

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in any doubt** about this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in TFG International Group Limited, you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or the transfer was effected for transmission to the purchaser or transferee.

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## **TFG INTERNATIONAL GROUP LIMITED**

**富元國際集團有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 542)**

### **MAJOR AND CONNECTED TRANSACTION AND NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



A letter from the board of directors of TFG International Group Limited (the “**Company**”) is set out on pages 6 to 20 of this circular. A letter from the Independent Board Committee is set out on page 21 of this circular. A letter from Lego Corporate Finance Limited, the Independent Financial Adviser, containing its recommendations to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 48 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at Rooms 1301–1302, Laws Commercial Plaza, 788 Cheung Sha Wan Road, Kowloon, Hong Kong on Monday, 21 March 2022, at 10:30 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the extraordinary general meeting of the Company is enclosed with this circular.

Whether or not you are able to attend the extraordinary general meeting of the Company, you are requested to complete the accompanying form of proxy in accordance with instructions printed thereon and return it to the branch share registrar of the Company, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible but in any event not later than 48 hours before the time for holding the extraordinary general meeting of the Company or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting of the Company or any adjournment thereof should you so wish.

25 February 2022

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## **PRECAUTIONARY MEASURES FOR THE EGM**

The health of our Shareholders, staff and stakeholders is of paramount importance to us. In view of the ongoing Novel Coronavirus (COVID-19) pandemic, the Company will implement the following precautionary measures at the EGM to protect attending Shareholders, staff and stakeholders from the risk of infection:

- (i) Compulsory body temperature checks will be conducted for every Shareholder, proxy or other attendee at each entrance of the meeting venue. Any person with a body temperature of over 37.4 degrees Celsius will be denied entry into the meeting venue or be required to leave the meeting venue.
- (ii) Compulsory wearing of surgical face mask by all attendees throughout the meeting and inside the meeting venue, and to maintain a safe distance between seats.
- (iii) No refreshment will be served, and there will be no corporate gift.
- (iv) Each attendee will be asked whether (a) he/she has travelled outside of Hong Kong within the 14-day period immediately before the EGM; and (b) he/she is subject to any quarantine prescribed by the Hong Kong Government. Anyone with an affirmative answer to any of these questions will be denied entry into the meeting venue and will be required to leave the meeting venue.

To the extent permitted under the laws of Hong Kong, the Company reserves the right to deny entry into the EGM venue or require any person to leave the EGM venue so as to ensure the health and safety of the attendees at the EGM.

In addition, the Company reminds all Shareholders that attendance in person at the EGM is not compulsory for the purpose of exercising voting rights. Shareholders may appoint the chairman of the EGM as their proxy to vote on the relevant resolution(s) at the EGM instead of attending the EGM in person, by completing and returning the proxy form attached to this circular. Alternatively, the form of proxy can be downloaded from the Company's website at [www.tfginternationalgroup.com](http://www.tfginternationalgroup.com) and the HKEXnews website at [www.hkexnews.hk](http://www.hkexnews.hk). If you are not a registered Shareholder (if your Shares are held via banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy.

Subject to the development of COVID-19, the Company may be required to change the EGM arrangements at short notice. Shareholders should check the Company's website for further announcements and updates on the EGM arrangements.

## DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“BP Limited”	Bright Profit Investments Limited, a company established in the BVI and is an indirect non wholly-owned subsidiary of the Company
“Business Day(s)”	a day (other than a Saturday or any day on which a tropical cyclone warning No. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks are open in Hong Kong and for general banking business
“BVI”	the British Virgin Islands
“Company”	TFG International Group Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange
“Completion”	completion of the sale and purchase of the Sale Shares
“Completion Date”	the date on which Completion takes place, being the 30th day after conditions (i) and (ii) set out in the paragraph headed “Conditions precedent” in the Letter from the Board have been fulfilled (or any other date as the Company and the Purchaser may agree in writing)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration for the Sale Shares in the amount of HK\$282,000,000 pursuant to the terms and conditions of the Disposal Agreement
“Director(s)”	directors of the Company
“Disposal”	the disposal of the Sale Shares by the Company to the Purchaser pursuant to the terms and conditions of the Disposal Agreement
“Disposal Agreement”	the disposal agreement dated 5 November 2021 entered into among the Company, the Purchaser and the Guarantor in relation to the Disposal
“Disposal Company”	Ceneric Properties Limited, a company incorporated in the BVI and a wholly-owned subsidiary of the Company

## DEFINITIONS

“Disposal Group”	collectively, the Disposal Company, WF Limited, JP Limited, BP Limited and the PRC Companies
“EGM”	the extraordinary general meeting of the Company convened to be held at Rooms 1301–1302, Laws Commercial Plaza, 788 Cheung Sha Wan Road, Kowloon, Hong Kong on Monday, 21 March 2022 at 10:30 a.m. for the purpose of considering, and if thought fit, to approve the Disposal Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“Guarantor”	Yang Lijun, the executive Director, chairman of the Company and the controlling Shareholder
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board comprising all independent non-executive Directors established to provide recommendation to the Independent Shareholders in relation to the Disposal Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “Lego Corporate Finance”	Lego Corporate Finance Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal Agreement and the transactions contemplated thereunder
“Independent Shareholder(s)”	Shareholders other than the Purchaser, the Guarantor and their respective associates
“JP Limited”	Jubilation Properties Limited, a company established in the BVI and is an indirect non wholly-owned subsidiary of the Company
“Latest Practicable Date”	23 February 2022, being the latest practicable date prior to the bulk-printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

## DEFINITIONS

“Long Stop Date”	30 June 2022 (or such other date as may be agreed by the Company and the Purchaser in writing)
“Morning Star Plaza”	a mixed commercial and residential development located on the northwestern side of Qigang Road in Gangkou Town, Zhongshan City, the PRC which is operated by MS Plaza Limited
“Morning Star Villa”	a large-scale residential development with ancillary commercial and recreational facilities located on the western side of Xingchen Road in Gangkou Town, Zhongshan City, the PRC which is operated by MS Villa Limited and MS Clubhouse Limited
“MS Clubhouse Limited”	中山市星晨花園會所有限公司 (Zhongshan Morning Star Villa Club Co., Ltd*), a company established in the PRC and an indirect non wholly-owned subsidiary of the Company
“MS Plaza Limited”	中山星晨廣場房地產發展有限公司 (Zhongshan Morning Star Plaza Housing and Real Estate Development Limited*), a company established in the PRC and an indirect non wholly-owned subsidiary of the Company
“MS Villa Limited”	中山星晨花園房地產發展有限公司 (Zhongshan Star Villa Housing and Real Estate Development Limited*), a company established in the PRC and an indirect non wholly-owned subsidiary of the Company
“MSP Land Parcel”	the remaining portions of two parcels of land located at Hou Shan Cun Min Wei Yuan Hui, Xi Qu, Gangkou Town, Zhongshan City, Guangdong Province, the PRC with the total site area of approximately 7,343.08 sq. m.
“MSV Land Parcel”	the remaining portions of seven parcels of land located at Xi Jie She Qu Ju Min Wei Yuan Hui Nan Jiu Pian, Gangkou Town, Zhongshan City, Guangdong province, the PRC with the total land area of approximately 151,674.59 sq. m.
“Phase II Clubhouse”	the unsold portion of a building, being the clubhouse of phase II of Morning Star Villa located at Gangkou Town, Zhongshan City, Guangdong Province, the PRC with the total gross floor area of approximately 5,938 sq. m.

## DEFINITIONS

“Phase VI Clubhouse”	the building being erected as a clubhouse on the site of phase VI of Morning Star Villa located at Gangkou Town, Zhongshan City, Guangdong Province, the PRC with the total gross floor area of approximately 944.3 sq. m.
“PRC”	the People’s Republic of China (which for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“PRC Companies”	collectively, MS Clubhouse Limited, MS Plaza Limited and MS Villa Limited
“Properties”	the Phase II Clubhouse, Phase VI Clubhouse, MSV Land Parcel, MSP Land Parcel, Unsold Mixed Units and Unsold Commercial Units
“Purchaser”	Grand Fullwell Investment Holding Limited (泰景投資控股有限公司), a company incorporated in the BVI and is indirectly wholly-owned by the Guarantor
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	an aggregate of 2 shares, representing the entire issued share capital of the Disposal Company
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Unsold Commercial Units”	an aggregate of 23 unsold shop units of Morning Star Plaza with the total gross floor area of approximately 1,296.56 sq. m.
“Unsold Mixed Units”	an aggregate of 172 unsold mixed units/items of Morning Star Plaza comprises one residential unit, two shop units, 43 bicycle rooms and 126 motor cycle parking spaces with the total gross floor area of approximately 1,164.51 sq. m.
“WF Limited”	World Finder Limited, a company established in the BVI and is a wholly-owned subsidiary of the Company

## DEFINITIONS

“%”	per cent
“m”	metre
“sq. m.”	square metre

*In this circular, unless otherwise specified, conversion of RMB into HK\$ is based on the approximate exchange rate of RMB1.00 = HK\$1.2007. Such exchange rate is adopted for illustration purpose only and does not constitute a representation that any amounts in HK\$ and RMB have been, could have been or may be converted at such rate or any other exchange rate.*

*\* For identification purposes only*



**LETTER FROM THE BOARD**

**TFG INTERNATIONAL GROUP LIMITED**

**富元國際集團有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 542)**

*Executive Directors:*

Mr. Yang Lijun (*Chairman*)

Mr. Gao Jingyao

*Non-executive Director:*

Mr. Wong Kui Shing, Danny

*Independent non-executive Directors:*

Ms. Chan Hoi Ling

Ms. So Wai Lam

Mr. Sung Yat Chun

*Registered office:*

The Offices of Sterling Trust

(Cayman) Limited

Whitehall House

238 North Church Street

George Town

Grand Cayman

KY1-1102

Cayman Islands

*Head office and principal place  
of business in Hong Kong:*

Rooms 1301–1302

Laws Commercial Plaza

788 Cheung Sha Wan Road

Kowloon

Hong Kong

25 February 2022

*To the Shareholders,*

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

Reference is made to the announcements of the Company dated 5 November 2021 and 18 November 2021 in relation to the Disposal.

On 5 November 2021 (after trading hours of the Stock Exchange), the Company, the Purchaser and the Guarantor entered into the Disposal Agreement, pursuant to which the Purchaser has conditionally agreed to purchase and the Company has conditionally agreed to sell the Sale Shares at the Consideration of HK\$282,000,000 which shall be payable by the Purchaser in cash.

## LETTER FROM THE BOARD

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

As at the Latest Practicable Date, the Guarantor was an executive Director, the chairman of the Company and a controlling Shareholder, and the entire issued share capital of the Purchaser is indirectly wholly-owned by the Guarantor. Therefore, the Purchaser is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Disposal also constitutes a connected transaction of the Company which is subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The purpose of this circular is to provide you with, among other things, (i) details of the Disposal; (ii) the valuation of the Properties; (iii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iv) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (v) a notice of the EGM; and (vi) other information as required under the Listing Rules.

### THE DISPOSAL AGREEMENT

Set out below are the principal terms of the Disposal Agreement:

#### **Date**

5 November 2021 (after trading hours of the Stock Exchange)

#### **Parties**

- Vendor : the Company
- Purchaser : the Purchaser (being Grand Fullwell Investment Holding Limited), a company indirectly wholly-owned by the Guarantor
- Guarantor : the Guarantor (being Yang Lijun), an executive Director and the chairman of the Company, was interested in 3,098,635,152 Shares, representing approximately 44.61% of the issued share capital of the Company as at the Latest Practicable Date.

For further information of the Purchaser and the Guarantor, please refer to the section headed "Information of the Purchaser and the Guarantor" below.

## LETTER FROM THE BOARD

### Assets to be disposed of

Pursuant to the Disposal Agreement, the Company conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Sale Shares, being the entire issued share capital of the Disposal Company held by the Company as at the date of the Disposal Agreement.

Unless the sale and purchase of all Sale Shares are completed simultaneously on the Completion Date, the Company shall not be obliged to complete the sale of the Sale Shares.

As at the date of the Disposal Agreement, the Company was indebted to the Disposal Company in the amount of HK\$43,132,094 which is non-interest bearing, unsecured and repayable on demand (the “**Company Loan**”).

### Consideration

The Consideration shall be HK\$282,000,000, payable by the Purchaser to the Company as follows:

- (i) HK\$30,000,000 (the “**Deposit**”) shall be payable by the Purchaser in cash as deposit and part payment of the Consideration within seven Business Days after the date of the Disposal Agreement. The Deposit shall be applied towards satisfaction of part of the Consideration at Completion; and
- (ii) the remaining balance of HK\$252,000,000 shall be payable by the Purchaser in cash upon Completion.

The Consideration was arrived at after arm’s length negotiations between the Company and the Purchaser after taking into account (i) the waiver of the Company Loan; and (ii) the unaudited consolidated adjusted net asset value of the Disposal Group of approximately HK\$415.7 million, being (a) the unaudited consolidated net asset value of the Disposal Group as at 30 June 2021 of approximately HK\$154.2 million (assuming the MSV Auction Transactions and the MSP Auction Transactions had been completed as at 30 June 2021), prepared in accordance with the accounting principles generally accepted in Hong Kong, plus (b) the appreciation of the Properties in the amount of approximately HK\$406.2 million, which is equivalent to the difference between the book value of the Properties as at 30 June 2021 in the amount of approximately HK\$76.1 million and the appraised value of the Properties as at 30 September 2021 in the amount of approximately HK\$482.3 million (based on the approximate exchange rate of RMB1.00 to HK\$1.2007), less (c) the carrying amount of the Company Loan of approximately HK\$43.1 million as at 30 June 2021 and less (d) the deferred tax liabilities arising from such appreciation of the Properties of approximately HK\$101.6 million. The unaudited consolidated adjusted net asset value of the Disposal Group attributable to the Group (the “**Adjusted NAV**”) as at 30 June 2021 amounted to approximately HK\$229.0 million. As at 31 December 2021, the appraised value of the Properties remained unchanged at approximately HK\$482.3 million (based on the approximate exchange rate of RMB1.00 to HK\$1.2007), as set out

## LETTER FROM THE BOARD

in the valuation report prepared by an independent valuer using direct comparison method, or, wherever appropriate, investment method as set out in Appendix II to this circular.

Taking into account the Consideration having represented a premium over the Adjusted NAV, the Directors consider the Consideration is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

### **Conditions precedent**

Pursuant to the Disposal Agreement, Completion shall be conditional upon the fulfilment of the following conditions precedent:

- (i) the passing of the necessary resolution(s) by the Shareholders (other than those who are required to abstain from voting under the Listing Rules) at the EGM approving the Disposal Agreement and the transactions contemplated thereunder;
- (ii) the execution of a deed of waiver to waive and release the obligation of the Company to repay the Company Loan;
- (iii) all necessary consents, authorisations, licences and permissions in relation to the sale and purchase of the Sale Shares having been obtained and remain in full force and effect; and
- (iv) the Purchaser and the Guarantor having fulfilled their obligations and responsibilities under the Disposal Agreement and there being no breach of the representations, undertakings and warranties given by the Purchaser and the Guarantor under the Disposal Agreement.

None of the above conditions precedent can be waived. In the event that any conditions precedent has not been fulfilled before noon on the Long Stop Date, the Disposal Agreement shall terminate, the Company shall refund the Deposit (without interest) to the Purchaser within 10 Business Days after the Long Stop Date. Upon the refund of the Deposit by the Company, all rights and obligations of the parties to the Disposal Agreement shall cease to be of any effect save for any antecedent breaches of the terms thereof.

As at the Latest Practicable Date, none of the conditions precedent to the Disposal Agreement had been fulfilled.

### **Completion**

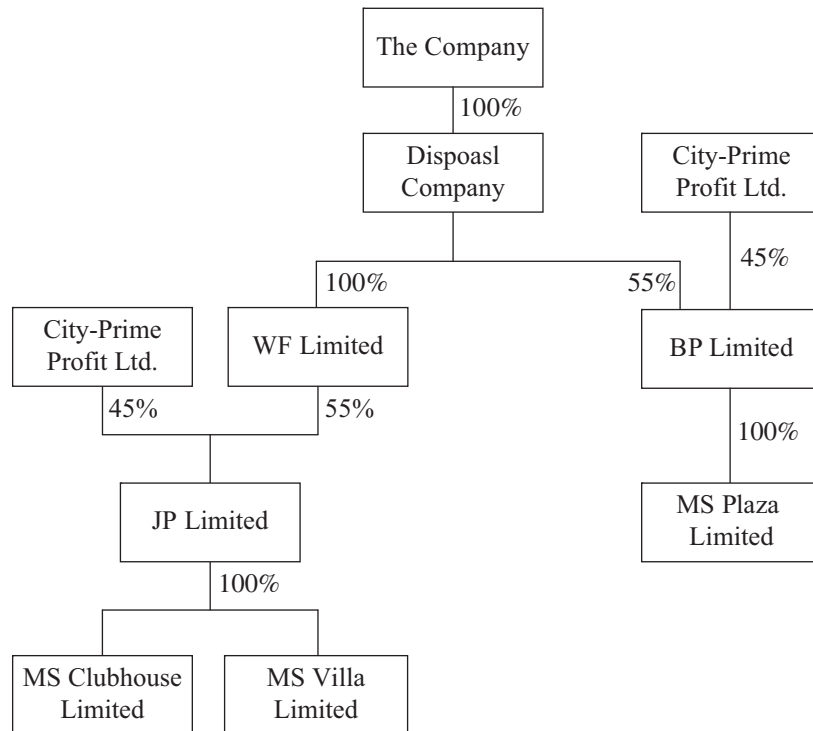
Completion shall take place on the Completion Date, being the 30th day after conditions (i) and (ii) set out in the paragraph headed “Conditions precedent” above have been fulfilled (or such other date as the Company and the Purchaser may agree in writing).

## LETTER FROM THE BOARD

### INFORMATION OF THE DISPOSAL GROUP

#### Structure

As at the Latest Practicable Date, the shareholding structure of the Disposal Group was as follows:



The Disposal Company was incorporated in the BVI with limited liability on 17 June 1992 and is an investment holding company holding as to 100% and 55% of the issued share capitals of WF Limited and BP Limited respectively. WF Limited was incorporated in the BVI on 21 September 2010 with limited liability which in turn is holding 55% of the issued share capital of JP Limited. The remaining 45% of the issued share capital of each of BP Limited and JP Limited is held by City-Prime Profit Ltd. To the best knowledge of the Directors, having made reasonable enquiries, City-Prime Profit Ltd. and its beneficial owner(s) are third parties independent of and not connected with the Company and its connected persons. BP Limited was incorporated in the BVI on 30 March 1994 with limited liability which in turn is the legal and beneficial owner of 100% equity interest of MS Plaza Limited. MS Plaza Limited was established in the PRC on 26 December 2001 with limited liability. MS Plaza Limited is entitled to be engaged in property development, property construction, and leasing and selling of commercial and residential properties in Zhongshan City, the PRC. JP Limited was established in the BVI on 6 July 1992 with limited liability which in turn is the legal and beneficial owner of 100% equity interest of each of MS Clubhouse Limited and MS Villa Limited. MS Clubhouse Limited was established in the PRC on 31 March 1997 with limited liability and is entitled to be engaged in food and beverage, operation of swimming pool, leasing of commercial units and office. MS Villa Limited was established in the PRC on 26

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December 2001 with limited liability and entitled to be engaged in property development, property construction, and leasing and selling of commercial and residential properties in Zhongshan City, the PRC.

The Disposal Group has two development projects in Zhongshan City, Guangdong Province, the PRC, namely Morning Star Villa operated by MS Villa Limited and MS Clubhouse Limited, and Morning Star Plaza operated by MS Plaza Limited.

### **Morning Star Villa**

Morning Star Villa is a large-scale residential development project with ancillary commercial and recreational facilities, including two clubhouses. It is located on the western side of Gangkou Town of Zhongshan City, the PRC. As at the Latest Practicable Date, all completed properties held for sale have been sold.

As at the Latest Practicable Date, the land and properties held by MS Villa Limited were being occupied as follows:

#### *The MSV Land Parcel*

The MSV Land Parcel has a total land area of approximately 151,674.59 sq. m., of which the total developable site area is approximately 128,982.41 sq. m. and the remaining 22,692.18 sq. m. are for road construction and landscaping. It is currently vacant.

#### *(i) Intended development*

The initial intention was to develop the MSV Land Parcel into phases VIII and IX of the Morning Star Villa as follows:

- (a) Phase VIII is comprised of three land parcels (hereinafter being referred to as Phase VIII Land Parcel 1, Phase VIII Land Parcel 2 and Phase VIII Land Parcel 3), with Phase VIII Land Parcels 1 and 2 already developed into properties and sold prior to 2010. Phase VIII Land Parcel 3 remains vacant; and
- (b) Phase IX is comprised of four land parcels, all being vacant.

#### *(ii) Land use rights*

As the land use rights of the MSV Land Parcel were obtained in 2002, but Phase VIII Land Parcel 3 as well as all four land parcels of Phase IX had been vacant since 2002, these land parcels are considered as idle land. Supplemental agreements relating to the four parcels of land comprising Phase IX were signed on 27 October 2021 such that the Disposal Group shall commence construction works on or before 18 March 2022 with a construction period of 2 years (the “**Development Instruction**”).

## LETTER FROM THE BOARD

*(iii) Planning control*

Set out below is the planning control of the MSV Land Parcel:

Date	Name of planning control document	Details of planning control
13 July 1998	中山市建設項目選址意見書 (Zhongshan City Construction Project Site Selection Opinion*)	(a) plot ratio: 1.5 (b) building density: 30% (c) building height: 24m (d) green area ratio: 30%
3 July 2020	中山市港口鎮星晨花園片區控制性詳細規劃(2020) (the Controlled Detail Planning for the Morning Star Villa area of Gangkou Town, Zhongshan City (2020)*) (the “ <b>2020 Planning Control</b> ”)	The property is to be classified as “Class II Residential Land” (a) plot ratio: 2.5 (b) building density: not more than 32% (c) building height: 60m–100m (d) green area ratio: not less than 30%

In May 2021, the Disposal Group made an application to Zhongshan City Natural Resources Bureau for adjustment of building height of Phase VIII Land Parcel 3 and two land parcels in Phase IX. In October 2021, the Disposal Group made another application to Zhongshan City Natural Resources Bureau for consolidation of the land certificates of the remaining two land parcels in Phase IX. After obtaining the approval for consolidation of land certificates for the remaining two land parcels in Phase IX, the Disposal Group will apply for adjustment of building height for such land parcels. Upon obtaining the approval for adjustment of building height, the Disposal Group will make an application for planning and construction, based on plot ratio of 1.5, for those land parcels. The Disposal Group will commence construction work once obtained the approval for planning and construction.

If the MSV Land Parcel is to be developed in accordance with the latest plot ratio of 2.5, the Disposal Group will then need to take part in a plot ratio bidding which shall make reference to the current assessed land price. If the bidding is successful, the Disposal Group is required to pay additional land grant premium and shall sign a supplementary agreement to the Contract of Grant of State-owned Construction Land Use Rights with the Zhongshan City Natural Resources Bureau. It is expected that the additional land grant premium for the increase of plot ratio from 1.5 to 2.5 would be at least RMB4,000 (equivalent to approximately HK\$4,802.80) per sq. m. after making reference to recent auction prices of the land parcels in the surrounding area, therefore resulting in additional land grant premium of approximately RMB400 million (equivalent to approximately HK\$480.28 million).

\* For identification purposes only

## LETTER FROM THE BOARD

### *Phase II Clubhouse*

Phase II Clubhouse is the unsold portion of a building, being the clubhouse of phase II of Morning Star Villa. The total gross floor area of Phase II Clubhouse is approximately 5,938 sq. m.. It is currently leased under various tenancies with the latest due in May 2023.

### *Phase VI Clubhouse*

Phase VI Clubhouse is a block of clubhouse of phase VI of Morning Star Villa with total gross floor area of approximately 944.3 sq. m.. It is currently vacant.

### *Sold properties*

As at the date of the Disposal Agreement, MS Villa Limited held 13 commercial spaces in Phase V of Morning Star Villa with the total gross floor area of approximately 1,130.34 sq. m.. It is currently tenant-occupied as a kindergarten under a tenancy for a term of 15 years ending in April 2033. On 25 October 2021, these 13 commercial spaces were agreed to be sold to third parties in an auction at an aggregate consideration of RMB10,986,921 (equivalent to approximately HK\$13,191,996). Such auction transactions (“**MSV Auction Transactions**”) have not been completed, pending registration of the transfers with the relevant governmental authority. Upon completion of the MSV Auction Transactions, MS Villa Limited shall not have any interest in these commercial spaces.

### **Morning Star Plaza**

Morning Star Plaza is a mixed commercial and residential development divided into different phases on a site located on the northwestern side of Gangkou Town of Zhongshan City, the PRC. It was completed by phases within 1999 to 2008. As at the Latest Practicable Date, 99.98% of completed properties held for sale have been sold.

As at the Latest Practicable Date, the land and properties held by MS Plaza Limited were being occupied as follows:

#### *The MSP Land Parcel*

The MSP Land Parcel has a total site area of 7,343.08 sq. m. for commercial and residential use. It is currently vacant. The Group has no plan to develop the MSP Land Parcel as the plot ratio of the MSP Land Parcel has been achieved in the previous development.

#### *Unsold Mixed Units*

As at the date of the Disposal Agreement, MS Plaza Limited held 184 unsold units/items for sale, comprised one residential unit, two shop units, 49 bicycle rooms, six car parking spaces and 126 motor cycle parking spaces with the total gross floor area of approximately 1,295.53 sq. m.. On 23 September 2021, four car parking spaces and two bicycle rooms having respective total gross floor area of 41.06 sq. m. and 22.07 sq. m.



## LETTER FROM THE BOARD

were agreed to be sold to third parties in an auction at an aggregation consideration of RMB285,304 (equivalent to approximately HK\$342,565) and on 25 October 2021, four more of the bicycle rooms and two more of the car parking spaces having respective total gross floor area of 41.19 sq. m. and 25.26 sq. m. were agreed to be sold to third parties in an auction at an aggregation consideration of RMB189,498 (equivalent to approximately HK\$227,530). As at the Latest Practicable Date, the above auction transactions (the “MSP Auction Transactions”) have not been completed, pending registration of the transfers with the relevant governmental authority. Upon completion of the MSP Auction Transactions, MS Plaza Limited shall own 172 unsold units/items comprising one residential unit, two shop units, 43 bicycle rooms and 126 motor cycle parking spaces with the total gross floor area of approximately 1,164.51 sq. m. (being the Unsold Mixed Units).

### *Unsold Commercial Units*

The Unsold Commercial Units comprised 23 unsold shop units of Morning Star Plaza with the total gross floor area of approximately 1,296.56 sq. m.. The Unsold Commercial Units are currently leased under various tenancies with the latest due in August 2030.

### *Financial Information*

Set out below is a summary of the unaudited consolidated financial information of the Disposal Group for the two years ended 31 December 2020 and the six months ended 30 June 2021, which was prepared in accordance with the Hong Kong Financial Reporting Standards:

	<b>For the year ended 31 December 2019 HK\$'000 (approximately)</b>	<b>For the year ended 31 December 2020 HK\$'000 (approximately)</b>	<b>For the six months ended 30 June 2021 HK\$'000 (approximately)</b>
Revenue ( <i>Note 1</i> )	1,619	—	455
Profit/(loss) before taxation	(29,123)	1,976	17
Profit/(loss) after taxation ( <i>Note 2</i> )	(27,607)	1,177	17

*Notes:*

- Revenue of the Disposal Group for the year ended 31 December 2019 comprised (i) revenue from the sales of properties held for sale of approximately HK\$0.8 million and (ii) income from clubhouse operation services of approximately HK\$0.8 million. Revenue of the Disposal Group for the year ended 31 December 2020 was nil as (i) no sales of properties held for sale has taken place for the year; and (ii) there was no service income from the clubhouse operation as the clubhouse had suffered from prolonged losses for years, the clubhouse had ceased operation since January 2020.*

## LETTER FROM THE BOARD

- The Disposal Group incurred loss after taxation of approximately HK\$27.6 million for the year ended 31 December 2019 mainly due to loss on impairment of property, plant and equipment of approximately HK\$12.5 million, loss on impairment of properties held for sale under development of approximately HK\$8.8 million and loss on change in fair value of investment properties of approximately HK\$6.1 million during the year. The Disposal Group incurred profit after taxation of approximately HK\$1.2 million for the year ended 31 December 2020 due to a gain on change in fair value of investment properties of approximately HK\$3.2 million.*

The unaudited consolidated net assets of the Disposal Group as at 31 December 2019, 31 December 2020 and 30 June 2021 amounted to approximately HK\$145.1 million, HK\$153.0 million and HK\$154.1 million respectively. As at 30 June 2021, the unaudited consolidated net asset value of the Disposal Group attributable to the Group amounted to approximately HK\$104.6 million.

As at 30 June 2021, the Company Loan amounted to approximately HK\$43.1 million. Assuming the Company Loan had been waived in connection with the Disposal, the unaudited consolidated net assets of the Disposal Group would have been approximately HK\$110.9 million as at 30 June 2021. Assuming the MSV Auction Transactions and the MSP Auction Transactions had been completed as at 30 June 2021, the unaudited consolidated net assets of the Disposal Group would have been approximately HK\$415.7 million as at 30 June 2021.

### INFORMATION OF THE PURCHASER AND THE GUARANTOR

According to the Purchaser, its principal business is investment holding. The Guarantor, an executive Director and the chairman of the Company, was interested in 3,098,635,152 Shares, representing approximately 44.61% of the issued share capital of the Company as at the Latest Practicable Date. The Purchaser is indirectly wholly-owned by the Guarantor. Thus, the Purchaser and the Guarantor are connected persons of the Company under Chapter 14A of the Listing Rules.

### REASONS FOR AND BENEFITS OF THE DISPOSAL AND INTENDED USE OF PROCEEDS

The Company is an investment holding company and the Group is principally engaged in property development and hotel business in the PRC.

The MSV Land Parcel is the largest land parcel among the Properties. Back in around 2017 and 2018, it was the intention of the Disposal Group to develop the MSV Land Parcel into premium residential apartments for sale/leasing. As such, in the following years, the Group had been seeking approvals relating to the regulatory adjustment on the planning and control proposals (控規編製) from relevant governmental authorities for the development of the MSV Land Parcel. One of the proposals, being the revision of plot ratio from 1.5 to 2.5, was submitted in early 2018. However in 2019, while the Group was waiting for such plot ratio revision approval, the PRC economy took a downward turn and was faced with huge uncertainties such as the China-US trade wars. This was further exacerbated by the outbreak of COVID-19 in late 2019/early 2020. When the approval was finally granted in mid-2020, the social and economic environment differed hugely from when the application was first made in 2018. In addition, the plot ratio revision approval was conditional upon payment of additional

## LETTER FROM THE BOARD

land grant premium. Accordingly, while faced with external economic uncertainties, the Group is also faced with an increase in capital commitment regarding the development of the MSV Land Parcel.

On the other hand, with reference to the interim report of the Company for the six months ended 30 June 2021, the Group's gearing ratio remained relatively high at 2,005%. The cash level of the Group amounted to approximately HK\$70.6 million, while the borrowings of the Group that were repayable within one year amounted to approximately HK\$341.0 million as at 30 June 2021, indicating the liquidity of the Group may not be sufficient to repay its short-term liabilities.

As set out in the section headed "Information of the Disposal Group" above, the Disposal Group must commence work under the Development Instruction as regards part of the MSV Land Parcel in early 2022. The Group has approached several credible and reputable property developers in the PRC to see if they had any interest in investing in the Disposal Group. The Disposal Group did not receive any positive feedback from them due to the current downturn of property market in the PRC. Considering (a) the limited time prescribed to commence work under the Development Instruction and the prevailing PRC property market, no potential purchaser could be identified, (b) the significant amount of capital required for development of the MSV Land Parcel, as well as (c) the imminent need of the Group to repay its existing borrowings, the Disposal would (i) provide an exit for the Group to realise its investment in the Disposal Group; (ii) enable the Group to capture a gain on the Disposal amid the current stringent regulatory environment of the PRC property market in general; and (iii) provide financial flexibility to the Group, enhance the liquidity and improve its gearing ratio so as to allow the Group to reallocate its resources and invest in other business with higher revenue-generating potential when suitable opportunities arise. The Directors considered the Disposal was entered into in the ordinary and usual course of business of the Group and the terms of the Disposal Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole.

After deducting the estimated professional fees arising from the Disposal, it is expected that the net proceeds from the Disposal will amount to approximately HK\$281,000,000, which will be applied as to (i) approximately HK\$277,200,000 for repayment of loan borrowed by the Group and the accrued interest; and (ii) approximately HK\$3,800,000 for general working capital of the Group.

### **FINANCIAL EFFECTS OF THE DISPOSAL**

As at the Latest Practicable Date, the Disposal Company was a wholly-owned subsidiary of the Company. Upon Completion, the Group will cease to own any interest in the Disposal Group and the financial results, assets and liabilities of the Disposal Group will no longer be included in the consolidated financial statements of the Group.

## LETTER FROM THE BOARD

### **Earnings**

It is estimated that the Group will record a gain on Disposal (before taxation) of approximately HK\$219.6 million, which is derived from (i) the difference between (a) the Consideration of HK\$282 million and (b) the unaudited net asset value of the Disposal Group attributable to the Group as at 30 June 2021 of approximately HK\$104.6 million, which is the financial information of the Disposal Group available for the time being; (ii) the estimated gain on waiver of the Company Loan of HK\$43.1 million; and (iii) the estimated expenses arising from the Disposal of approximately HK\$1 million.

Shareholders should note that the actual amount of gain from the Disposal to be recognised in the consolidated financial statements of the Group depends on, among other things, the consolidated net asset value of the Disposal Group at Completion, and is subject to audit to be performed by the auditors of the Company in the annual audit of the Group's financial statements for the year ended 31 December 2021.

### **Assets and liabilities**

Taking into account the net proceeds of the Disposal, the unaudited net asset value of the Disposal Group as at 30 June 2021 and the gain on waiver of the Company Loan on the part of the Company, it is estimated that upon Completion, the total assets of the Group will increase by approximately HK\$163.7 million, while the total liabilities of the Group will decrease by approximately HK\$6.4 million.

The above expected financial effects on the Group are for illustrative purpose only and should not be regarded as the actual financial position of the Group upon Completion.

### **The existing property development projects of the Group**

As at the Latest Practicable Date, the Group had three other property development projects which were under construction, namely “German City Project” located in Hengqin, “Fuyuan Junting Project” located in Chengdu, and “Fuyuan Square Project” located in Doumen, in the PRC. Details of which are set out below:

#### *German City Project*

The Group holds a land parcel in Hengqin New District, Zhuhai City, the PRC and is designated to be developed into a research and commercial complex being named “German City Project”. The total gross floor area of such land parcel is approximately 145,176 sq.m., of which approximately 50,000 sq.m. are available for sale. Among the saleable area, the pre-sale certificate for 37,000 sq. m. has been obtained. As at 30 November 2021, pre-sale of 27,000 sq. m. had been made, which involved a total pre-sale amount of approximately RMB830 million which was expected to be recognised by the Group in 2022. The earliest date of completion of construction work for the portion which the pre-sale certificate had been obtained is expected to be 30 June 2022. The Group could not determine the timing of pre-sale for the remaining portion because of the administrative rename of the location as “Guangdong-

## LETTER FROM THE BOARD

Macao In-Depth Cooperation Zone in Hengqin (粵港深度合作區)” where the German City Project situates. Other than the saleable area, 50,000 sq. m. of German City Project will be kept for rental purpose and it is expected the construction work will be completed in 2023.

### *Fuyuan Square Project*

The Group holds a land parcel in Doumen District, Zhuhai City, the PRC and is designated to be developed into a commercial complex comprising office towers, a 5-star hotel, a shopping centre with basement car parks and other ancillary public facilities being named “Fuyuan Square Project”.

The Fuyuan Square Project has three phases. The proposed total gross floor area of Fuyuan Square Project is approximately 197,101.55 sq. m.. Phase I of Fuyuan Square Project comprises two blocks of commercial buildings solely for sale. The total planned gross floor area of Phase I is approximately 40,887 sq. m. and a total of approximately 34,116 sq. m. is saleable area, of which the pre-sale certificate has been obtained. As at 30 November 2021, Phase I has achieved a total pre-sale amount of approximately RMB330 million (equivalent to approximately HK\$396.2 million). The construction work of Phase I is expected to be completed on or before 30 June 2022.

Phase II of the Fuyuan Square Project comprises a hotel of 5-star standard, together with a shopping centre and an office tower. It is intended that the hotel and the shopping centre will be held for leasing and the office tower will be solely for sale. The Group has entered into a management agreement with a hotel manager to manage the hotel for a term of 16 years commencing from the date of opening of the hotel. The total planned gross floor area of Phase II is approximately 16,708 sq. m.. As at the Latest Practicable Date, Phase II of Fuyuan Square Project was still under construction. The pre-sale certificate of the saleable part is expected to be obtained in the first half of 2022. The construction work of office tower is expected to be completed by the end of 2023 while the construction work of the hotel and shopping centre is expected to be completed in 2024.

Phase III of the Fuyuan Square Project comprises one block of commercial building solely for sale. The total planned gross floor area of Phase III is approximately 47,149 sq. m. and the total saleable area is approximately 10,479 sq. m.. The pre-sale certificate for Phase III has been obtained. As at 30 November 2021, Phase III has achieved a total pre-sale amount of RMB250 million (equivalent to approximately HK\$300.1 million). The construction work of Phase III is expected to be completed on or before 31 December 2022.

### *Fuyuan Junting Project*

The Group holds two land parcels in Ande Zhen, Pidu District, Chengdu City, the PRC and is designated to be developed into a residential and commercial complex being named “Fuyuan Junting Project”. The Fuyuan Junting Project has two phases. The total gross floor area of such land parcels is approximately 120,500 sq.m. and the pre-sale certificate has been obtained for the total saleable area of approximately 84,000 sq. m.. As at 30 November 2021, pre-sale of 62,000 sq. m. had been made, which involved a total pre-sale amount of approximately RMB480 million (equivalent to approximately HK\$576.3 million) which will be

## LETTER FROM THE BOARD

recognised by the Group in 2022. Construction work for first phase of Fuyuan Junting Project has been completed, whilst construction work for second phase is expected to be completed by the end of 2022.

### LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Disposal exceeds 25% but all applicable percentage ratios are less than 75%, the Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. Accordingly, the Disposal Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Guarantor was an executive Director, the chairman of the Company and a controlling Shareholder, and the entire issued share capital of the Purchaser was indirectly wholly-owned by the Guarantor. Accordingly, the Purchaser is a connected person of the Company under Chapter 14A of the Listing Rules. The Disposal therefore also constitutes a connected transaction of the Company which is subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Guarantor, an executive Director and the chairman of the Company, was interested in 3,098,635,152 Shares, representing approximately 44.61% of the issued share capital of the Company as at the Latest Practicable Date. The Purchaser is indirectly wholly-owned by the Guarantor. Thus, the Purchaser, the Guarantor and their respective close associates shall abstain from voting at the EGM. Save as disclosed above, to the best knowledge of the Directors, no other Shareholder has a material interest in the Disposal and is required to abstain from voting at the EGM.

As the Guarantor is considered to have a material interest in the Disposal Agreement, he has abstained from voting at the Board meeting approving the Disposal. Save as disclosed above, no other Director has a material interest in the Disposal, and therefore no other Director is required to abstain from voting on the Board resolution in relation to the Disposal.

### EGM

A notice convening the EGM to be held at Rooms 1301–1302, Laws Commercial Plaza, 788 Cheung Sha Wan Road, Kowloon, Hong Kong at 10:30 a.m. on Monday, 21 March 2022 is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for use by the Shareholders at the EGM is enclosed with this circular. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete the form of proxy and return it to the office of the Company's branch share registrar, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting. Completion and return of the form of proxy will not prevent you from attending and voting at the EGM or any adjourned meeting should you so wish.

## LETTER FROM THE BOARD

For the purpose of ascertaining and determining the entitlement of the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 16 March 2022 to Monday, 21 March 2022, both days inclusive, during which period no transfer of Shares in the Company will be effected. In order to qualify for the right to attend and vote at the EGM, all transfers of Shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Saturday, 19 March 2022 for registration of transfer.

An announcement will be made by the Company after the EGM regarding the results of the EGM pursuant to the requirements of the Listing Rules.

### RECOMMENDATIONS

The Independent Financial Adviser has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the Disposal. The Independent Board Committee, comprising all independent non-executive Directors, has been established by the Company to advise the Independent Shareholders as to whether the terms of the Disposal Agreement are fair and reasonable and the transactions contemplated thereunder are in the interests of the Company and the Independent Shareholders as a whole.

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on page 21 of this circular and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 22 to 48 of this circular in connection with the Disposal Agreement.

The Directors (including the Independent non-executive Directors whose view is expressed in the letter from the Independent Board Committee set out on page 21 of this circular) consider the Disposal was entered into in the ordinary and usual course of business of the Group, the terms of the Disposal Agreement are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Disposal Agreement and the transactions contemplated thereunder.

### FURTHER INFORMATION

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

Yours faithfully,  
For and on behalf of the board of Directors  
**TFG International Group Limited**  
**Yang Lijun**  
*Chairman*

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

**TFG INTERNATIONAL GROUP LIMITED**

**富元國際集團有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 542)**

25 February 2022

*To the Independent Shareholders*

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION**

**INTRODUCTION**

We refer to the circular dated 25 February 2022 (the “**Circular**”) of TFG International Group Limited (the “**Company**”) of which this letter forms part. Terms used in this letter shall have the meaning as defined in the Circular unless the context otherwise requires.

We, being the independent non-executive Directors, have been appointed to form the Independent Board Committee to advise you as to whether the terms of the Disposal Agreement are fair and reasonable so far as the Independent Shareholders are concerned and whether the entering into of the Disposal Agreement is in the interests of the Company and the Shareholders as a whole. The Independent Financial Adviser has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of the Disposal Agreement.

We wish to draw your attention to the letter from the Board as set out on pages 6 to 20 of the Circular and the letter from Independent Financial Adviser as set out on pages 22 to 48 of the Circular which contain, among other things, their advice, recommendations to us regarding the terms of the Disposal Agreement and the principal factors and reasons taken into consideration for their advice and recommendations.

**RECOMMENDATIONS**

Having taken into account the advice and recommendations of Independent Financial Adviser and the principal factors and reasons taken into consideration by them in arriving at their opinion, we consider that the entering into of the Disposal Agreement is in the ordinary and usual course of business of the Group, and the terms of the Disposal Agreement are on normal commercial terms, and are fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Disposal Agreement and the transactions contemplated thereunder.

**Ms. Chan Hoi Ling**

Yours faithfully,

**Ms. So Wai Lam**

**Mr. Sung Yat Chun**

*Independent Board Committee*



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the full text of the letter of advice from Lego Corporate Finance Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, in respect of the Disposal Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.*



25 February 2022

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### MAJOR AND CONNECTED TRANSACTION

#### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Disposal, details of which are contained in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 25 February 2022 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 5 November 2021 (after trading hours of the Stock Exchange), the Company, the Purchaser and the Guarantor entered into the Disposal Agreement, pursuant to which the Purchaser has conditionally agreed to purchase and the Company has conditionally agreed to sell the Sale Shares at the Consideration of HK\$282,000,000 which shall be payable by the Purchaser in cash.

Upon Completion, the Group will cease to own any interest in the Disposal Group and the financial results, assets and liabilities of the Disposal Group will no longer be included in the consolidated financial statements of the Group.

As one of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Disposal exceeds 25% but all applicable percentage ratios are less than 75%, the Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. Accordingly, the Disposal Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and Shareholders’ approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Guarantor was an executive Director, the chairman of the Company and a controlling Shareholder, and the entire issued share capital of the Purchaser is indirectly wholly-owned by the Guarantor. Therefore, the Purchaser is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Disposal also

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

constitutes a connected transaction of the Company which is subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The EGM will be convened to consider and, if thought fit, approve the Disposal Agreement and the transactions contemplated thereunder by way of poll. The Guarantor, an executive Director and the chairman of the Company, is interested in 3,098,635,152 Shares, representing approximately 44.61% of the issued share capital of the Company as at the Latest Practicable Date. The Purchaser is indirectly wholly-owned by the Guarantor. Thus, the Purchaser, the Guarantor and their respective associates shall abstain from voting at the EGM to approve the Disposal Agreement and the transactions contemplated thereunder pursuant to Rule 14A.36 of the Listing Rules. Save as disclosed above, to the best knowledge of the Directors, no other Shareholder has a material interest in the Disposal and is required to abstain from voting at the EGM.

### THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Ms. Chan Hoi Ling, Ms. So Wai Lam and Mr. Sung Yat Chun, has been established pursuant to the Listing Rules to advise the Independent Shareholders in respect of the Disposal Agreement and the transactions contemplated thereunder and to make a recommendation as to whether the terms of the Disposal Agreement are normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and as to voting in respect of the relevant resolution(s) at the EGM. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships with or interests in the Company that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. In the last two years, there was no engagement between the Group and Lego Corporate Finance Limited. Apart from normal professional fees paid or payable to us in connection with our appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Group. As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Group, the Purchaser, the Guarantor or any of their respective substantial shareholders, directors or chief executives, or their respective associates that could reasonably be regarded as relevant to our independence. We are independent under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser in connection with the Disposal Agreement and the transactions contemplated thereunder.

### BASIS OF OUR ADVICE

In formulating our opinion and recommendation, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information provided by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group (the “**Management**”); and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date hereof 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 date of the EGM and all such statements of belief, opinions and intention of the Directors and the Management 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, the Management, and/or the advisers of the Company. 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/or the Management are true, accurate, complete and not misleading in all material respects at the time they were made and continue to be so as at the Latest Practicable Date. The Company shall inform the Independent Shareholders as soon as possible if there is any material change to such information in accordance with the Listing Rules on or before the date of the EGM.

We consider that we have reviewed the relevant 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, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or any of its respective subsidiaries or associates.

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

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions with respect to the Disposal Agreement and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

#### 1. Background information of the Group

The Company is an investment holding company and the Group is principally engaged in property development and hotel business in the PRC. Set out in Table 1 below is a summary of the consolidated financial information of the Group for each of the three years ended 31 December 2018, 2019 and 2020, and the six months ended 30 June 2020 and 2021, as extracted from the annual reports of the Company for the year ended 31 December 2019 (the “**Annual Report 2019**”), the year ended 31 December 2020 (the “**Annual Report 2020**”) and the interim report of the Company for the six months ended 30 June 2021 (the “**Interim Report 2021**”), respectively.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

**Table 1: Financial highlights of the Group**

	For the six months		For the year ended 31 December		
	ended 30 June		2020	2019	2018
	2021	2020	(audited)	(audited)	(audited)
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>					
Property Development	713	134,872	5,136	20,893	3,656
Hotel Business	7,189	6,584	13,465	13,573	14,430
Other Business	258	3,305	3,759	—	—
	<u>8,160</u>	<u>144,761</u>	<u>22,360</u>	<u>34,466</u>	<u>18,086</u>
<b>(Loss) for the year/period</b>					
<b>attributable to owners of</b>					
<b>the Company</b>	(107,121)	(24,276)	(217,714)	(202,376)	(122,400)
	<b>As at</b>		<b>As at 31 December</b>		
	<b>30 June</b>		<b>2020</b>	<b>2019</b>	<b>2018</b>
	(unaudited)		(audited)	(audited)	(audited)
	<i>HK\$'000</i>		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>	1,911,548	1,851,243	862,032	1,072,671	
<b>Current assets</b>	2,506,903	2,159,710	914,024	448,593	
<b>Current liabilities</b>	2,503,939	2,101,821	788,194	276,429	
<b>Net current assets</b>	2,964	57,889	125,830	172,164	
<b>Non-current liabilities</b>	1,814,507	1,701,665	593,544	619,121	
<b>Net assets</b>	100,005	207,467	394,318	625,714	

*For the year ended 31 December 2019*

For the year ended 31 December 2019, the Group recorded revenue of approximately HK\$34.47 million, which had substantially increased by approximately 90.55% as compared to the revenue of approximately HK\$18.09 million as recorded for the year ended 31 December 2018. With reference to the Annual Report 2019, such increase in revenue was mainly attributable to the launches of two new property projects, namely German City located in Zhuhai, the PRC and Fuyuan Junting located in Chengdu, the PRC, in the fourth quarter of 2019. For the year ended 31 December 2019, the Group recorded loss attributable to owners of the Company of approximately HK\$202.38 million, representing an increase of approximately 65.34% as compared to the loss of approximately HK\$122.40 million as recorded in the previous year. With reference to the Annual Report 2019, the increase in loss for 2019 was primarily resulting from the increase in (i) impairment of trade receivables of licensing rights, the collectability of which

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

was doubtful; (ii) impairment of property, plant and equipment and licensing rights; (iii) selling expenses for promotional and marketing activities of the Group's new property development projects; and (iv) finance costs of certain loans and borrowings taken to finance new property development projects and the decline in property revaluation on investment properties.

As at 31 December 2019, the net current assets of the Group amounted to approximately HK\$125.83 million, while net assets of the Group amounted to approximately HK\$394.32 million, which had decreased from the net assets of approximately HK\$625.71 million as at 31 December 2018 mainly due to the decrease in reserves as a result of the accumulated loss recognised during the same year.

### *For the year ended 31 December 2020*

For the year ended 31 December 2020, the Group recorded revenue of approximately HK\$22.36 million, representing a decrease of approximately 35.13% as compared to revenue of approximately HK\$34.47 million for the year ended 31 December 2019. For the year ended 31 December 2020, the Group recorded loss attributable to owners of the Company of approximately HK\$217.71 million, which has increased by approximately 7.57% from the loss of approximately HK\$202.38 million as recorded for the previous year. According to the Annual Report 2020, the loss-making performance in 2020 was mainly attributable to the net effect of, among other things, (i) the consolidation of administrative and other expenses of certain subsidiaries acquired by the Company during the year; (ii) the increase in finance costs related to borrowings obtained for the finance of certain property development projects; (iii) other interest income received from a PRC government authority in respect of the termination of a land grant contract; (iv) gain on change of fair value of investment properties; and (v) decline in the impairment loss on property, plant and equipment.

As at 31 December 2020, the net current assets of the Group amounted to approximately HK\$57.89 million while net assets of the Group amounted approximately HK\$207.47 million, which had decreased from the net assets of approximately HK\$394.32 million as at 31 December 2019 primarily due to the decrease in reserves as a result of the accumulated loss recognised during the same year.

### *For the six months ended 30 June 2021*

For the six months ended 30 June 2021, the Group recorded revenue of approximately HK\$8.16 million. For the six months ended 30 June 2021, the Group recorded loss attributable to owners of the Company of approximately HK\$107.12 million. With reference to the Interim Report 2021, it is noted that such loss was mainly attributable to, among other things, (i) the significant decrease in revenue as aforementioned which resulted in a decrease in gross profit; and (ii) the increase in finance costs related to borrowings obtained for the finance of certain property development projects.

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As at 30 June 2021, the consolidated net current assets and net assets of the Group amounted to approximately HK\$2.96 million and HK\$100.00 million, respectively.

### **2. Background and financial information on the Disposal Group**

#### *2.1 Background information and property interests of the Disposal Group*

The Disposal Company was incorporated in the BVI with limited liability on 17 June 1992 and is an investment holding company holding as to 100% and 55% of the issued share capitals of WF Limited and BP Limited, respectively. WF Limited was incorporated in the BVI on 21 September 2010 with limited liability which in turn is holding 55% of the issued share capital of JP Limited. The remaining 45% of the issued share capital of each of BP Limited and JP Limited is held by City-Prime Profit Ltd.. To the best knowledge of the Directors, having made reasonable enquiries, City-Prime Profit Ltd. and its beneficial owner(s) are third parties independent of and not connected with the Company and its connected persons.

BP Limited was incorporated in the BVI on 30 March 1994 with limited liability which in turn is the legal and beneficial owner of 100% equity interest of MS Plaza Limited. MS Plaza Limited was established in the PRC on 26 December 2001 with limited liability. MS Plaza Limited is entitled to be engaged in property development, property construction, and leasing and selling of commercial and residential properties in Zhongshan City, the PRC. JP Limited was established in the BVI on 6 July 1992 with limited liability which in turn is the legal and beneficial owner of 100% equity interest of each of MS Clubhouse Limited and MS Villa Limited. MS Clubhouse Limited was established in the PRC on 31 March 1997 with limited liability and is entitled to be engaged in food and beverage, operation of swimming pool, leasing of commercial units and office. MS Villa Limited was established in the PRC on 26 December 2001 with limited liability and entitled to be engaged in property development, property construction, and leasing and selling of commercial and residential properties in Zhongshan City, the PRC.

The Disposal Group has two development projects in Zhongshan City, Guangdong Province, the PRC, namely Morning Star Villa operated by MS Villa Limited and MS Clubhouse Limited, and Morning Star Plaza operated by MS Plaza Limited.

#### *Morning Star Villa*

Morning Star Villa is a large-scale residential development project with ancillary commercial and recreational facilities, including two clubhouses. It is located on the western side of Gangkou Town of Zhongshan City, the PRC. As at the Latest Practicable Date, all completed properties held for sale have been sold.

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As at the Latest Practicable Date, the land and properties held by MS Villa Limited are being occupied as follows:

(a) The MSV Land Parcel

The MSV Land Parcel has a total land area of approximately 151,674.59 sq. m., of which the total developable site area is approximately 128,982.41 sq. m. and the remaining 22,692.18 sq. m. are for road construction and landscaping. It is currently vacant.

(i) Intended development

The initial intention was to develop the MSV Land Parcel into phases VIII and IX of the Morning Star Villa as follows:

(a) Phase VIII is comprised of three land parcels (hereinafter being referred to as Phase VIII Land Parcel 1, Phase VIII Land Parcel 2 and Phase VIII Land Parcel 3), with Phase VIII Land Parcels 1 and 2 already developed into properties and sold prior to 2010. Phase VIII Land Parcel 3 remains vacant; and

(b) Phase IX is comprised of four land parcels, all being vacant.

(ii) Land use rights

As the land use rights of the MSV Land Parcel were obtained in 2002, but Phase VIII Land Parcel 3 as well as all four land parcels of Phase IX have been vacant since 2002, these land parcels are considered as idle land. Supplemental agreements relating to the four parcels of land comprising Phase IX were signed on 27 October 2021 such that the Disposal Group shall commence construction works on or before 18 March 2022 with a construction period of 2 years (the “**Development Instruction**”).

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### (iii) Planning control

Set out below is the planning control of the MSV Land Parcel:

Date	Name of planning control document	Details of planning control
13 July 1998	中山市建設項目選址意見書 (Zhongshan City Construction Project Site Selection Opinion*)	(a) plot ratio: 1.5, (b) building density: 30% (c) building height: 24m (d) green area ratio: 30%
3 July 2020	中山市港口鎮星晨花園片區控制性詳細規劃(2020) (the Controlled Detail Planning for the Morning Star Villa area of Gangkou Town, Zhongshan City (2020)*)	The property is to be classified as “Class II Residential Land”  (a) plot ratio: 2.5 (b) building density: not more than 32% (c) building height: 60m–100m (d) green area ratio: not less than 30%

As disclosed in the Letter from the Board, since May 2021, the Disposal Group made various applications to Zhongshan City Natural Resources Bureau for adjustment of building height and consolidation of the land certificates with respect to certain land parcels comprising the MSV Land Parcel. Upon obtaining the required approval for adjustment of building height and/or consolidation of the land certificates for the relevant land parcels, the Disposal Group will make an application for planning and construction based on plot ratio of 1.5 for those land parcels. The Disposal Group can then commence construction work once obtained the approval for planning and construction.

If the MSV Land Parcel is to be developed in accordance with the latest plot ratio of 2.5, the Disposal Group will then need to take part in a plot ratio bidding which shall make reference to the current assessed land price. If the bidding is successful, the Disposal Group is required to pay additional land grant premium and shall sign a supplementary agreement to the Contract of Grant of State-owned Construction Land Use Rights with the Zhongshan City Natural Resources Bureau. It is expected that the additional land grant premium for the increase of plot ratio from 1.5 to 2.5 would be at least RMB4,000 (equivalent to approximately HK\$4,802.80) per sq. m. after making reference to recent auction prices of the land parcels in the surrounding area, therefore resulting in additional land grant premium of approximately RMB400 million (equivalent to approximately HK\$480.28 million).



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(b) Phase II Clubhouse

Phase II Clubhouse is the unsold portion of a building, being the clubhouse of Phase II of Morning Star Villa. The total gross floor area of Phase II Clubhouse is approximately 5,938 sq. m.. It is currently leased under various tenancies with the latest due in May 2023.

(c) Phase VI Clubhouse

Phase VI Clubhouse is a block of clubhouse of phase VI of Morning Star Villa with total gross floor area of approximately 944.3 sq. m.. It is currently vacant.

(d) Sold properties

As at the date of the Disposal Agreement, MS Villa Limited held 13 commercial spaces in Phase V of Morning Star Villa with the total gross floor area of approximately 1,130.34 sq. m.. It is currently tenant-occupied as a kindergarten under a tenancy for a term of 15 years ending in April 2033. On 25 October 2021, these 13 commercial spaces were agreed to be sold to third parties in an auction at an aggregate consideration of RMB10,986,921 (equivalent to approximately HK\$13,191,996). Such auction transactions (“**MSV Auction Transactions**”) have not been completed, pending registration of the transfers with the relevant governmental authority. Upon completion of the MSV Auction Transactions, MS Villa Limited shall not have any interest in these commercial spaces.

### *Morning Star Plaza*

Morning Star Plaza is a mixed commercial and residential development divided into different phases on a site located on the northwestern side of Gangkou Town of Zhongshan City, the PRC. It was completed by phases within 1999 to 2008. As at the Latest Practicable Date, 99.98% of completed properties held for sale have been sold.

As at the Latest Practicable Date, the land and properties held by MS Plaza Limited are being occupied as follows:

(a) The MSP Land Parcel

The MSP Land Parcel has a total site area of 7,343.08 sq. m. for commercial and residential use. It is currently vacant. The Group has no plan to develop the MSP Land Parcel as the plot ratio of the MSP Land Parcel has been achieved in the previous development.

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### (b) Unsold Mixed Units

As at the date of the Disposal Agreement, MS Plaza Limited holds 184 unsold units/items for sale, comprised one residential unit, two shop units, 49 bicycle rooms, six car parking spaces and 126 motor cycle parking spaces with the total gross floor area of approximately 1,295.53 sq. m.. On 23 September 2021, four car parking spaces and two bicycle rooms having respective total gross floor area of 41.06 sq. m and 22.07 sq.m. were agreed to be sold to third parties in an auction at an aggregate consideration of RMB285,304 (equivalent to approximately HK\$342,565) and on 25 October 2021, four more of the bicycle rooms and two more of the car parking spaces having respective total gross floor area of 41.19 sq. m and 25.26 sq.m. were agreed to be sold to third parties in an auction at an aggregate consideration of RMB189,498 (equivalent to approximately HK\$227,530). As at the Latest Practicable Date, the above auction transactions (the “**MSP Auction Transactions**”) have not been completed, pending registration of the transfers with the relevant governmental authority. Upon completion of the MSP Auction Transactions, MS Plaza Limited shall own 172 unsold units/items comprising one residential unit, two shop units, 43 bicycle rooms and 126 motor cycle parking spaces with the total gross floor area of approximately 1,164.51 sq. m. (being the Unsold Mixed Units).

### (c) Unsold Commercial Units

The Unsold Commercial Units comprised 23 unsold shop units of Morning Star Plaza with the total gross floor area of approximately 1,296.56 sq. m.. The Unsold Commercial Units are currently leased under various tenancies with the latest due in August 2030.

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### 2.2 *Financial information of the Disposal Group*

Set out below is a summary of the unaudited consolidated financial information of the Disposal Group for the two years ended 31 December 2020 and the six months ended 30 June 2021, which was prepared in accordance with the Hong Kong Financial Reporting Standards:

	<b>For the six months ended 30 June 2021</b>	<b>For the year ended 31 December 2020</b>	<b>2019</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(approximately)</i>	<i>(approximately)</i>	<i>(approximately)</i>
Revenue	455	—	1,619
Profit/(loss) before taxation	17	1,976	(29,123)
Profit/(loss) after taxation	17	1,177	(27,607)

For the year ended 31 December 2019, the Disposal Group recognised revenue of approximately HK\$1.62 million which mainly comprised (i) revenue from the sales of properties held for sale of approximately HK\$0.8 million; and (ii) income from clubhouse operation services of approximately HK\$0.8 million. For the year ended 31 December 2020, no revenue had been recognised by the Disposal Group as (i) no sales of properties held for sale has taken place for the year; and (ii) there was no service income from the clubhouse operation as the clubhouse had suffered from prolonged losses for years. The clubhouse had ceased operation since January 2020.

For the year ended 31 December 2019, the Disposal Group incurred loss after taxation of approximately HK\$27.6 million mainly due to loss on impairment of property, plant and equipment of approximately HK\$12.5 million, loss on impairment of properties held for sale under development of approximately HK\$8.8 million and loss on change in fair value of investment properties of approximately HK\$6.1 million for the year. For the year ended 31 December 2020, the Disposal Group incurred profit after taxation of approximately HK\$1.2 million due to a gain on change in fair value of investment properties of approximately HK\$3.2 million.

The unaudited consolidated net assets of the Disposal Group as at 31 December 2019, 31 December 2020 and 30 June 2021 amounted to approximately HK\$145.06 million, HK\$152.98 million and HK\$154.07 million, respectively. As at 30 June 2021, the unaudited consolidated net asset value of the Disposal Group attributable to the Group amounted to approximately HK\$104.56 million.

As at the date of the Disposal Agreement, the Company is indebted to the Disposal Company the Company Loan in the amount of HK\$43,132,094 which is non-interest bearing, unsecured and repayable on demand. Assuming the Company

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Loan had been waived in connection with the Disposal, the unaudited consolidated net assets of the Disposal Group would have been approximately HK\$110.94 million as at 30 June 2021.

Assuming the MSV Auction Transactions and the MSP Auction Transactions had been completed as at 30 June 2021, the unaudited consolidated net assets of the Disposal Group would have been approximately HK\$415.71 million as at 30 June 2021.

### **3. Background of the Purchaser and the Guarantor**

According to the Purchaser, its principal business is investment holding. The Guarantor, an executive Director and the chairman of the Company, was interested in 3,098,635,152 Shares, representing approximately 44.61% of the issued share capital of the Company as at the Latest Practicable Date. The Purchaser is indirectly wholly-owned by the Guarantor.

### **4. Reasons for and benefits of the Disposal and intended use of proceeds**

In considering the Disposal Agreement, we have principally reviewed and taken into account (i) the status of the MSV Land Parcel being the largest land parcel among the Properties interested by the Disposal Group; (ii) the financial position of the Group; and (iii) the outlook of the Group's property development business.

#### *4.1 Background and time constraint for development of the MSV Land Parcel*

As stated in the Letter from the Board, the MSV Land Parcel is the largest land parcel among the Properties. Back in around 2017 and 2018, it was the intention of the Disposal Group to develop the MSV Land Parcel into premium residential apartments for sale/leasing. As such, in the following years, the Group had been seeking approvals relating to the regulatory adjustment on the planning and control proposals (控規編製) from relevant governmental authorities for the development of the MSV Land Parcel. One of the proposals, being the revision of plot ratio from 1.5 to 2.5, was submitted in early 2018. However, in 2019, while the Group was waiting for such plot ratio revision approval, the PRC economy took a downward turn and was faced with huge uncertainties such as the China-US trade wars. This was further exacerbated by the outbreak of COVID-19 in late 2019/early 2020. When the approval was finally granted in mid-2020, the social and economic environment differed hugely from when the application was first made in 2018. In addition, the plot ratio revision approval was conditional upon payment of additional land premium. Accordingly, while faced with external economic uncertainties, the Group is also faced with an increase in capital commitment regarding the development of the MSV Land Parcel. In addition, it is noted that the Disposal Group must commence work under the Development Instruction as regards part of the MSV Land Parcel by early 2022, being less than six-month's time from when the Development Instruction was imposed. According to the Company, the Group has approached several credible and reputable property developers in the PRC to see if they had any interest in investing in the Disposal Group. Given the time constraint for the

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development or construction of the MSV Land Parcel and the prevailing property market in the PRC, as advised by the Management, the Disposal Group did not receive any positive feedback from the aforesaid property developers and no potential interested purchaser other than the Purchaser could be identified with respect to the disposal of the Disposal Group with favourable terms.

### *4.2 Financial position of the Group*

With reference to the Interim Report 2021, it is noted that as at 30 June 2021, the Group's total interest-bearing borrowings amounted to approximately HK\$2,005.18 million, which comprised of borrowings from (i) financial institutions of approximately HK\$425.21 million; (ii) independent third parties of approximately HK\$1,436.20 million; and (iii) Directors of approximately HK\$143.77 million, respectively. As a result, the Group's gearing ratio (which was calculated by dividing total interest-bearing borrowings by total equity) remained relatively high at 2,005.18% as at 30 June 2021. As at 30 June 2021, the cash level of the Group amounted to approximately HK\$70.59 million. We understand from the Management that given the Group's existing cash level and constantly high gearing ratio, it may be difficult for the Group to obtain further external financing with favourable terms to satisfy the increased capital commitment for the development of the MSV Land Parcel in a short period of time.

### *4.3 Outlook of the Group's property development business*

The Group is principally engaged in property development and hotel business in the PRC. We have primarily conducted research on the latest development of the property market in the PRC, including the "Three Red Lines" (三道紅線) guidance. According to the "Three Red Lines" which was introduced following a forum held in August 2020 by the Ministry of Housing and Urban-Rural Development (中華人民共和國住房和城鄉建設部), which is a government branch that provides housing services and regulates the state construction activities in the PRC, and the People's Bank of China (中國人民銀行), the guidance force deleverages the real estate developers by placing limits on their debt level in accordance with the extent of fulfilment of three criteria, namely (i) liability to asset ratio (excluding advanced receipts) of less than 70%; (ii) net gearing ratio of less than 100%; and (iii) cash to short-term debt ratio of more than 1. If the property developers are able to fulfil all of the aforementioned criteria, they would be allowed to increase their debt level by 15% annually. However, if one, two or three of the criteria are breached, the allowable annual growth rate in debt would descend to 10%, 5% or 0%, respectively. Notwithstanding that the "Three Red Lines" guidance required twelve large scale PRC pilot property developers to submit reports of their financing situation for evaluation by the regulators against certain key criteria at the first stage which may impose restrictions on such selected property developers on borrowings the next, as advised by the Company, as at the Latest Practicable Date, the Group was not requested by the regulators to submit any information regarding its financing situation nor had the Group received any official formal notice from the relevant PRC authority to comply with the "Three Red Lines" metrics. Further, according to

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the PRC legal adviser of the Company, there was no formal notice of the full text of the “Three Red Lines” guidance officially published by the PRC governmental authority and therefore, the PRC legal adviser is unable to form a view of whether the Company is subject to such guidance based on the latest information available. Considering that such guidance was one of the dominant real estate financial regulation guidance introduced by the central government which was influential to the overall property market sentiment in the PRC, we are of the view that the operating environment would be more challenging.

In addition, with reference to “2021 Asia Pacific Emerging Trends in Real Estate” co-published in September 2020 by PricewaterhouseCoopers (<http://www.pwc.com/>), which offers business advisory services such as auditing, accounting, taxation, strategy management, and human resource consulting services, and the Urban Land Institute (<http://www.uli.org/>), which is one of the oldest and largest global networks of cross-disciplinary real estate and land use experts, it is stated that the government policy initiatives, including the “Three Red Lines” guidelines and the bank funding cuts are aimed to tighten the extent of bank financing to developers including both small and large companies in order to improve the overall financial health of the real estate sector. According to the statistical report named 深圳統計月報 — 8月 (Shenzhen City Statistical Report — August\*) published on 19 October 2021 by the Bureau of Statistics of Shenzhen City (<http://tjj.sz.gov.cn/>), which is a government body that regularly publishes statistical market data of Shenzhen City, there was a 15.3% decrease in the aggregate investment amount of real estate development projects from January to August 2021 in comparison to the corresponding period of 2020. The market sentiment of the property development business in the PRC was further dampened by the recent growing concerns over potential default of the debt-laden China Evergrande Group, a leading property developer in the PRC, due to its relatively heavy debt level. On the other side, it was noticed that in October 2021, an official news conference (國新辦舉行三季度銀行業保險業數據信息暨監管重點工作發佈會) between the banking and insurance sectors and government officials was held in relation to the recent performance of the banking and insurance industry, during the conference, the PRC government officials were supportive to first-home buyers in terms of down payment ratio and interest rate of mortgage, and stated that the government will continue to implement the long-term mechanism to maintain the steady development of the real estate market and the continuity and stability of real estate finance regulatory policies. Notwithstanding the aforesaid, the more stringent government regulation and ongoing supervision over the PRC property market in recent years has made the market condition susceptible to the everchanging regulatory environment, leading to a relatively uncertain market outlook of the property development market.

#### *4.4 Intended use of proceeds*

After deducting the estimated professional fees arising from the Disposal, it is expected that the net proceeds from the Disposal will amount to approximately HK\$281,000,000, which will be applied as to (i) approximately HK\$277,200,000 for repayment of loan borrowed by the Group and the accrued interest; and (ii)

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approximately HK\$3,800,000 for general working capital of the Group. Accordingly, the net proceeds from the Disposal would enable the Group to (i) repay its borrowings so as to relieve the imminent cashflow pressure for repayment of its existing short-term borrowings; (ii) reduce its gearing ratio as well as interest expenses; and (iii) enhance its liquidity and provide financial flexibility for the Group to re-allocate its financial resources for any potential investments with higher revenue-generating potential when suitable opportunities arise.

Considering (i) the time constraint prescribed by the relevant PRC authority for satisfying the increased capital commitment for the development of the MSV Land Parcel and commencing development of the MSV Land Parcel by early 2022; (ii) that the Disposal provides an exit for the Group to realise its investment in the Disposal Group at a premium to the Adjusted NAV (as discussed in the below section headed “5. Principal terms of the Disposal Agreement”); (iii) that the Disposal would enable the Group to capture a gain (as discussed in the below section headed “6. Financial effects of the Disposal”) from the Disposal amid the uncertain outlook of the PRC property market; and (v) majority of the proceeds from the Disposal would be applied as repayment of short-term borrowings thereby reduce the Group’s gearing ratio and interests burden and improve its financial flexibility as a whole, we are of the view that the entering into of the Disposal Agreement and the transactions contemplated thereunder is in the interests of the Company and the Shareholders as a whole.

### **5. Principal terms of the Disposal Agreement**

Pursuant to the Disposal Agreement, the Purchaser has conditionally agreed to purchase and the Company has conditionally agreed to sell the Sale Shares, being the entire issued share capital of the Disposal Company held by the Company as at the date of the Disposal Agreement, at the Consideration of HK\$282,000,000 which shall be payable by the Purchaser in cash. For further details of the principal terms of the Disposal Agreement, please refer to the section headed “The Disposal Agreement” in the Letter from the Board.

With reference to the Letter from the Board, the Consideration was arrived at after arm’s length negotiations between the Company and the Purchaser after taking into account (i) the waiver of the Company Loan; and (ii) the unaudited consolidated adjusted net asset value of the Disposal Group of approximately HK\$415.71 million, being (a) the unaudited consolidated net asset value of the Disposal Group as at 30 June 2021 of approximately HK\$154.07 million (assuming the MSV Auction Transactions and the MSP Auction Transactions had been completed as at 30 June 2021), prepared in accordance with the accounting principles generally accepted in Hong Kong, plus (b) the appreciation of the Properties in the amount of approximately HK\$406.16 million, which is equivalent to the difference between the book value of the Properties as at 30 September 2021 in the amount of approximately HK\$76.15 million and the appraised value of the Properties as at 30 September 2021 in the amount of approximately HK\$482.31 million (based on the approximate exchange rate of RMB1.00 to HK\$1.2007), less (c) the carrying amount of the Company Loan of approximately HK\$43.13 million as at 30 June 2021 and less (d)

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the deferred tax liabilities arising from such appreciation of the Properties of approximately HK\$101.59 million. The unaudited consolidated adjusted net asset value of the Disposal Group attributable to the Group (the “**Adjusted NAV**”) as at 30 June 2021 amounted to approximately HK\$228.64 million. As at 31 December 2021 (the “**Valuation Date**”), the appraised value of the Properties remained unchanged at approximately HK\$482.31 million (based on the approximate exchange rate of RMB1.00 to HK\$1.2007), as set out in the valuation report (the “**Valuation Report**”) prepared by an independent valuer, B.I. Appraisals Limited (the “**Independent Valuer**”) using direct comparison method, or, wherever appropriate, investment method, as set out in Appendix II to the circular.

### *Assessment of the Consideration*

#### *5.1 Valuation*

In assessing the fairness and reasonableness of the Consideration, we have primarily made reference to the appraised value of the Properties, which formed the primary component in arriving at the Adjusted NAV, being the principal basis of the Consideration. As part of our due diligence, we have reviewed the Valuation Report and conducted interviews with the Independent Valuer regarding, among others, its relevant qualifications and experiences, independence and principal bases and assumptions adopted in the Valuation Report.

#### *Valuer’s experience and qualifications*

According to the information provided by the Independent Valuer and our independent research conducted from the public domain, with a presence in Hong Kong for approximately 30 years, the Independent Valuer is a firm of professional surveyors and international valuation consultants offering one-stop valuation/appraisal and property related professional services in Hong Kong, the PRC and the Asia Pacific region. In particular, based on our interview with the Independent Valuer, we were given to understand that Mr. William Sham, being the professional responsible for signing off the Valuation Report, has approximately 38 years of experience in the real estate market and is a member of The Royal Institution of Chartered Surveyors, The Hong Kong Institute of Surveyors, China Institute of Real Estate Appraisers and The Hong Kong Institute of Financial Valuers.

The Independent Valuer confirmed that it is an independent third party to the Company, the Purchaser, the Guarantor and their respective connected persons as at the Latest Practicable Date. In addition, we have reviewed the terms of the engagement letter of the Independent Valuer with respect to the Valuation Report and noted that the scope of work is appropriate to the opinion required to be given and we are not aware of any limitation on the scope of work which might have an adverse impact on the degree of assurance given by the Valuation Report.



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### *Valuation standards and assumptions*

As confirmed by the Independent Valuer, during the course of the Valuation, it has complied with the reporting guidelines set by (i) The HKIS Valuation Standards 2020 and issued by the Hong Kong Institute of Surveyors; and (ii) Chapter 5 and Practice Note 12 of the Listing Rules.

During our review, we noted that the valuation on the Properties was conducted based on the major assumptions including that the Group sells the Properties on the open market in their existing states without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the values of such properties. Further, it is assumed that the Group has valid and enforceable title to the properties which are freely transferable, and has free and uninterrupted right to use the Properties, for the whole of the unexpired lease/land use terms granted subject to payment of annual government rent/land use fees and all requisite land premium/purchase consideration payable has been fully settled. In addition, no allowance has been made in the valuation for any charges, mortgages or amounts owing on the Properties nor for any expenses or taxation which may be incurred in effecting a sale. We have discussed with the Independent Valuer regarding the assumptions adopted in the Valuation Report and were given to understand that such assumptions are in line with the general market practice.

### *Valuation methodology*

With reference to the Valuation Report, the Properties were broadly classified into four groups namely (i) the Unsold Mixed Units, being properties held for sale; (ii) the Unsold Commercial Units, being properties held for investment; (iii) the Phase II Clubhouse and Phase VI Clubhouse, being properties held and occupied by the Group; and (iv) the MSV Land Parcel and MSP Land Parcel, being properties held for future development, respectively.

We noted from the Valuation Report that the Independent Valuer has adopted the direct comparison method in valuing the Unsold Mixed Units and MSV Land Parcel. We were given to understand that direct comparison method has generally been considered by the valuation industry as the best approach for valuing properties if there are market evidences of property/land sales transactions or listings, as those market evidences are based on publicly available information which involve less assumptions. As advised by the Independent Valuer, apart from the direct comparison approach, the investment approach had also been considered. However, as no rents were received by the Unsold Mixed Units and MSV Land Parcel, and there were no tenancy agreements related to such properties as at the Valuation Date, the Independent Valuer considered the investment approach inappropriate. Considering the overall availability and sufficiency of market information on the identifiable comparable transactions, the Independent Valuer considered direct comparison method the most appropriate method and has adopted such approach for the

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purpose of valuing the Unsold Mixed Units and MSV Land Parcel. Based on our independent research, it is noted that the direct comparison method has been commonly adopted for valuing assets including properties of other listed companies in Hong Kong.

We noted from the Valuation Report that the Independent Valuer has adopted the investment method in valuing the Unsold Commercial Units and Phase VI Clubhouse, by taking into account the current rents passing and the reversionary income potential of such properties. As advised by the Independent Valuer, considering that (i) the investment approach is generally adopted for rent-generating properties and/or properties with tenancy agreements; and (ii) the Unsold Commercial Units are also currently generating rent and have existing tenancy agreements, and the likelihood of the Phase VI Clubhouse in generating rental payment given an active open leasing market, the Independent Valuer is of the view that the investment method is the most appropriate approach to appraise the Unsold Commercial Units and Phase VI Clubhouse. The Independent Valuer further advised that it is a normal market practice to value properties that have tenancy agreements and/or are capable of generating rent using the investment method.

### *The Properties*

- (i) Unsold Mixed Units and MSV Land Parcel using the direct comparison method

### *Unsold Mixed Units*

In arriving at the appraised value of the Unsold Mixed Units, being an aggregate of 172 unsold mixed units/items of Morning Star Plaza comprising one residential unit, two shop units, 43 bicycle rooms and 126 motor cycle parking spaces, the Independent Valuer has made reference to the unit price of comparable offers of residential units (the “**Residential Comparables**”), retail units (the “**Retail Comparables**”) and motor cycle spaces (“**Motor Cycle Comparables**”) (collectively, the “**Asking Comparables**”) in the market and the historical unit price of bicycle rooms under the MSP Auction Transactions. The adopted unit price was then multiplied by the area of the underlying properties to give the market value of the Unsold Mixed Units.

In relation to the Residential Comparables, the Independent Valuer has identified asking properties based on the selection criteria that (a) such residential premises are (i) located in Morning Star Plaza, being the same as the Unsold Mixed Units; and (ii) of comparable size in terms of gross floor area; and (b) the asking dates of the relevant properties were within 6 months immediately preceding the Valuation Date which we consider a reasonable search period. Certain adjustments were then made to the unit rates of the Residential Comparables to reflect the differences in the

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

characteristics of the residential unit among the Unsold Mixed Units in terms of asking nature and size, which are common market practice for conducting similar valuation.

In relation to the Retail Comparables, the Independent Valuer has identified asking properties based on the selection criteria that (a) such retail premises are (i) located in the western parts of Zhongshan City, the PRC and close to the city centre in order to obtain a sufficient sample size; and (ii) of comparable size in terms of gross floor area; and (b) the asking date of the relevant properties were within 6 months immediately preceding the Valuation Date which we consider a reasonable search period. Certain adjustments were then made to the unit rates of the Retail Comparables to reflect the differences in the characteristics of the retail shop units among the Unsold Mixed Units in terms of asking nature, size and floor level, which are common market practice for conducting similar valuation.

In relation to the Motor Cycle Comparables, in obtaining the market asking rent, the Independent Valuer has identified asking properties based on the selection criteria that (a) such motor cycle spaces are located within the city centre of Zhongshan City; and (b) the asking date of the relevant motor cycle spaces were within 6 months immediately preceding the Valuation Date which we consider a reasonable search period. Certain adjustments were then made to the asking rents of the Motor Cycle Comparables to reflect the differences in the characteristics of the motor cycle spaces among the Unsold Mixed Units in terms of asking nature, which are common market practice for conducting similar valuation. The market yield for parking space property was computed by annualising the average asking rent of the Motor Cycle Comparables and divided by the average consideration of the motor cycle spaces sold under the MSP Auction Transactions. The Independent Valuer then applied the adopted market yield and the official rental rate of motor cycle parking spaces in car park in Zhongshan City to arrive at the market value of the motor cycle parking spaces comprising the Unsold Mixed Units.

The Independent Valuer has relied on (i) 58同城網 (“**58.com**”) (<https://zs.58.com/>); and (ii) 安居客網 (“**Anjuke Website**”) (<https://zs.anjuke.com/>) as the sources of askings in obtaining the Residential Comparables, the Retail Comparables and the Motor Cycle Comparables. Based on our independent search, 58.com is a conglomerate enterprise originally listed on the New York Stock Exchange (original ticker: WUBA) and one of the largest online property market places in the PRC. Anjuke Website was established in 2007 and focuses on property listing both residential and commercial properties of the PRC. As such, we are of the view that the sources of information in identifying the Asking Comparables are reliable and the Asking Comparables are fair and

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

reasonable. As confirmed by the Independent Valuer, the Asking Comparables represent an exhaustive list of comparables to the best of their understanding.

The adopted unit price of the bicycle rooms among the Unsold Mixed Units was made with reference to the average unit price of the two bicycle rooms which were agreed to be sold to third parties under the MSP Auction Transactions on 23 September 2021, which we consider appropriate to reflect the recent market price.

### *MSV Land Parcel*

In arriving at the appraised value of the MSV Land Parcel, the Independent Valuer has made reference to the comparable land sales transactions (“**Land Sales Comparables**”) approved by the relevant local government as available from the China Land Market Website\* (中國土地市場網) (<http://landchina.com>). Based on our independent search, we noted that the China Land Market Website is a website operated by the Real Estate Registration Centre, MNR, PRC (Law Center, MNR, PRC) (自然資源部不動產登記中心(自然資源部法律事務中心)), which is in turn an institution directly under the Ministry of Natural Resources of the PRC engaged in, among others, real estate registration in the PRC. The Independent Valuer has initially searched for comparable land sales transactions based on the selection criteria that (a) the underlying land parcels (i) were located in Gangkou Town, Zhongshan City which is the same as the MSV Land Parcel, or within close proximity from the MSV Land Parcel (i.e. within around 10 to 20 minutes driving distance); and (ii) have comparable land usage, being residential use; and (b) the land parcel underlying the transactions were delivered within 6 months preceding the Valuation Date. However, only one comparable land sales transaction was identified based on the aforesaid selection criteria. In order to obtain a reasonable sample size for the purpose of valuation, the Independent Valuer has extended the selection criteria (b) above to include land sales transactions of which the underlying land parcels were delivered within one year preceding the Valuation Date. Based on the extended selection criteria, a total of three Land Sales Comparables had been identified by the Independent Valuer, which we consider sufficient. Certain adjustments were then made to the unit price of the Land Sales Comparables to reflect the differences in the characteristics of the MSV Land Parcel in terms of class rating of site, time of transaction, scale of development in terms of total gross floor area, and remaining lease terms pursuant to the certificate of land use rights associated with the underlying land parcels, which are common market practice for conducting similar valuation. As confirmed by the Independent Valuer, the Land Sales Comparables represent an exhaustive list of comparable transactions to the best of their

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

understanding. In light of the foregoing, we are of the view that the source of information of the Land Sales Comparables is reliable and the Land Sales Comparables are fair and reasonable.

- (ii) Unsold Commercial Units and Phase VI Clubhouse using the investment method

Based on the investment method, the market value of property valued is derived by making reference to the current rents passing under existing tenancies and the reversionary income potential of the properties upon expiry of tenancies. The market value is therefore the sum of (i) the term value, being the present value of current rents during the term of existing tenancies by making reference to the predetermined rental rate as stated therein; and (ii) the reversionary value, being the present value of expected future rents upon expiry of existing tenancies by making reference to the asking rents and yields of comparable transactions in the market.

### *Unsold Commercial Units*

Since there are existing tenancy agreements in respect of the Unsold Commercial Units as at the Valuation Date, the Independent Valuer has computed the term value of the Unsold Commercial Units based on the existing tenancies provided by the Company. We noted that the unit rents and tenancy terms used in arriving at the term value is consistent with those stated in the existing tenancy agreements of the Unsold Commercial Units. In arriving at the reversionary value, we noted the Independent Valuer has identified asking properties from 58.com based on the criteria that (a) such premises are (i) located in the western parts of Zhongshan City; (ii) of comparable size; and (iii) located on the ground floor; and (b) the asking date of the relevant properties were approximately within 6 months immediately preceding the Valuation Date which we consider such period to be reasonable. Certain adjustments were then made to the unit rates/rents of the comparable askings to reflect the differences in the characteristics of the Unsold Commercial Units in terms of (i) asking nature; (ii) size; and (iii) location, which are common market practice for conducting similar valuation. As confirmed by the Independent Valuer, the comparables askings being referenced to in the adoption of market rental rate and yield represent an exhaustive list to the best of their understanding.

### *Phase VI Clubhouse*

Since the Phase VI Clubhouse was not leased as at the Valuation Date and therefore no existing tenancies are available, the Independent Valuer has computed the reversionary value as the market value of the Phase VI Clubhouse with reference to the comparables being referenced to in arriving at the market value of the Unsold Commercial Units. As advised by the Independent Valuer, the nature of clubhouse is similar to that of a

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

retail nature and hence the same set of asking comparables was adopted in deriving the market value of the Phase VI Clubhouse. Nonetheless, considering the difference in clubhouse nature of the Phase VI Clubhouse in comparison to the retail nature of the Unsold Commercial Units, the Independent Valuer has made certain adjustments to the market yields of the comparables in arriving at the market value of the Phase VI Clubhouse, which are common market practice for conducting similar valuation.

### (iii) Phase II Clubhouse and MSP Land Parcel

We noted from the Valuation Report that the Independent Valuer has ascribed no commercial value to the Phase II Clubhouse and the MSP Land Parcel. We have obtained from the management of the Company the respective book values of each of the Properties held by the Group as at 30 June 2021 and noted that the book values of the Phase II Clubhouse and the MSP Land Parcel were nil as at 30 June 2021. As advised by the Independent Valuer, we understand that in conducting the valuation of the Properties, they have primarily relied on the legal opinions of the PRC legal adviser of the Company with respect to the Properties to assess the transferability of and whether the Company is entitled to dispose of the Properties in the market, as well as the development potential of land parcels. In this regard, we have reviewed the legal opinions provided by the PRC legal adviser of the Company which has provided its view on legal matters such as planning approvals, statutory notices, easements, tenure, completion date of buildings, particulars of occupancy, tenancy details, site and floor areas and all other relevant matters in the identification of the Properties. Based on the conclusion of the PRC legal adviser, we noted that (i) the Company may not be able to freely transfer the Phase II Clubhouse primarily due to the absence of transferable legal title to the property as at the Valuation Date; and (ii) notwithstanding that the Company is in possession of the proper legal title to the MSP Land Parcel and is entitled to legally transfer, mortgage, lease or otherwise legally dispose of such land parcel, the Company is required to apply for an extension of validity period of the development qualification with the relevant authority before carrying out any future development of the MSP Land Parcel, rendering the Company unable to develop the MSP Land Parcel based on the status as at the Valuation Date.

During our review of the Valuation Report and discussions with the Independent Valuer, we have not identified any major factors that cause us to cast doubt on the fairness and reasonableness of the principal bases and assumptions adopted in arriving at the appraised value of the Properties.

Taking into account of the above, we consider that the valuation bases and assumptions adopted by the Independent Valuer in the Valuation Report are fair and reasonable. As set out in the Valuation Report, the appraised value of the Properties was approximately RMB401.69 million (equivalent to approximately HK\$482.31 million) as at the Valuation Date. The appraised value of the Properties attributable to the Group amounted to approximately RMB220.93

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

million (equivalent to approximately HK\$265.27 million). On the basis that the MSV Auction Transactions and the MSP Auction Transactions had been completed, the Adjusted NAV which has accounted for (i) the appraised value of the Properties; (ii) the waiver of the Company Loan; and (iii) the deferred tax liabilities arising from appreciation of the Properties, amounted to approximately HK\$229.05 million as at 30 June 2021. The Consideration therefore represents a premium of about 23.12% over the Adjusted NAV, which is considered fair and reasonable.

### 5.2 Market comparable transactions

In further assessing the fairness and reasonableness of the Consideration, we have also searched for recent transactions conducted by companies listed on the Stock Exchange that (i) have conducted disposal of companies which owned property interests as major assets and/or are principally engaged in property investment/development and the transactions of which constituted notifiable transactions as defined under the Listing Rules, excluding disposal through public tender; and (ii) have disclosed information on the respective net asset values of the subject disposal companies as adjusted by the latest valuation or market value of the underlying property interests in the relevant announcements which reflect the fair transaction value, during the three-month period preceding the date of the Disposal Agreement which we consider a reasonable period to reflect the recent market practice preceding the Disposal.

To the best of our knowledge and endeavour, we have identified five companies based on our selection criteria (the “**Comparable Transactions**”). We consider the Comparable Transactions to be exhaustive and in general forms a fair and representative sample for establishing our analysis below, taking into account that the Comparable Transactions also involved the disposal of companies with significant property interests. Set out below are our findings:

Date of announcement	Company name (Stock code)	Principal assets of the subject companies being disposed of	Consideration		Fair value of the transaction (i.e. after accounted for the net asset value of the subject company as adjusted by the latest valuation/ market value of property asset) (HK\$ million)	Premium/ (discount) of consideration over/to the adjusted net asset value of the subject company
			(million)	(HK\$ million)		
24 October 2021	Yuexiu Property Company Limited (123)	An international grade A office property located in the core area of Guangzhou Zhujiang New Town, the PRC	RMB7,792.83	9,351.40 <sup>1,2</sup>	9,627.40 <sup>1,3</sup>	(2.87)%
21 October 2021	Neway Group Holdings Limited (55)	A 6-storey industrial building situated in Fanling, Hong Kong	HK\$231.00	231.00	209.80	10.10%

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of announcement	Company name (Stock code)	Principal assets of the subject companies being disposed of	Consideration		Fair value of the transaction (i.e. after accounted for the net asset value of the subject company as adjusted by the latest valuation/ market value of property asset) (HK\$ million)	Premium/ (discount) of consideration over/to the adjusted net asset value of the subject company
			(million)	(HK\$ million)		
20 October 2021	Emperor International Holdings Limited (163)	A 12-storey industrial building located in Kwai Chung, Hong Kong	HK\$585.00	585.00 <sup>4</sup>	585.00 <sup>5</sup>	0%
7 September 2021	Artgo Holdings Limited (3313)	Two residential properties situated in Shanghai, the PRC	RMB45.00	54.00 <sup>1</sup>	57.47 <sup>1,6</sup>	(6.04)%
16 August 2021	Sichuan Expressway Company Limited (107)	Properties located in Meishan City, the PRC	RMB1,858.20	2,229.84 <sup>1,7</sup>	2,198.88 <sup>1,8</sup>	1.41%
					Maximum:	10.10%
					Minimum:	(6.04)%
					Average:	0.52%
	The Disposal			282.00	229.05	23.12%

*Source: The respective announcements of the Comparable Transactions as published on the website of the Stock Exchange (<https://www.hkexnews.hk>).*

*Notes:*

- The approximate exchange rate of RMB1 = HK\$1.20 has been used.
- The consideration is equal to the sum of consideration for the sale shares and the outstanding amounts due to the holding company of the vendor and its group company at completion.
- The fair value of the transaction was computed by taking the sum of (i) the net asset value of the subject company of negative RMB7,797,636,000 (excluding the carrying value of the property) and adjusted by the appraised value of the property of RMB8,030.00 million; and (ii) the outstanding amounts payable of approximately RMB7,790.47 million.
- The consideration represents the sum of consideration for (i) the sale shares; (ii) the sale loan; and (iii) repayment of existing bank loan.
- The fair value of the transaction was computed by taking the sum of (i) the net asset value of the subject company as adjusted by the appraised value of the property of HK\$163.9 million; (ii) the sale loan amount of approximately HK\$304.60 million; and (iii) the repayment of existing bank loan which, for the purpose of this analysis, was assumed to be HK\$116.50 million with reference to the difference between the consideration of HK\$585.0 million and the estimated net proceeds after repayment of such bank loan of HK\$468.4 million as disclosed in the relevant announcement.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

6. The adjusted net asset value was based on RMB93.9 million as at 30 June 2021 as disclosed in the relevant announcement and multiplied by 51% to be disposed of by the vendor.
7. According to the relevant announcement, the consideration shall not exceed RMB1,858.2 million which comprised (i) the consideration for the sale shares (being 91% of the subject company to be disposed of) which shall not exceed RMB505.9 million; and (ii) sale loan which shall not exceed RMB1,352.3 million.
8. The fair value of the transaction was computed as the sum of (i) the appraised net asset value of RMB552.2 million as disclosed in the relevant announcement and multiplied by 91%; and (ii) the amount of sale loan of RMB1,329.9 million up to the date of the relevant announcement.

In light of the above, taking into account that the Consideration represents a premium of about 23.12% over the Adjusted NAV which is above the premium/discount represented by the consideration over/to the fair transaction value of all of the Comparable Transactions, we are of the view that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

In light of the above, we are of the view that the principal terms of the Disposal Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **6. Financial effects of the Disposal**

With reference to the Letter from the Board, as at the Latest Practicable Date, the Disposal Company is a wholly-owned subsidiary of the Company. Upon Completion, the Group will cease to own any interest in the Disposal Group and the financial results, assets and liabilities of the Disposal Group will no longer be included in the consolidated financial statements of the Group.

#### *Earnings*

It is expected that the Group will recognise an estimated gain on Disposal (before taxation) in its consolidated profit and loss statement of approximately HK\$219.58 million, which is derived from (i) the difference between (a) the Consideration of HK\$282.00 million and (b) the unaudited net asset value of the Disposal Group attributable to the Group as at 30 June 2021 of approximately HK\$104.56 million, which is the financial information of the Disposal Group available for the time being; (ii) the estimated gain on waiver of the Company Loan of HK\$43.13 million; and (iii) the estimated expenses arising from the Disposal of approximately HK\$1 million.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *Gearing*

According to the Interim Report 2021, the gearing ratio of the Group amounted to 2,005.18%, which was calculated on the basis of total interest-bearing borrowings over the total equity of the Group as at 30 June 2021. As stated in the Letter from the Board, the Group intended to apply the net proceeds from the Disposal as to HK\$277,200,000 for repayment of loan borrowed by the Group and the accrued interest, hence the Disposal will reduce the outstanding borrowings of the Group and it is expected that the Group's gearing ratio will decrease to approximately 649.90% which is calculated on the basis of total interest-bearing borrowings as at 30 June 2021 (assuming that the intended loan repayment was completed on 30 June 2021) over the total equity of the Group (assuming that the Disposal were completed on 30 June 2021) as at 30 June 2021 as a result of the Disposal.

### *Liquidity*

Based on the Interim Report 2021, the cash and cash equivalents of the Group was approximately HK\$70.59 million as at 30 June 2021. As stated in the Letter from the Board, the net proceeds from the Disposal would be applied for loan repayment and serve as general working capital, which will improve the liquidity of the Group upon completion of the Disposal.

### *Net assets*

As disclosed in the Letter from the Board, taking into account the net proceeds of the Disposal, the unaudited net asset value of the Disposal Group as at 30 June 2021 and the gain on waiver of the Company Loan on the part of the Company, it is estimated that upon Completion, the total assets of the Group will increase by approximately HK\$163.65 million, while the total liabilities of the Group will decrease by approximately HK\$6.41 million, therefore resulting in an overall increase in the net asset value of the Group.

Independent Shareholders should note that the above expected financial effects are for illustrative purposes only and do not purport to represent the financial position of the Group upon completion of the Disposal Agreement and the transactions contemplated thereunder.

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

**RECOMMENDATIONS**

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Disposal Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Disposal is conducted in the ordinary and usual course of business of the Group, and the entering into of the Disposal Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Disposal Agreement and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Lego Corporate Finance Limited**  
**Billy Tang**  
*Managing Director*

*Mr. Billy Tang is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in the accounting and investment banking industries.*

\* *For identification purpose only*

## 1. FINANCIAL SUMMARY OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2020 and the six months ended 30 June 2021 are disclosed in the following documents respectively which have been published on the websites of the Stock Exchange (<http://www.hkex.com.hk/>) and the Company (<http://www.tfginternationalgroup.com/>).

- The annual report of the Company for the year ended 31 December 2018 published on 25 April 2019 (pages 34 to 111);
- the annual report of the Company for the year ended 31 December 2019 published on 24 April 2020 (pages 37 to 124);
- the annual report of the Company for the year ended 31 December 2020 published on 27 April 2021 (pages 48 to 133); and
- the interim report of the Company for the six months ended 30 June 2021 published on 24 September 2021 (pages 3 to 20).

## 2. INDEBTEDNESS STATEMENT

As at the close of business on 31 December 2021 (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular), the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2020, being the date to which the latest audited consolidated accounts of the Company have been made up) had outstanding indebtedness of approximately HK\$1,871.3 million. The indebtedness comprised:

	<b>As at</b> <b>31 December 2021</b> <i>HK\$'000</i> (unaudited)
<b>Current</b>	
Bank borrowings	
— secured and guaranteed (a)	255,668
Other borrowings	
— unsecured and non-guaranteed (b)	15,504
— unsecured and guaranteed (c)	500,175
	771,347

As at  
31 December 2021  
HK\$'000  
(unaudited)

**Non-current**

Bank borrowings	
— secured and guaranteed (a)	153,089
Other borrowings	
— unsecured and non-guaranteed (b)	587,262
— unsecured and guaranteed (c)	250,000
Promissory note payable	
— unsecured and non-guaranteed (d)	108,600
Lease liabilities (e)	<u>1,046</u>
	1,099,997
<b>Total</b>	<b><u><u>1,871,344</u></u></b>

*Notes:*

- (a) Bank borrowings, at interest rates ranged from 4.326% to 8.8% per annum, were secured by (1) share capital and properties of certain indirectly owned subsidiaries of the Company, (2) corporate guarantees provided by the Company and certain subsidiaries of the Company, and (3) personal guarantees provided by certain Directors and a former Director.
- (b) Borrowings, at interest rates ranged from 0% to 13% per annum, were provided by (1) a director of the Company, (2) independent third parties, and (3) a non-controlling shareholder of a subsidiary of the Company, respectively.
- (c) Borrowings, at interest rates ranged from 12% to 15% per annum and secured by personal guarantees provided by a Director and a former Director, were provided by independent third parties.
- (d) The Company issued a 9% coupon rate per annum three-year promissory note with principal amount of HK\$108,600,000 on 15 September 2020, which was unsecured and non-guaranteed. The promissory note has amortised value of approximately HK\$107.8 million as at 31 December 2021.
- (e) Lease liabilities of the Group are attributable to future minimum lease payments in respect of the lease premises, which fall due within two years.

### Contingent liabilities

As at 31 December 2021, the Group's contingent liabilities in respect of the buy-back guarantee in favour of banks to secure mortgage loan facilities granted to the purchasers of the properties of the Group amounted to HK\$358.6 million.

Save as disclosed above and part from intra-group liabilities, the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2020, being the date to which the latest audited consolidated accounts of the Company have been made up) 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 as at the close of business of 31 December 2021.

### 3. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Company is an investment holding company. The Group is principally engaged in property development and hotel business in the PRC.

The Group's revenue for the year ended 31 December 2020 amounted to approximately HK\$22.4 million as compared to the revenue amounted to approximately HK\$34.5 million for the year ended 31 December 2019. The revenue for the two years was mainly attributable to the licensing income generated from the hotel business. The loss before tax for the year ended 31 December 2020 was approximately HK\$216.6 million as compared to approximately HK\$233.8 million for the year ended 31 December 2019. Total assets of the Group as at 30 June 2021 amounted to HK\$4,418.5 million as compared to approximately HK\$4,011.0 million as at 31 December 2020. Total liabilities of the Group as at 30 June 2021 amounted to HK\$4,318.4 million as compared to approximately HK\$3,803.5 million as at 31 December 2020.

As set out in the section headed "Financial Effects of the Disposal" in the Letter from the Board, the Group's total assets after Completion would increase whereas the Group's total liabilities would decrease. As set out in the section headed "Reasons for and Benefits of the Disposal and Intended Use of Proceeds" in the Letter from the Board, the Board considers that the Disposal would enhance the liquidity and improve its gearing ratio of the Group.

Notwithstanding the above, as disclosed in the section headed "Management Discussion and Analysis" of the Company's 2021 Interim Report, the Group has long been participating in property development and hotel businesses in the PRC. As at the Latest Practicable Date, the Group had three property development projects on hand, namely German City Project located in Hengqin, Fuyuan Junting Project located in Chengdu, and Fuyuan Square Project located in Doumen, respectively. All these three projects had started pre-sales. The construction works of these projects are expected to be completed by the fourth quarter of 2024. The Group expects to recognise income from these property development projects afterward.

Looking forward, the business environment will remain severe and challenging. After Completion, the Group will explore other investment opportunities to boost business growth and strive to enhance and improve the liquidity so as to bring better returns to the Shareholders.

#### **4. WORKING CAPITAL SUFFICIENCY**

The Directors are of the opinion that, after taking into account the net proceeds from the Disposal and the financial resources available to the Group, including internally generated cash flows, existing bank and other loans facilities and undertaking from the Guarantor that he will provide adequate funds to enable the Group to meet its financial obligations within the next 12 months from the date of this circular, the Group has sufficient working capital for its requirements for at least 12 months from the date of this circular in the absence of unforeseen circumstances.

#### **5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Company were made up.

*The following is the text of a letter and valuation report prepared for the purpose of incorporation in this circular received from B.I. Appraisals Limited, an independent property valuer, in connection with its opinion of market value of the Properties as at 31 December 2021.*



**B.I. Appraisals Limited**  
**保柏國際評估有限公司**  
Registered Professional Surveyors, Valuers & Property Consultants

22/F, China Overseas Building,  
139 Hennessy Road, Wan Chai, Hong Kong  
Tel (852) 2127 7762 Fax (852) 2137 9876  
E-mail: info@biappraisals.com  
Website: www.biappraisals.com

25 February 2022

**TFG International Group Limited**

Rooms 1301–1302,  
Laws Commercial Plaza  
788 Cheung Sha Wan Road  
Kowloon  
Hong Kong

**For the Attention of the Directors**

Dear Sirs/Madams,

**Re: Portfolio of properties held by Ceneric Properties Limited and/or its subsidiaries in Zhongshan City, Guangdong Province, the People’s Republic of China (the “PRC”)**

In accordance with the instructions from TFG International Group Limited (hereinafter referred to as the “Company”) for us to value the properties held by Ceneric Properties Limited, which is a wholly-owned subsidiary of the Company, and its subsidiaries (hereinafter together with the Company referred to as the “Group”) in Zhongshan City, Guangdong Province, the PRC, details of which are more particularly listed in the Summary of Values attached herewith (hereinafter referred to as the “Properties”), we confirm that we have inspected the Properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of each of the Properties as at 31 December 2021 (hereinafter referred to as the “Date of Valuation”).

It is our understanding that this valuation document is to be used by the Company for reference purpose relating to the proposed disposal of the shares of Ceneric Properties Limited (hereinafter referred to as the “Proposed Disposal”). We acknowledge that this report may subsequently be incorporated in a circular to be issued in relation to the Proposed Disposal.

This letter, forming part of our valuation report, identifies the properties being valued, explains the basis and methodology of our valuations, and lists out the assumptions and the title investigation we have made in the course of our valuations, as well as the limiting conditions.



**BASIS OF VALUATION**

Our valuation of each of the Properties 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”.

Our valuations have been carried out in accordance with The HKIS Valuation Standards 2020 published by the Hong Kong Institute of Surveyors and under generally accepted valuation procedures and practices, which are in compliance with 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.

We have valued the Properties on the basis that each of them is considered individually. We have not allowed for any discount for the Properties to be sold to a single party nor taken into account any effect on the values if the Properties are to be offered for sale at the same time as a portfolio.

**VALUATION APPROACH AND METHODOLOGY**

In valuing the property in Group I, which is held for sale by the Group, we have adopted the direct comparison method assuming the property is capable of being sold in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant markets.

In valuing the property in Group II, which is held for investment by the Group, we have adopted the Investment Method by taking into account the current rent(s) passing and the reversionary income potential of such property.

In valuing the properties in Group III, which are held for owner-occupation by the Group, we have adopted the direct comparison method assuming each of these properties is capable of being sold in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant markets, or, wherever appropriate, the Investment Method by taking into account the current rent passing and the reversionary income potential of such property.

We have valued the properties in Group IV, which are held for future development by the Group, by the direct comparison method assuming the property is capable of being sold in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant markets.

## VALUATION ASSUMPTIONS

In valuing the Properties, we have assumed that the Group has valid and enforceable title to the properties which are freely transferable, and has free and uninterrupted right to use the Properties, for the whole of the unexpired lease/land use terms granted subject to payment of annual government rent/land use fees and all requisite land premium/purchase consideration payable has been fully settled.

Our valuations have been made on the assumption that the Group sells the Properties on the open market in their existing states without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the values of such properties. In addition, no account has been taken of any option or right of pre-emption concerning or affecting sales of the Properties and no forced sale situation in any manner is assumed in our valuations.

We have assumed that the Properties have been constructed, occupied and used in full compliance with, and without contravention of all ordinances, except only where otherwise stated. We have further assumed that each of the properties is finished and maintained in reasonable condition commensurate with its age and use and is in its original layout without any unauthorized alterations and all consents, approvals, required licenses, permits, certificates and authorizations have been obtained, except only where otherwise stated, for the use of the Properties upon which our valuations are based.

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

## TITLE INVESTIGATION

We have been provided by the Group with copies of title documents. We have not examined the original documents to verify the ownership and to ascertain the existence of any amendments that may not appear on the copies handed to us. All documents have been used for reference only.

Besides, we have been provided by the Group a copy of the legal opinions dated 23 February 2022 prepared by 廣東知產律師事務所 (Guangdong Zhi Chan Law Firm), the Company's legal advisor as to PRC laws (hereinafter referred to as the "PRC Legal Advisor"), regarding the title to and the interest of the Group in the Properties. In the course of our valuations, we have relied on the advice given by the Group and the opinions from the PRC Legal Advisor.

## LIMITING CONDITIONS

We have inspected the exterior and, where possible, the interior of the Properties on 20 November 2021. However, no structural survey has been made nor have any tests been carried out on any of the building services provided in the Properties. We are, therefore, not able to report that the Properties are free from rot, infestation or any other structural defects. Yet, in the course of our inspections, we did not note any serious defects.

We have not conducted any on-site measurement to verify the site and floor areas of the Properties but have assumed that the areas shown on the documents furnished to us are correct. Dimensions, measurements and areas included in the valuation report attached are based on information contained in the documents provided to us by the Group and are therefore approximations only.

Moreover, we have not carried out any site investigations to determine or otherwise the suitability of the ground conditions, the presence or otherwise of contamination and the provision of or otherwise suitability for services etc. for any future development. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred in the event of any future development.

We have relied to a considerable extent on the information provided by the Group and the legal opinion of the PRC Legal Advisor. We have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, completion date of buildings, particulars of occupancy, tenancy details, site and floor areas and all other relevant matters in the identification of the Properties. We have not seen original planning consents and have assumed that the Properties are erected, occupied and used in accordance with such consents.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group and/or obtained from the relevant authorities. We were also advised by the Group that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

Our valuations reflect facts and conditions existing at the Date of Valuation. No responsibility is taken for changes in market conditions and local government policy and no obligation is assumed to revise this report to reflect events or conditions, which occur subsequent to the Date of Valuation.

Neither the whole nor any part of this letter nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear.

Finally and in accordance with our standard practice, we must state that this letter and the attached valuation report are for the use only of the party to whom it is addressed and for the specific purpose stated above. No liability to any third party will be accepted for the whole or any part of its contents.

## **CURRENCY**

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

**REMARKS**

The outbreak of the Novel Coronavirus (COVID-19), declared by World Health Organization on 11 March 2020, has impacted global financial markets and is expected to bring additional disruption to economic activities around the world. The unknown future impact that COVID-19 might have on the real estate market causes volatility and uncertainty that property value might change significantly and unexpectedly even over short periods of time. Readers are reminded that we do not intend to provide an opinion of value as of any date after the Date of Valuation in this report. We recommend that the valuation of the Properties should be kept under frequent review and the users of this report should seek latest opinion on the real estate market for their decisions.

We hereby confirm that we have neither present nor prospective interests in the Group, the Properties or the values reported herein. We confirm that we are an independent qualified valuer as referred to under Rule 11 of The Codes on Takeovers and Mergers and Share Buy-back published by Securities and Futures Commission.

Our summary of values and valuation report are enclosed herewith for your attention.

Yours faithfully,

For and on behalf of

**B.I. Appraisals Limited**

**William C. K. Sham**

Registered Professional Surveyor (G.P.)

Registered Business Valuer

China Real Estate Appraiser

MRICS, MHKIS, MCIREA

**Executive Director**

*Notes:*

- (1) Mr. William C. K. Sham is a qualified valuer on the approved List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the Hong Kong Institute of Surveyors. Mr. Sham has over 40 years' experience in the valuation of properties in Hong Kong and has over 25 years' experience in the valuation of properties in the PRC and the Asia Pacific region.
- (2) Inspections of the Properties were carried out on 20 November 2021 by Wang Yang, who have 14 years' experience in the valuation of properties in the PRC.

## Summary of Values

Property	Market value in existing state as at 31 December 2021 <i>RMB</i>	Interest attributable to the Group in percentage	Value attributable to the Group as at 31 December 2021 <i>RMB</i>
<b>Group I — Property held for sale by the Group in the PRC</b>			
1. The unsold residential and commercial units, motorcycle parking spaces, carports and bicycle storerooms of Morning Star Plaza (星晨廣場), Gangkou Town, Zhongshan City, Guangdong Province, the PRC	4,190,000	55.00%	2,304,500
<b>Sub-total:</b>	<b>4,190,000</b>		<b>2,304,500</b>
<b>Group II — Property held for investment by the Group in the PRC</b>			
2. Twenty-three commercial units of Phase II of Morning Star Plaza, No. 1 Qigang Road (岐港路), Zhongshan City, Guangdong Province, the PRC	9,500,000	55.00%	5,225,000
<b>Sub-total:</b>	<b>9,500,000</b>		<b>5,225,000</b>
<b>Group III — Properties held and occupied by the Group in the PRC</b>			
3. The clubhouse of Phase II of Morning Star Villa, Gangkou Town, Zhongshan City, Guangdong Province, the PRC	No commercial value	55.00%	No commercial value
4. The clubhouse of Phase VI of Morning Star Villa, Gangkou Town, Zhongshan City, Guangdong Province, the PRC	6,000,000	55.00%	3,300,000
<b>Sub-total:</b>	<b>6,000,000</b>		<b>3,300,000</b>

Property	Market value in existing state as at 31 December 2021 RMB	Interest attributable to the Group in percentage	Value attributable to the Group as at 31 December 2021 RMB
<b>Group IV — Properties held for future development by the Group in the PRC</b>			
5. The remaining portions of seven parcels of land (of Morning Star Villa) with an aggregate area of approximately 151,674.59 sq. m. at Xi Jie She Qu Ju Min Wei Yuan Hui Nan Jiu Pian (西街社區居民委員會南九片), Gangkou Town, Zhongshan City, Guangdong Province, the PRC	382,000,000	55.00%	210,100,000
6. The remaining portion of two parcels of land (of Morning Star Plaza) with an area of approximately 7,343.08 sq. m. at Hou Shan Cun Min Wei Yuan Hui (後山村民委員會), Xi Qu (西區), Gangkou Town, Zhongshan City, Guangdong Province, the PRC	No commercial value	55.00%	No commercial value
<b>Sub-total:</b>	<u>382,000,000</u>		<u>210,100,000</u>
<b>GRAND TOTAL:</b>	<u><u>401,690,000</u></u>		<u><u>220,929,500</u></u>

## VALUATION REPORT

## Group I — Property held for sale by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2021																				
1. The unsold residential and commercial units, motorcycle parking spaces, carparks and bicycle storerooms of Morning Star Plaza (星晨廣場), Gangkou Town, Zhongshan City, Guangdong Province, the PRC	<p>Morning Star Plaza, completed by phases within the period from 1999 to 2008, is a mixed commercial and residential development being developed by phases on a site located on the northwestern side of Qigang Road in Gangkou Town of Zhongshan City.</p> <p>The property comprises 172 unsold units/items in the subject development, comprises 1 residential unit in Block 2 and 2 shop units on Level 2 together with 43 bicycle rooms (“BCR”), and 126 motor cycle parking spaces (“MCPS”) on basement level.</p> <p>The total gross floor area of the property is approximately 1,164.51 sq. m. (12,535 sq.ft.). Details of gross floor areas by uses are as follow:</p> <table border="1"> <thead> <tr> <th rowspan="2">Phase</th> <th colspan="2">Approximate Gross Floor Area</th> </tr> <tr> <th>(sq. m.)</th> <th>(sq.ft.)</th> </tr> </thead> <tbody> <tr> <td>Residential</td> <td>112.86</td> <td>1,215</td> </tr> <tr> <td>Shop</td> <td>96.73</td> <td>1,041</td> </tr> <tr> <td>BCR</td> <td>378.56</td> <td>4,075</td> </tr> <tr> <td>MCPS</td> <td><u>576.36</u></td> <td><u>6,204</u></td> </tr> <tr> <td>Total</td> <td><u>1,164.51</u></td> <td><u>12,535</u></td> </tr> </tbody> </table>	Phase	Approximate Gross Floor Area		(sq. m.)	(sq.ft.)	Residential	112.86	1,215	Shop	96.73	1,041	BCR	378.56	4,075	MCPS	<u>576.36</u>	<u>6,204</u>	Total	<u>1,164.51</u>	<u>12,535</u>	The property is currently vacant.	RMB4,190,000 (55% interest attributable to the Group: RMB2,304,500)
Phase	Approximate Gross Floor Area																						
	(sq. m.)	(sq.ft.)																					
Residential	112.86	1,215																					
Shop	96.73	1,041																					
BCR	378.56	4,075																					
MCPS	<u>576.36</u>	<u>6,204</u>																					
Total	<u>1,164.51</u>	<u>12,535</u>																					
	<p>The land use rights of the subject development have been granted for a term due to expire on 27 April 2065 for commercial and residential uses.</p>																						

## Notes:

- (1) Pursuant to eleven 商品房產權權屬證明書 (Commodity Housing Property Ownership Certificates) issued by Zhongshan Municipal People's Government, the ownership of the property, except for BCR 355 with a gross floor area of approximately 15.37 sq. m., having a total gross floor area of 1,164.51 sq. m. is vested in 中山星晨廣場房地產發展有限公司 (Zhongshan Morning Star Plaza Housing and Real Estate Development Limited hereinafter to as "MS Plaza Limited"). The following table summarizes the said Commodity Housing Property Ownership Certificates.

Premises	Gross Floor Area (sq. m.)	Certificate No.	Date of Certificate
Flat 6-7C, Block 2	112.86	城99-162 (Cheng 99-162)	4 July 2000
BCR No. 1, 27, 47, 67, 68, 71, 87 to 89, 92 & 93	100.24	城99-95 (Cheng 99-95)	30 April 2000
BCR Nos. 105, 113, 115 & 127	24.46	城99-162 (Cheng 99-162)	4 July 2000
BCR Nos. 132, 142, 148 to 149, 160, 168 to 170, 228 to 230, 236 to 242, 244, 249 to 252	210.25	2000-171	26 December 2000
BCR Nos. 285, 290, 301 & 307	38.05	2002-309	6 August 2002
BCR No. 353	5.56	2002-308	6 August 2002
Shops Ka (卡) 6B & 8B, Level 2, Phase II	96.73	2006-1536	10 October 2006
MCPS Nos. 1 to 26, Phase II	103.35	2006-1536	10 October 2006
MCPS Nos. 1 to 100, Phase III	473.01	2007-1172	4 July 2007

- (2) We have been advised by the Company that MS Plaza Limited is a 55% indirectly owned subsidiary of the Company.
- (3) The opinion of the PRC Legal Advisor is summarized as follows:
- Morning Star Plaza Company is a limited liability company duly formed and validly existing under the laws of the PRC.
  - The Real Estate Development Enterprise Qualification of MS Plaza Limited expired on 11 July 2019. MS Plaza Limited has to apply for the extension of the validity of such qualification before carrying out any future development.
  - Morning Star Plaza Company is in possession of the proper legal title to the property and is entitled to legally transfer, mortgage, lease or otherwise legally dispose of the property.
  - The property is not subject to any mortgage, seizures and legal disputes.
- (4) In valuing the property, we have assumed unit prices are about RMB9,700 per sq.m. for residential portion, about RMB6,300 per sq.m. for retail portion, about RMB2,600 per sq.m. for BCR and unit rent about RMB60 per bay for MCPS. We have assumed capitalization rates of 6.0% for MCPS.

In undertaking our valuation, we have made reference to lettings, askings and sales within the property as well as other comparable properties in the neighbourhood. The asking prices are in the range from about RMB10,267 to RMB10,773 per sq.m. for residential premises and from about RMB9,934 to RMB21,801 per sq.m. for retail premises. The transaction prices from the auction for BCR are in the range from RMB1,880 to RMB2,689. The monthly rent for MCPS is RMB30 per bay. We have collected and analyzed various askings of car parking spaces and noted that the implied yields are generally about 6.37% for car parking spaces. The unit rates assumed and the capitalization rates adopted are considered consistent with those of the market comparables.

- (5) The status of title and grant of major approvals, consents or licences in accordance with the information provided by the Group are as follows:

Commodity Housing Property Ownership Certificate

Obtained



## Group II — Property held for investment by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2021
2. Twenty-three commercial units of Phase II of Morning Star Plaza, No. 1 Qigang Road (岐港路), Zhongshan City, Guangdong Province, the PRC	<p>Morning Star Plaza is a mixed commercial and residential development being developed by phases on a site located on the northwestern side of Qigang Road in Gangkou Town of Zhongshan City.</p> <p>The property comprises 12 shop units on Level 1 and 11 shop units on Level 2 of Phase II of the subject development which was built in 2008.</p> <p>The total gross floor area of the property is approximately 1,296.56 sq. m. (13,956 sq.ft.). It comprised 667.01 sq. m. (7,179.7 sq.ft.) on Level 1 and 629.55 sq. m. (6,776.48 sq.ft.) on Level 2.</p> <p>The land use rights of the property have been granted for a term due to expire on 27 April 2065 for commercial and residential uses.</p>	<p>The 12 shops on Level 1 of the subject property is let under a tenancy for a term from 1 November 2018 to 30 January 2025, with a rent free period from 1 November 2018 to 30 January 2019; The current rent is RMB28,014 which will be increased to RMB29,415 from 1 February 2023, whereas the 11 shops on Level 2 of the subject property is let under a tenancy for a term from 1 June 2020 until 30 August 2030 with a rent free period from 1 June 2020 to 30 August 2020. The current monthly rent is RMB13,850 which will be increased to RMB14,543 from 1 September 2022 and to RMB15,298 from 1 September 2024.</p>	<p>RMB9,500,000 (55% interest attributable to the Group; RMB5,225,000)</p>

*Notes:*

- (1) Pursuant to 商品房產權權屬證明書 (Commodity Housing Property Ownership Certificate) No. 2007-1172 dated 4 July 2007 issued by Zhongshan Municipal People's Government, the ownership of property with a total gross floor area of 1,296.56 sq. m. is vested in 中山星晨廣場房地產發展有限公司 (Zhongshan Morning Star Plaza Housing and Real Estate Development Limited hereinafter to as "MS Plaza Limited").
- (2) We have been advised by the Company that MS Plaza Limited is a 55% indirectly owned subsidiary of the Company.

- (3) The opinion of the PRC Legal Advisor is summarized as follows:
- (a) Morning Star Plaza Company is a limited liability company duly formed and validly existing under the laws of the PRC.
  - (b) MS Plaza Limited is in possession of the proper legal title to the property and is entitled to legally transfer, mortgage, lease or otherwise legally dispose of the property.
  - (c) The property is not subject to any mortgage, seizure or litigation.
  - (d) Morning Star Plaza Company is not involved in or any litigation.
- (4) In valuing the property, we have assumed monthly unit rents are from about RMB24 per sq.m. to RMB35 per sq.m.. We have assumed capitalization rates of 5.0%.

In undertaking our valuation, we have made reference to lettings within the property as well as other comparable properties in the neighbourhood. The asking monthly rents are in the range from about RMB30 to RMB40 per sq.m.. We have collected and analyzed various askings of retail premises and noted that the implied yields are generally about 4.83%. The unit rates assumed and the capitalization rates adopted are considered consistent with those of the market comparables.

- (5) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the opinion of the PRC Legal Advisor:

Commodity Housing Property Ownership Certificate

Obtained

## Group III — Properties held and occupied by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2021
3. The clubhouse of Phase II of Morning Star Villa, Gangkou Town, Zhongshan City, Guangdong Province, the PRC	<p>The subject building, completed in about 1996, is a block of 2-storey mixed clubhouse and commercial building with recreational facilities on basement erected on a site having a site area of approximately 5,000.00 sq. m. (53,820 sq.ft.).</p> <p>The total gross floor area of the subject building is approximately 7,668.00 sq. m. (82,538 sq.ft.) of which approximately 1,730.00 sq. m. (18,622 sq.ft.) are shops that had been sold out. The property comprises the unsold portion of the subject building.</p> <p>The total gross floor area of the property is approximately 5,938.00 sq. m. (63,917 sq.ft.).</p> <p>The land use rights of the property have been granted for a term due to expire on 31 August 2062 for commercial and residential uses.</p>	<p>Portions of the property with a total leased area of approximately 553 sq.m. (including 40 sq.m. on roof top) and leased under various tenancies yielding a total monthly rental of RMB19,955 for terms of two years with the latest due to expire on 19 May 2023.</p> <p>The remaining portions of the property are either vacant or occupied by the Group.</p>	<p>No commercial value (See Note 4 below) (55% interest attributable to the Group; No commercial value)</p>

## Notes:

- (1) Pursuant to the 商品房產權屬證明書 (Commodity Housing Property Ownership Certificate) Registration No. 2003-605 dated 1 July 2003 issued by Zhongshan Municipal People's Government, the ownership of the subject building with a total gross floor area of 7,668 sq. m. is vested in 中山星晨花園房地產發展有限公司 (Zhongshan Morning Star Villa Housing and Real Estate Development Limited hereinafter referred to as "MS Villa Limited").
- (2) We have been advised by the Company that MS Villa Limited is a 55% indirectly owned subsidiary of the Company.
- (3) The opinion of the PRC Legal Advisor is summarized as follows:
  - (a) MS Villa Limited is a limited liability company (sole proprietorships of foreign legal entity) duly formed and validly existing under the laws of the PRC.
  - (b) Ownership certificate of the property could not be obtained due to the existence of unauthorized additional and alteration works.
  - (c) There are two possible obstacles to the transfer of the property to a third party. Firstly, as portions of the property are currently subject to tenancies, the existing tenants have the right to claim that the lease contracts continue to be effective for the buyer in accordance with Article 725 of the Civil Code of the People's Republic of China (中華人民共和國民法典), whereas Article 726 of the Civil Code advocates the right of first refusal of the tenants. The second obstacle is that buyers may face the risk of not being able to obtain a real estate ownership certificate.

(4) In the course of our valuation, we have taken into consideration the legal opinion that there are obstacles in the disposal of and the risk of not being able to obtain a real estate ownership certificate for the property as mentioned in Note 3 above and have ascribed no commercial value to the property. However, for reference purposes, we are of the opinion that the market value of the property as at the Date of Valuation would be RMB41,000,000 assuming MS Villa Limited had obtained the transferable legal title to the property.

(5) In valuing the property, we have assumed monthly unit rent is about RMB31.5 per sq.m.. We have assumed capitalization rates of 5.5%.

In undertaking our valuation, we have made reference to lettings within the property as well as other comparable properties in the neighbourhood. The asking monthly rents are in the range from about RMB30 to RMB40 per sq.m. for retail premises. We have collected and analyzed various askings of retail premises and noted that the implied yields are generally about 4.83% for retail premises. The unit rates assumed and the capitalization rates adopted are considered consistent with those of the market comparables.

(6) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the opinion of the PRC Legal Advisor:

Real Estate Ownership Certificate

Not obtained

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2021
4. The clubhouse of Phase VI of Morning Star Villa, Gangkou Town, Zhongshan City, Guangdong Province, the PRC	<p>The subject building is a block of clubhouse erected on a site having a site area of approximately 944.30 sq. m. (10,164 sq.ft.).</p> <p>The property, completed in about 2000, comprises a 1-storey clubhouse building.</p> <p>The total gross floor area of the property is approximately 944.30 sq. m. (10,164 sq.ft.).</p> <p>The land use rights of the property have been granted for a term from 15 November 1997 to 15 November 2067 for commercial and residential uses.</p>	The property is currently vacant.	RMB6,000,000 (55% interest attributable to the Group: RMB3,300,000)

*Notes:*

- (1) Pursuant to 不動產權證 (Real Estate Ownership Certificate) 粵(2019)中山市不動產權第0062525號 (Yue (2019) Zhong Shan Bu Dong Chan Quan No. 0062525) registered in Zhongshan Municipal State-owned Land Resources Bureau on 7 March 2019, the ownership of the property is vested in 中山星晨花園房地產發展有限公司 (Zhongshan Morning Star Villa Housing and Real Estate Development Limited hereinafter referred to as “MS Villa Limited”) and its land use rights are for 城鎮住宅用地/商業服務 (urban residential/commercial service) uses for a term from 16 November 1997 to 15 November 2067.
- (2) We have been advised by the Company that MS Villa Limited is a 55% indirectly owned subsidiary of the Company.
- (3) The opinion of the PRC Legal Advisor is summarized as follows:
  - (a) MS Villa Limited is a limited liability company duly formed and validly existing under the laws of the PRC.
  - (b) MS Villa Limited is in possession of the proper legal title to the property and is entitled to legally transfer, mortgage, lease or otherwise legally dispose of the property.
  - (c) The property is not subject to any mortgage, seizure, lease and can be sold freely.
- (4) In valuing the property, we have assumed monthly unit rent is about RMB31.5 per sq.m.. We have assumed capitalization rates of 5.5%.

In undertaking our valuation, we have made reference to lettings within the property as well as other comparable properties in the neighbourhood. The asking monthly rents are in the range from about RMB30 to RMB40 per sq.m. for retail premises. We have collected and analyzed various askings of retail premises and noted that the implied yields are generally about 4.83% for retail premises. The unit rates assumed and the capitalization rates adopted are considered consistent with those of the market comparables.

- (5) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the opinion of the PRC Legal Advisor:

Real Estate Ownership Certificate

Obtained

## Group IV — Properties held for future development by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2021
5. The remaining portions of 7 parcels of land (of Morning Star Villa) at Xi Jie She Qu Ju Min Wei Yuan Hui Nan Jiu Pian (西街社區居民委員會南九片), Gangkou Town, Zhongshan City, Guangdong Province, the PRC	<p>The property comprises the remaining portions of the 7 parcels of land, which form parts of the development known as Morning Star Villa. The subject development is located at Xi Jie She Qu Ju Min Wei Yuan Hui Nan Jiu Pian (西街社區居民委員會南九片), Gangkou Town, Zhongshan City, Guangdong Province, the PRC.</p> <p>The total land area of the property, as advised, is approximately 151,674.59 sq. m. (1,632,625 sq.ft.), of which the total developable site area is approximately 128,982.41 sq. m. (1,388,367 sq.ft.) and the remaining 22,692.18 sq. m. (244,259 sq.ft.) are for road construction and landscaping.</p> <p>The property was originally permitted to be developed into a residential development with a maximum plot ratio of 1.5. Subsequently in 2020, approval for increasing the plot ratio for land of residential use to 2.5 (subject to payment of additional land premium) of the property was granted. Hence, the property is capable of being developed into a residential complex with total gross floor areas ranging from 190,700.24 sq.m. (2,052,697 sq.ft.) to 315,247.11 sq.m. (3,393,320 sq.ft.). (See Notes (3) to (5) below)</p> <p>The land use rights of the property have been granted for various terms with the latest to be expired on 20th September 2070 for commercial and residential uses.</p>	The property is currently a vacant site, pending for detail planning of the proposed development.	RMB382,000,000 (See Note 6 below) (55% interest attributable to the Group: RMB210,100,000)

## Notes:

- (1) Pursuant to seven Certificates of State-owned Land Use issued by Zhongshan Municipal State-owned Land Resources Bureau, the land use rights of portions of the subject development with a total site area of 133,815.69 sq. m., among which the property forms a portion, have been granted to 中山星晨花園房地產發展有限公司 (Zhongshan Morning Star Villa Housing and Real Estate Development Limited hereinafter referred to as “MS Villa Limited”) for commercial and residential uses. Details of the said certificates are summarized as follows:

Certificate No.	Date of Issuance	Approximate Site Area (sq. m.)	Expiry of the Term
中府國用(2002)第110763號 (Zhong Fu Guo Yong (2002) No. 110763)	14 June 2002	32,755.50	7 June 2064
中府國用(2002)第110764號 (Zhong Fu Guo Yong (2002) No. 110764)	14 June 2002	32,221.30	7 April 2064
中府國用(2002)第110765號 (Zhong Fu Guo Yong (2002) No. 110765)	14 June 2002	30,172.90	29 June 2066
中府國用(2002)第110766號 (Zhong Fu Guo Yong (2002) No. 110766)	14 June 2002	2,804.00	20 September 2070
中府國用(2002)第110767號 (Zhong Fu Guo Yong (2002) No. 110767)	14 June 2002	32,205.00	29 June 2066
中府國用(2002)第110768號 (Zhong Fu Guo Yong (2002) No. 110768)	14 June 2002	33,247.50	7 May 2064
中府國用(2002)第110938號 (Zhong Fu Guo Yong (2002) No. 110938)	6 September 2002	26,709.40	8 June 2064

- (2) We have been advised by the Company that MS Villa Limited is a 55% indirectly owned subsidiary of the Company.
- (3) Pursuant to the approval letter (中府函[2020]140號) issued by Zhongshan Municipal Government on 20 June 2020, approval on the 《中山市看鎮星晨花園片區控制性詳細規劃(2020)》(hereinafter referred to as the “2020 Planning Control”) relating to the development potential of the property was granted. Details of the 2020 Planning Control are summarized as below:
- (a) The total site area: 133,815.69 sq. m., of which 124,546.87 sq. m. are classified as “Class II Residential Land”, 1657.50 sq. m. as “Land for Transport Terminus”, 2,778.07 sq. m. as “Land for Service Facilities” and 4,833.28 sq. m. as “Agricultural and Forestry Land”.
- (b) Plot Ratio: 2.5 for “Class II Residential Land”, 1.0 for “Land for Transport Terminus” and 0.8 for “Land for Service Facilities”.
- (4) We have been advised by the Company that the increase in plot ratio for residential use from 1.5 to 2.5 as stated in the 2020 Planning Control will require payment of additional land premium of an amount to be determined by relevant authorities upon application, and that the Company has no intention to file such application. Therefore, as instructed by the Company, we have valued the property based on the maximum plot ratio of 1.5 for the residential land in the property.

- (5) The opinion of the PRC Legal Advisor is summarized as follows:
- (a) MS Villa Limited is a limited liability company duly formed and validly existing under the laws of the PRC.
  - (b) The Real Estate Development Enterprise Qualification of MS Villa Limited is valid until 31 August 2023.
  - (c) MS Villa Limited is in possession of the proper legal title to the property and is entitled to legally transfer, develop, mortgage, lease or otherwise legally dispose of the property.
  - (d) The planning indicators of the property according to the “Zhongshan City Construction Project Site Selection Opinion” dated 13 July 1998 issued by Zhongshan Municipal Planning Bureau included a plot ratio of 1.5, a building density of 30%, a building height of 24 metres and the green area ratio of 30%. However, according to the “Implementation of the Controlled Detail Planning for the Morning Star Villa area of Gangkou Town, Zhongshan City (2020)” published by the People’s Government of Gangkou Town of Zhongshan City, the property is classified as “Class II Residential Land” with a plot ratio of 2.5, a green area ratio of not less than 30%, and a building height of not less than 60 metres and not more than 100 metres. Yet, if MS Villa Limited wish to develop the property in accordance with the latest plot ratio of 2.5, it is required to make reference to the current assessed land price and to take part in a plot ratio bidding. If the bidding is successful, MS Villa Limited shall pay the additional land grant premium and shall sign a supplementary agreement to the Contract of Grant of State-owned Construction Land Use Rights with the Natural Resources Bureau.
  - (e) As portions of the two land parcels under Certificate Nos. Zhong Fu Guo Yong (2002) No. 110938 and Zhong Fu Guo Yong (2002) No. 110767 have been developed and sold to third-party owners, consent from these third-party owners may be required when application for construction works commencement will be made.
  - (f) As the land use rights of the property were obtained in 2002 and the said land parcels have been vacant since 2002, the property is considered as idle land. MS Villa Limited should sign a supplementary agreement with the land administrative authority and pay a land idle fee based on 20% of the assessed land price before restarting the development.
  - (g) Four supplementary agreements relating to the land parcels under Certificate Nos. Zhong Fu Guo Yong (2002) No. 110763, Zhong Fu Guo Yong (2002) No. 110765, Zhong Fu Guo Yong (2002) No. 110766 and Zhong Fu Guo Yong (2002) No. 110768 were signed on 27 October 2021. The commencement date for the construction works has been changed to 18 March 2022 and the construction period for a term of 2 years.
  - (h) Apart from the issued mentioned in Note 5d to 5f above, the property is not subject to such other encumbrances as mortgage, seizure or any litigation disputes.



- (6) In the course of our valuation, we have taken into consideration the advice given by the Group and the aforesaid legal opinion and prepared our valuation on the following assumptions:
- (a) The total site area of the property is approximately 151,674.59 sq. m., of which 124,546.87 sq. m. or thereabouts are for residential use, 4,435.54 sq. m. or thereabouts are for ancillary facilities uses and the remaining 22,692.18 sq. m. or thereabouts are for road and landscaping uses.
  - (b) The plot ratios for residential, transport terminus and service facilities uses are 1.5, 1.0 and 0.8 respectively.
  - (c) The total developable gross floor area is approximately 190,700.24 sq. m., of which 186,820.31 sq. m. or thereabouts are for residential use and 3,879.93 sq. m. or thereabouts are for ancillary facilities use.
- (7) The property is located Gangkou Town of Zhongshan City, northern site of Zhongshan City centre. The locality is a built-up area comprising mainly low to medium-rise mixed commercial and residential development.

In undertaking our valuation, we have made reference to transactions of land parcels of similar uses in Gangkou Town and the nearby area in the past year. We have analyzed the comparable land transactions and noted that the accommodation values ("AV", defined as the land value divided by the gross floor area which is allowed to be built on the land) of these transactions which indicated a price range from RMB4,857 to RMB6,000 per sq.m before adjustment. The market value of the property as reported above represents an accommodation value of approximately RMB2,003 per sq.m., which is considered within the price range indicated by comparable land transactions identified.

- (8) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the opinion of the PRC Legal Advisor:

Contract for Grant of Stated Owned Land Use Rights	Signed
Supplementary Agreement (4 land parcels only)	Signed
Certificate of State-owned Land Use	Obtained

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2021
6. The remaining portions of two parcels of land (of Morning Star Plaza) at Hou Shan Cun Min Wei Yuan Hui (後山村民委員會), Xi Qu (西區), Gangkou Town, Zhongshan City, Guangdong Province, the PRC	<p>The property comprises a parcel of land the remaining portion of another parcel land, which form part of the development known as Morning Star Plaza. The subject development is located at Hou Shan Cun Min Wei Yuan Hui (後山村民委員會), Xi Qu (西區), Gangkou Town, Zhongshan City, Guangdong Province, the PRC.</p> <p>The total site area of the subject land parcels is approximately 60,268.84 sq. m. (648,734 sq.ft.) and the total site area of the property, as advised, is approximately 7,343.08 sq. m. (79,041 sq.ft.).</p> <p>The land use rights of the property have been granted for a term due to expire on 27 April 2065 for commercial and residential uses.</p>	The property is currently a vacant site.	No commercial value (55% interest attributable to the Group: No commercial value)

*Notes:*

- (1) Pursuant to the Certificate of State-owned Land Use 中府國用(2002)第203132號 (Zhong Fu Guo Yong (2002) No. 203132) (hereinafter referred to as Land A) dated 29 March 2002 issued by Zhongshan Municipal State-owned Land Resources Bureau, the land use rights of a parcel of land with a site area of 58,783.64 sq. m., among which the property forms a portion, have been granted to 中山星晨廣場房地產發展有限公司 (Zhongshan Morning Star Plaza Housing and Real Estate Development Limited, hereinafter to as "MS Plaza Limited") for a term due to expire on 27 April 2065 for commercial and residential use.
- (2) Pursuant to the Certificate of State-owned Land Use 中府國用(2002)第203133號 (Zhong Fu Guo Yong (2002) No. 203133) (hereinafter referred to as Land B) dated 29 March 2002 issued by Zhongshan Municipal State-owned Land Resources Bureau, the land use rights of a parcel of land with a site area of 1,485.20 sq. m., which forms part of the property, have been granted to MS Plaza Limited for a term due to expire on 27 April 2065 for the use of road.
- (3) We have been advised by the Company that MS Plaza Limited is a 55% indirectly owned subsidiary of the Company.
- (4) We have been further advised by the Company that the plot ratio of the subject land parcels has been achieved in the previous development and the property shall not be developed unless and until obtaining the development approval from the relevant authority, which will be subject to extra land premium to be settled.

- (5) The opinion of the PRC Legal Advisor is summarized as follows:
- (a) MS Plaza Limited is a limited liability company duly formed and validly existing under the laws of the PRC.
  - (b) The Real Estate Development Enterprise Qualification of MS Plaza Limited expired on 11 July 2019. MS Plaza Limited has to apply for the extension of the validity of such qualification before carrying out any future development.
  - (c) MS Plaza Limited is in possession of the proper legal title to the property and is entitled to legally transfer, mortgage, lease or otherwise legally dispose of the property.
  - (d) The property is not subject to any mortgage, seizures and legal disputes.
  - (e) The remaining portion of Land A cannot be developed as the plot ratio of Land A has been fully utilized.
  - (f) Land B is permitted for the use of road and is currently the municipal road at the peripheral of the subject community. MS Plaza Limited is not able to develop Land B.
  - (g) The property is not subject to any mortgage or seizure.
  - (h) MS Plaza Limited is not involved in any litigation.
- (6) In the course of our valuation, we have taken into consideration the legal opinion that the property does not have any development potential as mentioned in Notes 5(e) and 5(f) above and have ascribed no commercial value to the property.
- (7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the opinion of the PRC Legal Advisor:

Certificate of State-owned Land Use

Obtained

## 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 Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Interests and short positions of the Directors and the chief executive of the Company

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

Name	Name of company in which interests or short positions were held	Nature of interests	Number of shares	Approximate percentage of shareholding
The Guarantor	The Company	Beneficial owner	11,608,000 Shares (L)	0.17%
The Guarantor	The Company	Interest in controlled corporation	3,087,027,152 Shares (L) (Note)	44.44%

(L) denotes the long position held in the Shares

*Note: As at the Latest Practicable Date, these Shares were held by All Great International Holdings Limited (“All Great”). All Great was owned as to 51% by Jade Leader International Investment Limited (“Jade Leader”), 35% by Honor Huge Investment Holdings Limited (“Honor Huge”) and 14% by Ever Star International Investment Limited (“Ever Star”, which was wholly-owned by Honor Huge). The Guarantor was the sole ultimate beneficial owner of the entire issued share capitals of Jade Leader, Honor Huge and Ever Star. Accordingly, the Guarantor was deemed to be interested in the 3,087,027,152 Shares held by All Great pursuant to the SFO. The Guarantor was also a director of each of All Great, Jade Leader, Honor Huge and Ever Star.*

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any other interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

**(b) Substantial Shareholders and persons having 5% or more shareholding**

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2020, being the date to which the latest audited consolidated accounts of the Company have been made up) or had any options in respect of such securities:

Name	Name of company in which interests or short positions were held	Nature of interest	Number of shares or amount of registered capital	Approximate percentage of shareholding
All Great (Note 1)	The Company	Beneficial owner	3,087,027,152 Shares (L)	44.44%
Honor Huge (Note 1)	The Company	Interest in controlled corporation	3,087,027,152 Shares (L)	44.44%
Jade Leader (Note 1)	The Company	Interest in controlled corporation	3,087,027,152 Shares (L)	44.44%
Lin Rujie (Note 2)	The Company	Interest of spouse	3,098,635,152 Shares (L)	44.61%
Huang Xue Rong (executor of Yang Xiang Bo) (Note 3)	The Company	Interest in controlled corporation	1,320,000,000 Shares (L)	19%
Shirble Department Store Holdings (China) Limited (“Shirble Holdings”) (Note 4)	The Company	Interest in controlled corporation	1,320,000,000 Shares (L)	19%

Name	Name of company in which interests or short positions were held	Nature of interest	Number of shares or amount of registered capital	Approximate percentage of shareholding
Yu Shunhui (Note 5)	Hengqin Germany City Investment (Macau) Limited	Interest in controlled corporation	200,000 shares (L)	20%
Un Chong San (Note 5)	Hengqin Germany City Investment (Macau) Limited	Beneficial owner	100,000 shares (L)	10%
Lin Yongguang (Note 6)	BP Limited	Interest in controlled corporation	22,500 shares (L)	45%
Lin Yongguang (Note 7)	JP Limited	Interest in controlled corporation	22,500 shares (L)	45%

(L) denotes long position in the shares

Notes:

- As at the Latest Practicable Date, the 3,087,027,152 Shares were held by All Great. All Great was owned as to 51% by Jade Leader, 35% by Honor Huge and 14% by Ever Star (which was wholly-owned by Honor Huge). The Guarantor was the sole ultimate beneficial owner of each of Jade Leader, Honor Huge and Ever Star. Accordingly, Jade Leader and Honor Huge were deemed to be interested in the 3,087,027,152 Shares held by All Great pursuant to the SFO. The Guarantor was also a director of each of All Great, Jade Leader, Honor Huge and Ever Star.
- Lin Ruijie is the spouse of the Guarantor. Accordingly, she was deemed to be interested in 3,098,635,152 Shares held by or deemed to be interested by the Guarantor pursuant to the SFO.
- Huang Xue Rong is the executor of all estate of Yang Xiang Bo, the deceased.
- Pursuant to the disclosure of interest forms filed, (i) Huang Xue Rong (executor of Yang Xiang Bo) had 100% control of Xiang Rong Investment Limited; (ii) which had 100% control of Shirble Department Store Limited; (iii) which had 55.41% control of Shirble Holdings, the issued shares of which are listed on the Stock Exchange (stock code: 312); and (iv) which in turn had 100% control of Baoke Trading (BVI) Company Limited. Baoke Trading (BVI) Company Limited was the beneficial owner of 1,320,000,000 Shares. Accordingly, Huang Xue Rong (executor of Yang Xiang Bo) and Shirble Holdings were deemed to be interested in such 1,320,000,000 Shares pursuant to the SFO.
- 珠海橫琴富昌盛實業發展有限公司 (Zhuhai Hengqin Fuchangsheng Real Estate Development Limited\*), a member of the Group, is wholly-owned by Hengqin Germany City Investment (Macau) Limited, which is owned as to 70% by the Group, 10% by Un Chong San and 20% indirectly by Yu Shunhui.

\* For identification purposes only

6. *MS Plaza Limited, a member of the Group, is wholly-owned by BP Limited, which in turn is owned as to 55% by the Group and as to 45% directly by City-Prime Profit Ltd, which is owned as to 100% directly by Lin Yongguang.*
7. *MS Villa Limited and MS Clubhouse Limited, both members of the Group, are wholly-owned by JP Limited, which in turn is owned as to 55% by the Group and as to 45% directly by City-Prime Profit Ltd, which is owned as to 100% directly by Lin Yongguang.*

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, no person (other than a Director or chief executive of the Company) had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2020, being the date to which the latest audited consolidated accounts of the Company have been made up) or who had any options in respect of such securities.

### **3. SERVICE CONTRACT**

As at the Latest Practicable Date, none of the Directors or proposed Directors had entered into any existing or proposed service contracts with any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2020, being the date to which the latest audited consolidated accounts of the Company have been made up) which was not expiring or determinable by the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2020, being the date to which the latest audited consolidated accounts of the Company have been made up) within one year without payment of any compensation (other than statutory compensation).

#### 4. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, the following Directors had interests in the following companies with businesses which competed or were likely to compete, either directly or indirectly, with the business of the Group:

Name of Director	Name of company	Nature of businesses considered to compete or likely to compete with the business of the Group	Nature of interest
The Guarantor	Yang's Development Limited	Property investment and development in the PRC	Yang's Development Limited was wholly-owned by the Guarantor, and the Guarantor was a director of Yang's Development Limited and certain of its subsidiaries
	Affluent Splendid Investment Holdings Limited	Property investment in the PRC	The Guarantor had indirect interests in Affluent Splendid Investment Holdings Limited, and the Guarantor was its director

#### 5. INTERESTS IN ASSETS AND CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, save for the Guarantor's interest in the Disposal, none of the Directors had any direct or indirect interest in the assets which had been, since 31 December 2020, being the date to which the latest published audited consolidated accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2020, being the date to which the latest audited consolidated accounts of the Company have been made up), or were proposed to be acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2020, being the date to which the latest audited consolidated accounts of the Company have been made up).

As at the Latest Practicable Date, save for the Guarantor's interest in the Disposal Agreement, none of the Directors was materially interested in any contract or arrangement subsisting on the Latest Practicable Date which was significant in relation to the business of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2020, being the date to which the latest audited consolidated accounts of the Company have been made up).



## 6. LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware, there were no litigation or claims of material importance pending or threatened against any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2020, being the date to which the latest audited consolidated accounts of the Company have been made up).

## 7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2020, being the date to which the latest audited consolidated accounts of the Company have been made up) within two years immediately preceding the Latest Practicable Date:

- (a) the sale and purchase agreement dated 29 June 2020 entered into among the Company, Yang's Development Limited and the Guarantor in relation to the acquisition of 50,000 issued shares of Eway International Investment Limited at the aggregate consideration of HK\$108,600,000;
- (b) the memorandum of understanding dated 16 July 2020 entered into between the Group and Quan Feng Developments Limited in relation to the possible disposal by the Group of Rich Source Property Holdings Limited with earnest money of HK\$250,000,000 payable thereunder;
- (c) the termination deed dated 10 September 2020 in relation to termination of the memorandum of understanding set out in paragraph (b) above; and
- (d) the Disposal Agreement.

## 8. EXPERTS AND CONSENTS

The following is the qualification of the experts who have given opinion or advice contained in this circular:

Name	Qualification
Lego Corporate Finance Limited	a corporation licensed to conduct type 6 (advising on corporate finance) regulated activity under the SFO
B.I. Appraisals Limited	an independent valuer
Guangdong Zhi Chan Law Firm (廣東知產律師事務所)	PRC legal advisers

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its advice, letter and references to its name and logo in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the above experts did not have any shareholding in any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2020, being the date to which the latest audited consolidated accounts of the Company have been made up) or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2020, being the date to which the latest audited consolidated accounts of the Company have been made up), or any interests, direct or indirect, in any assets which had been, since 31 December 2020, being the date to which the latest audited consolidated accounts of the Company have been made up, acquired, disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2020, being the date to which the latest audited consolidated accounts of the Company have been made up), or were proposed to be acquired, disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2020, being the date to which the latest audited consolidated accounts of the Company have been made up).

## 9. MISCELLANEOUS

- (a) The registered office of the Company is at The Offices of Sterling Trust (Cayman) Limited at Whitehall House, 238 North Church Street, George Town, Grand Cayman, KY1-1102, Cayman Islands. The Company's head office and principal place of business in Hong Kong is at Rooms 1301-1302, Laws Commercial Plaza, 788 Cheung Sha Wan Road, Kowloon, Hong Kong.
- (b) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The secretary of the Company is Mr. Woo Chung Ping. Mr. Woo is an associate member of both The Hong Kong Institute of Certified Public Accountants and The Hong Kong Chartered Governance Institute (formerly know as The Hong Kong Institute of Chartered Secretaries).
- (d) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are published on the Stock Exchange's website and the Company's website at <http://www.tfginternationalgroup.com/> from the date of this circular up to and including the date of the EGM:

- (a) the letter from the Independent Financial Adviser, the text of which is set out on pages 22 to 48 of this circular;
- (b) the valuation report of the Properties, the text of which is set out in Appendix II to the circular;
- (c) the material contracts referred to in the paragraph headed "Material contracts" in this appendix; and
- (d) the written consents referred to in the paragraph headed "Experts and Consents" in this appendix.

**NOTICE OF EGM**

**TFG INTERNATIONAL GROUP LIMITED**

**富元國際集團有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 542)**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN THAT** an extraordinary general meeting (the “**Meeting**”) of TFG International Group Limited (the “**Company**”) will be held at Rooms 1301–1302, Laws Commercial Plaza, 788 Cheung Sha Wan Road, Kowloon, Hong Kong on Monday, 21 March 2022 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following resolution, with or without amendments, as ordinary resolution of the Company:

**Ordinary Resolution**

“**THAT:**

- (i) the disposal agreement (the “**Disposal Agreement**”, a copy of which has been produced to the meeting marked “A” and signed by the chairman of the Meeting for the purpose of identification) dated 5 November 2021 entered into between the Company as vendor, Grand Fullwell Investment Holding Limited as purchaser and Mr. Yang Lijun as guarantor in relation to the disposal of the entire issued share capital of Ceneric Properties Limited at the aggregate consideration of HK\$282,000,000 and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (ii) the directors of the Company be and are hereby authorised on behalf of the Company to do all such things and sign, seal, execute, perfect and deliver all such documents as they may in their discretion consider necessary, desirable or expedient, for the purposes of or in connection with the implementation and/or give effect to any matters relating to the Disposal Agreement and the transactions contemplated thereunder.”

By order of the Board  
**TFG International Group Limited**  
**Yang Lijun**  
*Chairman*

Hong Kong, 25 February 2022

*Head office and principal place of business in Hong Kong:*  
Rooms 1301–1302  
Laws Commercial Plaza  
788 Cheung Sha Wan Road  
Kowloon  
Hong Kong

## NOTICE OF EGM

*Notes:*

1. *A member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more than one proxies to attend and to vote in his stead. A proxy need not be a member of the Company.*
2. *Where there are joint holders of any share of the Company (the “Share”), any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares will alone be entitled to vote in respect thereof.*
3. *In order to be valid, the form of proxy, and if required, the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy or office copy of that power or authority, must be deposited at the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending the Meeting and voting in person if he so wishes.*
4. *The register of members of the Company will be closed from Wednesday, 16 March 2022 to Monday, 21 March 2022 (both days inclusive) during which period no transfer of Shares will be effected. In order to qualify for the right to attend and vote at the Meeting, all transfer of documents accompanied by the relevant share certificates must be lodged with Tricor Tengis Limited at the same address stated in above Note 3 no later than 4:30 p.m. on Saturday, 19 March 2022 for registration of transfer.*
5. *The resolution set out in this notice shall be decided by way of poll.*
6. *As at the date of this notice, the board of directors of the Company comprises Mr. Yang Lijun (Chairman) and Mr. Gao Jingyao being the executive directors, Mr. Wong Kui Shing, Danny being the non-executive director, and Ms. Chan Hoi Ling, Ms. So Wai Lam and Mr. Sung Yat Chun being the independent non-executive directors.*