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Hopewell Centre,
183 Queen's Road East,
Wan Chai,
Hong Kong

5 June 2024

To: The Independent Board Committee and the Independent Shareholders of KRP Development Holdings Limited

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Advisor to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 5 June 2024 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 14 May 2024, the Vendor, an indirectly wholly-owned subsidiary of the Company entered into the Disposal Agreement with the Purchaser, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the entire issued equity interest of the Target Company at the Consideration, subject to the terms and conditions therein.

As the Purchaser is wholly-owned by Mr. Ho, who is a Controlling Shareholder of the Company holding 72.56% of the issued share capital of the Company as at the Latest Practicable Date, the chairman of the Board and a non-executive Director of the Company, the entering into the Disposal Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and subject to the reporting, announcement and the Independent Shareholders' approval requirements under the Listing Rules. Mr. Ho and Mr. Ho Wai Hon, Brian, an executive Director and the son of Mr. Ho and their associates will abstain from voting at the EGM to be

convened for the approval of the Disposal Agreement and the transactions contemplated thereunder. As stated in the Letter from the Board, as at the Latest Practicable Date, according to the information of the Company, Mr. Ho, Mr. Ho Wai Hon, Brian, Ms. Ho Po Chu and Mr. Ho Cheuk Ming (including their personal interests, family interests and corporate/other interests) are interested in approximately 72.56%, 0.19%, 72.56% and 0.56% of the Shares in issue of the Company, respectively. Mr. Ho is the brother of Mr. Ho Cheuk Ming and the spouse of Ms. Ho Po Chu.

Save and except for Mr. Ho, the chairman of the Board, a non-executive Director and a Controlling Shareholder and Mr. Ho Wai Hon, Brian, an executive Director and the son of Mr. Ho, none of the Directors have any material interest in the transactions contemplated under the Disposal Agreement, therefore they are not required under the Listing Rules to abstain from voting on the Board resolution approving the Disposal Agreement and the transactions contemplated thereunder.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Choi Wai Hin, Mr. Ho Lai Hong and Dr. Lo Yung Fong, being all the independent non-executive Directors has been established by the Company to advise and make recommendations to the Independent Shareholders in respect of the Disposal. Our appointment as the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders has been approved by the Independent Board Committee in this respect.

Our role as the Independent Financial Advisor is to advise the Independent Board Committee and the Independent Shareholders as to: (i) whether the terms of the Disposal Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote on the relevant resolution in relation to the Disposal Agreement and the transactions contemplated thereunder at the EGM.

OUR INDEPENDENCE

As at the Latest Practicable Date, we do not have any relationship with, or interest in, the Company or any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Advisor in relation to the Disposal, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, amongst other things, the Disposal Agreement, the Company's annual report for the financial year ended 31 March 2023 (the "**2022/2023 Annual Report**"), the Company interim report for the six months ended 30 September 2023 (the "**2023/2024 Interim Report**") and other information as set out in the Circular.

We have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations made to us by the Company, the Directors and the management of the Company (collectively, the "**Management**"). We have assumed that all information and representations contained or referred to in the Circular and provided to us by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the EGM. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant information have been withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Management, which have been provided to us.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. However, we have not, carried out any independent verification of the information provided by the Management, nor have conducted any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

The Directors have collectively and individually accepted full responsibility, including particulars given in compliance with the Listing Rules, for the accuracy of the information contained in the Circular and have confirmed, after having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other matters of facts the omission of which would make any statement herein or the Circular misleading.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of the Disposal Agreement, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in relation to the Disposal and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors:

A. Overview of the Target Company and the Disposal

1. The Target Company

As stated in the letter from the Board, the Target Company is a company established in the PRC with limited liability on 7 September 2000 which is wholly-owned by the Vendor and is principally engaged in real estate development business in relation to Phase 3 of Castfast Villas. The Target Company is the project company and is the holder and owns the legal title of Phase 3 of Castfast Villas. The Target Company was also engaged in sales of computer-related electronics devices and electronic components until May 2016. Since then, it had not operated any business other than as the project company of Phase 3 of Castfast Villas.

In September 2005, the Target Company entered into the relevant land grant contract with Dongguan City Land Management Bureau (東莞市土地管理局), pursuant to which the Target Company was granted the land use right of the project land for industrial use. In December 2014, application for change of land use to residential use was approved by Dongguan City National Land Resources Bureau. Construction of Phase 3 of Castfast Villas was commenced in November 2015 and was completed between August 2018 to January 2019 with 605 residential units. Pre-sale of Phase 3 of Castfast Villas was commenced in September 2017.

The Target Company was a direct wholly-owned subsidiary of Kar Info Property since May 2016, which was in turn wholly-owned by Mr. Ho. As part of the reorganisation of the Group in preparation for the listing of the Company on the Stock Exchange, on 3 March 2022, Kar Info Property transferred 100% equity interest in the Target Company at a consideration of RMB38 million, which held 26 unsold units of Phase 3 of Castfast Villas with a total GFA of 3,685 sq.m., to KRP Development and the Target Company became an indirect wholly-owned subsidiary of the Group.

All units of Phase 3 of Castfast Villas have been sold in April 2024 and there is no unsold unit in Phase 3 of Castfast Villas. The aggregate selling price of the 26 units of Phase 3 of Castfast Villas that were sold since the Target Company became a subsidiary of the Group amounted to approximately RMB78.2 million. As at 30 April 2024, the outstanding receivables from the sale of Phase 3 of Castfast Villas were approximately RMB34.5 million.

Set out below is the unaudited financial information of the Target Company for the two financial years ended 31 March 2023, the six months ended 30 September 2023 and as at 30 April 2024:

Table 1: Highlights of the financial results of the Target Company

	For the six months ended 30 September 2023 (RMB'000)	For the year ended 31 March	
		2023 (RMB'000)	2022 (RMB'000)
Turnover	—	14,758	70,593
Profit/(Loss) before tax	(102)	10,157	52,278
Profit/(Loss) after tax	(102)	113	23,251

Table 2: Highlights of the balance sheets of the Target Company

	As at 30 April 2024 (RMB'000)
Total assets	56,643
Total liabilities	37,460
Net assets	19,183

Upon completion of the Disposal, the Target Company will cease to become subsidiary of the Company and the accounts of the Target Company will no longer be consolidated with the accounts of the Company.

As stated in the letter from the Board, currently, the Target Company does not have any business or operations as all units of Phase 3 of Castfast Villas have been sold and delivered. As at 30 April 2024, based on unaudited financial information of the Target Company, the

total assets of the Target Company was approximately RMB56.6 million which comprised of cash and cash equivalent of approximately RMB22.1 million and trade receivables of approximately RMB34.5 million, and the total liabilities of the Target Company was RMB37.5 million which mainly comprised of sales commission to real estate agents of approximately RMB3.0 million and tax payable of approximately RMB34.1 million.

The trade receivables of approximately RMB34.5 million as at 30 April 2024 were the receivables from the sales of Phase 3 of Castfast Villas in respect of 16 units due from five property buyers, among which approximately RMB2.7 million in respect of three units from three property buyers have already fallen due, and the remaining approximately RMB31.8 million in respect of 13 units from two property buyers will fall due in October 2024.

2. *The Disposal Agreement*

On 14 May 2024 (after trading hours), the Vendor (an indirect wholly-owned subsidiary of the Company) and the Purchaser entered into the Disposal Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the entire issued equity interest of the Target Company at the Consideration, subject to the terms and conditions therein.

The principal terms of the Disposal Agreement are set out below:

Date

14 May 2024

Parties

- | | |
|---------------------|--|
| (i) the Vendor: | KRP Development Company Limited (an indirect wholly-owned subsidiary of the Company) |
| (ii) the Purchaser: | Kar Info Property Limited (a company wholly-owned by Mr. Ho) |

Subject matter

Pursuant to the Disposal Agreement, the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the entire issued equity interest of the Target Company, subject to the terms and conditions therein.

Consideration

The Consideration for the entire issued equity interest of the Target Company is RMB19,800,000 (equivalent to approximately HK\$21,780,000). The Consideration will be settled in cash by the Purchaser within 90 days of the Closing Date.

Conditions precedent

The obligations of each of the parties to effect the transactions contemplated under the Disposal Agreement at the Closing shall be subject to the fulfilment or waiver by the Purchaser (as the case may be) at or prior to Closing of the following Conditions:

- (a) the representations and warranties of the Vendor remaining true, complete and accurate in all material respects with no false or misleading statements and material omissions from the date of the Disposal Agreement until the Closing Date;
- (b) the Vendor having duly performed and complied with all undertakings under the Disposal Agreement with no breach of any of the provisions from the date of the Disposal Agreement until the Closing Date;
- (c) the transactions contemplated under the Disposal Agreement not being restricted, prohibited or cancelled by any PRC laws or any judgment, injunction, order or decree of any courts, arbitration or government bodies; and there exists no pending or potential litigation, arbitration, judgment, decree or injunction which may have a material adverse impact on the transactions as contemplated under the Disposal Agreement;
- (d) from the date of the Disposal Agreement until the Closing Date, there exists no events, conditions, changes or other situations or reasonably foreseeable events, conditions, changes or situations which may have a material adverse impact on the assets, financials, liabilities, technologies, profit forecast and normal operation of the Target Company;

- (e) the Purchaser has completed its financial and legal due diligence review of the Target Company, and is satisfied with the results thereof;
- (f) the shareholders of the Target Company have approved the Disposal and the board of directors of the Vendor has passed the resolutions to approve the Disposal;
- (g) the Independent Shareholders have passed the resolutions at the EGM for approving the Disposal Agreement and the transactions contemplated thereunder; and
- (h) the Target Company has completed the relevant registration and reporting procedures with the relevant PRC market regulation and commerce authorities in connection with the Disposal and the Purchaser has been duly registered as the shareholder of the entire issued equity interest of the Target Company and has been provided with relevant updated licenses, including the business operation license of the Target Company.

The Purchaser may waive in writing all the Conditions save as Conditions (c), (g) and (h). Upon the fulfilment of all the Conditions, the Vendor shall provide a confirmation in writing to the Purchaser and provide evidence of the same.

As at the latest Practicable Date, save for condition (e) which has been fulfilled, none of the Conditions have been fulfilled or waived.

Closing

The Closing is scheduled to take place on the Closing Date, which is three business days after the Conditions have been fulfilled or waived (as the case may be) pursuant to the Disposal Agreement, or such other date as the Purchaser and the Vendor may agree in writing.

Following the Closing, the Purchaser will be the legal and beneficial owner of the entire issued equity interest of the Target Company.

3. Use of proceeds

The proceeds from the Disposal will be used by the Group for used for its working capital and general corporate purposes.

B. Reasons for Disposal

The Target Company serves as the project company for the development of Phase 3 of Castfast Villas. As stated in the letter from the Board, since all units of Phase 3 of Castfast Villas have been sold, the Directors are of the view that the Disposal could streamline the organization structure and thereby minimizing the cost of management of the Group and the Disposal allows the Group to strategically reallocate its resources and concentrate its efforts on promoting Phase 4 and Phase 5 of Castfast Villas and Louvre Mansion and developing the Foshan Project located at Hecheng Sub-district, Gaoming District, Foshan.

As stated in the letter from the Board, currently, the Group is focusing on implementing our sales and marketing strategies to sell the remaining units of the projects, including conducting market and competitors analysis, such as any changes in real estate policies and market demand in the Linshen area (臨深片區), and analysing the sales strategies and properties transactions of the surrounding property development projects. The Company is also formulating appropriate marketing plans to promote sales of these projects, such as their sales channels, pricing, target customers positioning, promotions and offering supporting facilities for the units. Foshan Project is currently in the project planning and design stage which the Company is preparing for the architectural construction design and drawings and liaising with the relevant government authorities.

It is estimated by the Company that an annual budget of approximately RMB0.6 million is required to maintain the Target Company, including but not limited to salaries and professional fees for audit and tax services. As stated in the letter from the Board, the Directors are of the view that the Disposal could enable the Group to reallocate its resources and concentrate on conducting construction cost budgeting and monitoring for the Foshan Project and corporate income tax and land appreciation tax computation for local tax compliance for its existing projects, thereby enhancing the overall project efficiency in its existing initiatives.

C. Business of the Group

The Group is principally engaged in development and sales of residential properties in Dongguan, Huizhou and Foshan.

Set out below are the audited consolidated financial results of the Group for the two financial years ended 31 March 2023 as extracted from the 2022/2023 Annual Report.

Table 3: Highlights of the financial results of the Group

	For the year ended 31 March 2023 (RMB'000)	For the year ended 31 March 2022 (RMB'000)
Revenue	700,751	775,555
Profit/(Loss) for the year	180,846	243,660

Source: 2022/2023 Annual Report

During the year ended 31 March 2023, the revenue of the Group decreased by approximately 9.6% from approximately RMB775.6 million for the year ended 31 March 2022 to approximately RMB700.8 million for the year ended 31 March 2023. The Group has recorded a decrease in net profit by approximately 25.8% from approximately RMB243.7 million for the year ended 31 March 2022 to approximately RMB180.9 million for the year ended 31 March 2023.

Set out below are highlights of the asset breakdown of the Group as at 30 September 2023. Which is extracted from the 2023/2024 Interim Report:

Table 4: Highlights of the asset breakdown of the Group

	As at 30 September 2023 (RMB'000)	Percentage to total assets (%)
Investment properties	115,760	7.93
Inventories and other contract costs	1,015,123	69.56
Cash and cash equivalent	204,047	13.98
Other assets	124,433	8.53
Total assets	1,459,363	100.00

Source: 2023/2024 Interim Report

As discussed with the Management of the Company, the Target Company serves as the project company for the development of Phase 3 of Castfast Villas. Since all units of Phase 3 of Castfast Villas have been sold, the Target Company will no longer be able to contribute to the revenue of the Group.

D. Basis of Consideration

The Consideration for the entire issued equity interest of the Target Company is RMB19,800,000 (equivalent to approximately HK\$21,780,000). The Consideration will be settled in cash by the Purchaser within 90 days of the Closing Date.

The Consideration was agreed after arm's length negotiations between the Vendor and the Purchaser on normal commercial terms with reference to, among other things, the net book value of the Target Company as at 30 April 2024 of approximately RMB19,183,000.

We noted that the total assets of the Target Company of approximately RMB 56.6 million as at 30 April 2024 consist of cash and cash equivalent and trade receivables and there is no unsold unit in Phase 3 of Castfast Villas. Based on the information provided by the Company, we noted that the trade receivables of approximately RMB34.5 million of the Target Company as at 30 April 2024 were the receivables from the sales of Phase 3 of Castfast Villas units and the cash and cash equivalent amounted to approximately RMB22.1 million based on the bank statements of the Target Company as at 30 April 2024 provided by the Company and hence we concur with the Directors' view that the net asset value of the Company represents a fair and reasonable reference in the negotiation and determination of the Consideration.

In light of the above, we are of the opinion that the Consideration, with reference to, among other things, the net book value of the Target Company as at 30 April 2024, is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

E. Financial effects of the Disposal on the Group

(i) Earnings

According to the 2022/2023 Annual Report, the profit attributable to the Shareholders was approximately RMB180.8 million for the year ended 31 March 2023.

As stated in the letter from the Board, the Group would recognised a gain on the Disposal upon completion of the Disposal of approximately RMB617,000, being the difference between the amount of Consideration and the net book value of the Target Company of approximately RMB19,183,000 as at 30 April 2024, and this figure is subject to final audit to be performed by the Company's auditors.

(ii) Net asset value

According to the 2023/2024 Interim Report, the unaudited net asset value of the Group as at 30 September 2023 was approximately RMB835.1 million.

As stated in the letter from the Board, the Group would recognised a gain on the Disposal upon completion of the Disposal of approximately RMB617,000. As such, the Disposal will have a positive impact on the net asset value of the Group.

(iii) Working capital and gearing

Based on the unaudited balance sheet of the Target Company as at 30 April 2024, the total assets of the Target Company of approximately RMB56.6 million comprised (i) cash and cash equivalent of approximately RMB22.1 million; and (ii) trade receivables of approximately RMB34.5 million. Upon completion of the Disposal, the Target Company will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the financial statement of the Group. As such, the cash position of the Group will be decreased by approximately RMB2.3 million, being the difference between (i) the cash and cash equivalent of the Target Company of approximately RMB22.1 million and (ii) the Consideration of RMB19.8 million which will be settled in cash by the Purchaser.

As stated in the 2023/2024 Interim Report, the Company recorded cash and bank deposits of approximately RMB204.0 million and the Company was in net cash position, hence we concur with the Directors' view that the decrease in cash position of the Group by approximately RMB2.3 million is relatively immaterial and hence will not result in adversely impact on the cashflow of the Group.

As stated in the 2022/2023 Annual Report and 2023/2024 Interim Report, the Company was in net cash position and hence the net gearing ratio (calculated based on total bank borrowing and lease liabilities less cash and bank deposits and pledged deposits divided by total equity at the end of the year multiplied by 100%) was not applicable. Upon completion of the Disposal, it is expected that the Company will remain in a net cash position.

Based on the above, we noted that while the Disposal would have a negative effect on the Group's working capital position, it would have a positive effect on the Group's earnings and net asset value. Furthermore, the Group shall record an immediate gain on Disposal upon completion of the Disposal. Therefore, having considered the reasons for and benefits of the Disposal and the fairness and reasonableness of the Consideration, we are of the view that the financial effects of the Disposal, on an overall basis, are fair and reasonable.

RECOMMENDATION

Having considered the principal factors and reasons, in particular:

- (i) the Target Company serves as the project company for the development of Phase 3 of Castfast Villas and all units of Phase 3 of Castfast Villas have been sold and there is no unsold unit in Phase 3 of Castfast Villas;
- (ii) the Disposal could streamline the organization structure and thereby minimizing the cost of management of the Group;
- (iii) the Consideration is fair and reasonable; and
- (iv) the financial effects of the Disposal are fair and reasonable,

we are of the view that: (i) the Disposal is in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Disposal Agreement are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concern. Accordingly, we recommend: (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the relevant resolution to be proposed at the EGM to approve the Disposal and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Gransing Securities Co., Limited



Beverly Seeto
Director

Ms. Beverly Seeto is a Responsible Officer of Gransing Securities Co., Limited licensed under the SFO to carry out, among others Type 6 (advising on corporate finance) regulated activity and has approximately 11 years of experience in corporate finance.