vote at the Meeting is entitled to appoint one proxy or, if he/she/it is a holder of two or more Shares may appoint more than one proxy to attend and vote instead of him/her/it. A proxy needs not be a member of the Company.

(iii) Where there are joint holders of any Share, any one of such joint holder may vote at the Meeting, either personally or by proxy, in respect of such Share as if he/she/it was solely entitled thereto, but if more than one of such joint holders be present at the Meeting personally or by proxy, that the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

(iv) To be valid, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Secretaries Limited, at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.

(v) Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the Meeting or any adjournment thereof if he/she/it so desires. If a member of the Company attends the Meeting after having deposited the form of proxy, his/her/its form of proxy will be deemed to have been revoked.

(vi) If Typhoon Signal No.8 or above, or a "black" rainstorm warning is in effect any time after 11:00 a.m. on the date of the Meeting, the Meeting will be adjourned. The Company will post an announcement on the website of the Company at http://www.ts674.com and on the HKExnews website of the Stock Exchange at www.hkexnews.hk to notify Shareholders of the date, time and place of the rescheduled meeting.

(vii) Pursuant to Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, all resolution set out in this Notice will be decided by poll at the meeting.

*As at the date of this notice, the executive Directors are, Mr. Chen Weiwu (Chairman), Mr. Zhou Houjie and Mr. Jiang Ruowenhao; and the independent non-executive Directors are Mr. Chen Youchun, Ms. Lui Mei Ka and Mr. Zhou Xin.*