中國通海企業融資有限公司
CHINA TONGHAI CAPITAL LIMITED
於香港註冊成立之有限公司 Incorporated in Hong Kong with limited liability

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中國通海金融
TONGHAI FINANCIAL

*To: The Independent Board Committee and the Independent Shareholders of Karrie International Holdings Limited*

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF KAR INFO INTERNATIONAL AND ACQUISITION OF THE TARGET COMPANY AND ACQUISITION AGREEMENT**

## INTRODUCTION

We refer to our appointment as the independent financial adviser ("**Independent Financial Adviser**") to advise the Independent Board Committee and the Independent Shareholders in respect of the Kar Info International Acquisition Agreement and the Acquisition Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 31 January 2022 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 28 January 2022 (after trading hours), Benefit Master (an indirect wholly-owned subsidiary of the Company) and Mr. Ho (as vendor) entered into the Kar Info International Acquisition Agreement, pursuant to which Benefit Master has conditionally agreed to acquire and Mr. Ho has conditionally agreed to sell the entire issued share capital of Kar Info International at a nominal consideration of US$100. On the even day (after trading hours), the Purchaser (an indirect wholly-owned subsidiary of the Company) and the Vendor entered into the Acquisition Agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the entire issued equity interest of the Target Company at the

Consideration, subject to the terms and conditions therein. The Consideration for the entire issued equity interest of the Target Company is RMB38 million (equivalent to approximately HK$45.6 million) or its Hong Kong dollar equivalent, which will be settled in cash by the Purchaser.

As all the applicable percentage ratios applicable to the Kar Info International Acquisition were less than 0.1%, the Kar Info International Acquisition Agreement constituted a de minimis transaction of the Company pursuant to Rule 14A.76 of the Listing Rules and was fully exempted from the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Kar Info International Acquisition Agreement and the Acquisition Agreement were entered into by the Group with, respectively, Mr. Ho and his associate on the same date and the transactions contemplated thereunder are inter-conditional with each other, the transactions contemplated under the Kar Info International Acquisition Agreement and the Acquisition Agreement shall be aggregated and be treated as if they were one transaction under Rules 14A.81 and 14A.82 of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Kar Info International Acquisition Agreement and the Acquisition Agreement in aggregate are more than 25% but less than 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. In addition, as the Vendor is wholly-owned by Mr. Ho Cheuk Fai, a controlling Shareholder and executive Director (Chairman of the Board and the Chief Executive Officer) of the Company, holding approximately 72.7% of the issued share capital of the Company as at the Latest Practicable Date, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and the Independent Shareholders' approval requirements under the Listing Rules.

As such, Mr. Ho Cheuk Fai, Mr. Ho Cheuk Ming (a non-executive Director and the younger brother of Mr. Ho Cheuk Fai), and Mr. Ho Kai Man (a non-executive Director and the nephew of Mr. Ho Cheuk Fai) have abstained from voting in the board resolution of the Kar Info International Acquisition Agreement and the Acquisition Agreement, and Mr. Ho Cheuk Fai and his associates shall abstain from voting for the resolution approving the Kar Info International Acquisition Agreement and the Acquisition Agreement and the transaction contemplated thereunder at the SGM due to their interests in the transaction.

Save and except for Mr. Ho Cheuk Fai, Mr. Ho Cheuk Ming and Mr. Ho Kai Man, none of the Directors had any material interest in the transaction contemplated under the Kar Info International Acquisition Agreement and the Acquisition Agreement, therefore they are not required under the Listing Rules to abstain from voting on the Board resolution approving Kar Info International Acquisition Agreement and the Acquisition Agreement and the transaction contemplated thereunder. Other than the above, to the best of the Directors' knowledge, information and belief, no other Shareholders, as at the Latest Practicable Date, have any material interest in the above transaction and shall abstain from voting at the SGM.

## THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Fong Hoi Shing, Mr. Yam Chung Shing and Dr. Lau Kin Wah, being all the independent non-executive Directors, has been established by the Company to advise and make recommendations to the Independent Shareholders in respect of the Kar Info International Acquisition Agreement and the Acquisition Agreement. Our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders has been approved by the Independent Board Committee in this respect.

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

## OUR INDEPENDENCE

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

## BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, amongst other things, the Kar Info International Acquisition Agreement and the Acquisition Agreement, the Valuation Report, the Company's annual report for the financial year ended 31 March 2021 (the "**2020/2021 Annual Report**") and other information set out in the Circular. We have also made an inspection of the Property Development Project, and have discussed the valuation methodologies, basis and assumptions for the valuation of the equity interest of the Target Company and the Property with the Valuer.

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

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

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

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

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Kar Info International Acquisition Agreement and the Acquisition Agreement and the transaction contemplated thereunder, we have taken into consideration the following principal factors and reasons:

### Information of the Group

The Group is principally engaged in (i) provision of mechanical engineering solutions, manufacturing and sales of metal and plastic parts, including moulds and the relevant plastic and metal parts products for information and communication technology industry; (ii) manufacturing and sales of magnetic tape data storage, point-of-sale system, and other computer peripherals; and (iii) urban renewal, residential real estate project investment and development.

Set out below are the audited consolidated financial results of the Group for the two financial years ended 31 March 2021 as extracted from the 2020/2021 Annual Report:

**Table 1: Highlights of the financial results of the Group**

| | **For the year ended 31 March 2021** *(HK$ million)* | **For the year ended 31 March 2020** *(HK$ million)* |
|---|---|---|
| **Revenue** | **3,193** | **2,902** |
| *Metal and plastic business* | *1,895* | *1,632* |
| *Electronic manufacturing services business* | *898* | *998* |
| *Real estate business* | *399* | *272* |
| **Profit for the year** | **365** | **250** |

*Source: 2020/2021 Annual Report*

As stated in the 2020/2021 Annual Report, the (i) metal and plastic business of the Group mainly focus in providing mechanical engineering solutions, manufacturing and sales of metal and plastic parts, including moulds and the relevant plastic and metal parts products for information and communication technology industry; (ii) electronic manufacturing services business mainly focus manufacturing and sales of magnetic tape data storage, point-of-sale system, and other computer peripherals; (iii) real estate business mainly focus in urban renewal, residential real estate project investment and development.

During the financial year ended 31 March 2021, the Group recorded an increase in both revenue and profit. The revenue of the Group increased from approximately HK$2.90 billion for the financial year ended 31 March 2020 to approximately HK$3.19 billion for the financial year ended 31 March 2021, representing an increase of approximately 10%. The real estate business contributed approximately 9.4% and 12.5% of the total revenue of the Group for the years ended 31 March 2020 and 2021, respectively.

The profit of the Group also increased from approximately HK$250 million for the financial year ended 31 March 2020 to approximately HK$365 million for the financial year ended 31 March 2021, representing an increase of approximately 46%.

Set out below are highlights of the asset breakdown of the Group as at 31 March 2021, which are extracted from the 2020/2021 Annual Report:

**Table 2: Highlights of the financial results of the Group**

| | **As at 31 March 2021** *(HK$ million)* |
|---|---|
| Current assets | 2,750 |
| Non-current assets | 901 |
| Current liabilities | 1,588 |
| Non-current liabilities | 632 |
| Total equity | 1,431 |

*Source: 2020/2021 Annual Report*

As at 31 March 2021, the Group held approximately HK$519 million of property, plant and equipment and approximately HK$1,065 million of property development and contract costs. As stated in the 2020/2021 Annual Report, the Company completed Phase 3 of Castfast Villas and will continue to release new units for sale for Phase 4 and Phase 5 of Castfast Villas in 2021 and 2022 and the sales and average selling price is expected to increase under the strong demand. As a participant of the urban renewal projects for cities in the Greater Bay Area, the Company will continue to conduct initial procedures for the change of land use of a land parcel in Yan Tien and proactively identify quality land parcel to replenish the land reserves.

**Information of the Target Group**

***Kar Info International***

Kar Info International is a company incorporated in the BVI with limited liability which is wholly-owned by Mr. Ho. Kar Info International is an investment holding company with no operations.

***The Target Company***

The Target Company is a company incorporated in the PRC with limited liability which is wholly-owned by the Vendor and is principally engaged in property development and the real estate business.

The Target Company is the legal owner of the Project Land, on which the Property Development Project was developed; while Kar Info International is a party to the Joint Operation Agreement, pursuant to which Kar Info International was entitled to share 50% of the profit before taxation of the Property Development Project.

***The Corporate Division***

It is the intention of the Vendor and the Target Company that the Target Company shall undergo the Corporate Division. Following the Corporate Division, the Target Company will hold and own all residential units under the Property Development Project; and all other business, assets and liabilities unrelated to the Property Development Project (including the non-residential property rental business) will be held by the New Entity. No equity interest or registered capital of the New Entity shall form part of the interest in the Target Company which is to be acquired and sold under the Acquisition Agreement.

As at the Latest Practicable Date, the Vendor and the Target Company has entered into the Corporate Division Agreement and the Corporate Division has been completed. The registered capital of the Target Company after Corporate Division would be changed from RMB51 million to RMB50 million.

*Financial information of the Target Operation*

Set out below is a summary of the audited combined financial information of the Target Operation for each of the years ended 31 March 2019, 2020 and 2021 and for the six months ended 30 September 2021:

**Table 3: Highlights of the financial results of the Target Operation**

| | For the year ended 31 March | | | For the six months ended 30 September |
|---|---|---|---|---|
| *(RMB'000)* | **2019** | **2020** | **2021** | **2021** |
| Revenue | 201,833 | 281,156 | 282,667 | 26,265 |
| Profit before taxation | 144,568 | 198,072 | 189,241 | 19,803 |
| Profit after taxation | 63,944 | 82,829 | 69,606 | 9,435 |

As at 30 September 2021, the net asset value of the Target Operation based on the latest audited combined financial information of the Target Operation was approximately RMB233.0 million (equivalent to approximately HK$279.6 million).

Upon the closing of the Acquisitions, the Company will become the ultimate holding company of each of Kar Info International and the Target Company and the financial results, assets and liabilities of the Target Operation will be consolidated into the accounts of the Company.

## OVERVIEW OF THE LAND AND THE PROPERTY DEVELOPMENT PROJECT

The Land is located in You Gan Pu village, Fenggang Town, Dongguan City, Guangdong Province in the PRC. Fenggang Town is located in the southeast of Dongguan City, bordering Shenzhen City to the east, south and west, which is approximately 35 kilometers from Futian central business district in Shenzhen City. The Shenzhen-Meilin-Guanlan Expressway and the Jihe Expressway cross Fenggang Town and the Dongshen highway runs through Fenggang Town into Shenzhen City.

Set out in the table below is a summary showing the resident population and urbanisation rate of the Guangdong Province and Dongguan City:

**Table 4: Guangdong Province and Dongguan City resident population**

| **Year** | **2016** | **2017** | **2018** | **2019** | **2020** |
|---|---|---|---|---|---|
| Guangdong Province resident population(1) *(million)* | 119.1 | 121.4 | 123.5 | 124.9 | 126.2 |
| Guangdong Province urbanisation rate *(%)* | 70.2% | 70.7% | 71.8% | 72.7% | 74.2% |
| Dongguan City resident population(1) *(million)* | 10.2 | 10.4 | 10.4 | 10.5 | 10.5 |
| Dongguan City urbanisation rate *(%)* | 89.3% | 89.4% | 89.9% | 90.3% | 92.2% |

*Source: National Bureau of Statistics of China and Guangdong Statistical Yearbook 2021*

*Notes:*

(1) The Guangdong Province and Dongguan City resident population refer to all residents living in the Guangdong Province and Dongguan City respectively.

As shown in the table above, the population and the urbanisation rates of the Guangdong Province and Dongguan City have shown an increasing trend during the last five years, which generally indicate an increasing demand for properties. This is generally positive for the property market in Dongguan City and within the Guangdong Province as it caters for the expected continuing increase in population and the rapid rate of urbanisation. In light of the above, we consider that the Project Company is able to benefit from the increasing demand for properties and the general positive impact on the property market due to the expected growing population and urbanisation rate of the Guangdong Province and in Dongguan City.

Set out in the table below are some general economic indicators of the PRC as provided by the National Bureau of Statistics of China:

**Table 5: PRC gross domestic product ("GDP") and GDP growth**

| **Year** | **2016** | **2017** | **2018** | **2019** | **2020** |
|---|---|---|---|---|---|
| GDP *(RMB billion)* | 74,358.5 | 82,075.4 | 91,928.1 | 98,651.5 | 101,356.6 |
| GDP growth *(%)* | 7.9% | 10.4% | 12.0% | 7.3% | 2.7% |

*Source: National Bureau of statistics of China*

With respect to the overall PRC economy, according to the National Bureau of statistics of China, GDP of the PRC in 2020 reached approximately RMB101.4 trillion, representing a year-on-year increase of approximately 2.7%. The annual GDP growth rate of the PRC from 2016 to 2020 ranged from approximately 2.7% to approximately 12.0%.

**Table 6: Guangdong Province GDP and GDP growth**

| **Year** | **2016** | **2017** | **2018** | **2019** | **2020** |
|---|---|---|---|---|---|
| GDP *(RMB billion)* | 8,216.3 | 9,164.9 | 9,994.5 | 10,798.7 | 11,076.1 |
| GDP growth *(%)* | 9.9% | 11.5% | 9.1% | 8.0% | 2.6% |

*Source: Guangdong Statistical Yearbook 2021*

**Table 7: Dongguan City GDP and GDP growth**

| **Year** | **2016** | **2017** | **2018** | **2019** | **2020** |
|---|---|---|---|---|---|
| GDP *(RMB billion)* | 726.1 | 807.9 | 881.8 | 947.4 | 965.0 |
| GDP growth *(%)* | 8.9% | 11.3% | 9.1% | 7.4% | 1.9% |

*Source: Guangdong Statistical Yearbook 2021*

In addition, as shown in the two tables above, the annual GDP growth rate of the Guangdong Province ranged from approximately 2.6% to approximately 11.5% between 2016 and 2020. The annual GDP growth rate of the Dongguan ranged from approximately 1.9% to approximately 11.3% between 2016 and 2020. Although the COVID-19 in general had a strong negative effect on the economic development of many countries and regions around the world in the past two years, the Guangdong Province and Dongguan City have continued to grow in line with the overall PRC economy.

The property market in the PRC is more connected to the local economy and less susceptible to the global economic climate. As the PRC government has launched large-scaled fiscal and monetary stimulus to support the economy, such as the decrease of the targeted medium-term lending facility ("**TMLF**") by 20 basis points to 2.95% by the People's Bank of China and the decrease of the one-year loan prime rate and five-year loan prime rate by 20 basis points and 10 basis points, respectively, the GDP of China in 2021 is still expected to grow despite the economic slowdown, which in turn supports a moderate yet sustained upward trend in the property market and we consider that the GDP growth of the Guangdong Province should generally benefit and have a positive impact on the Dongguan City property market.

## OVERVIEW OF THE PROPERTY DEVELOPMENT PROJECT

The Target Company is the holder and owns the legal title of the Project Land. As announced by the Company on 1 August 2016, Massive Era Limited (an indirect wholly-owned subsidiary of the Company) has undertaken a joint operation with Kar Info International by way of a cooperation agreement (the "**Joint Operation Agreement**") whereby Massive Era Limited agreed to participate in the Property Development Project by providing Kar Info International with an investment of HK$140 million, in consideration of investment return calculated with reference to, amongst others, future profit arising from the sale of the properties under the Property Development Project and Kar Info International and Massive Era Limited agreed to share the control over and returns of the Property Development Project. Pursuant to the Joint Operation Agreement, the Kar Info International was entitled to share 50% of the profit before taxation of the Property Development Project throughout the cooperation period to Massive Era Limited (except for the LAT which would also be shared by the Company as stipulated in the Joint Operation Agreement).

The Joint Operation Agreement expired on 22 March 2021 in accordance with its terms. Upon expiry of the Joint Operation Agreement, all unsold residential units are to be retained by the Target Operation at cost; and Massive Era Limited and the Company (indirectly via Massive Era Limited) no longer share any interest in the Property Development Project. As more than 90% of the saleable area under the Property Development Project were sold during the cooperation period, Kar Info International has paid Massive Era Limited the return on the Property Development Project pursuant to the following formula in accordance with the Joint Operation Agreement upon its expiry:

- Return on the Property Development Project = Project return (i.e. 50% of the profit before taxation (LAT *(Note)* and CIT) and the land cost arising from the sales of properties developed under the Property Development Project during the cooperation period) – amount received by Massive Era Limited during the cooperation period + (Investment amount * (unsold saleable area of the Property Development Project / total saleable area of the Property Development Project))

*Note:* The Company borne its respective portion of LAT in accordance with the average selling price of the properties sold under the Property Development Project during the cooperation period as set out in the Joint Operation Agreement.

No further returns shall be paid by Kar Info International to Massive Era Limited following the sale of any unsold residential units upon the expiry of the Joint Operation Agreement.

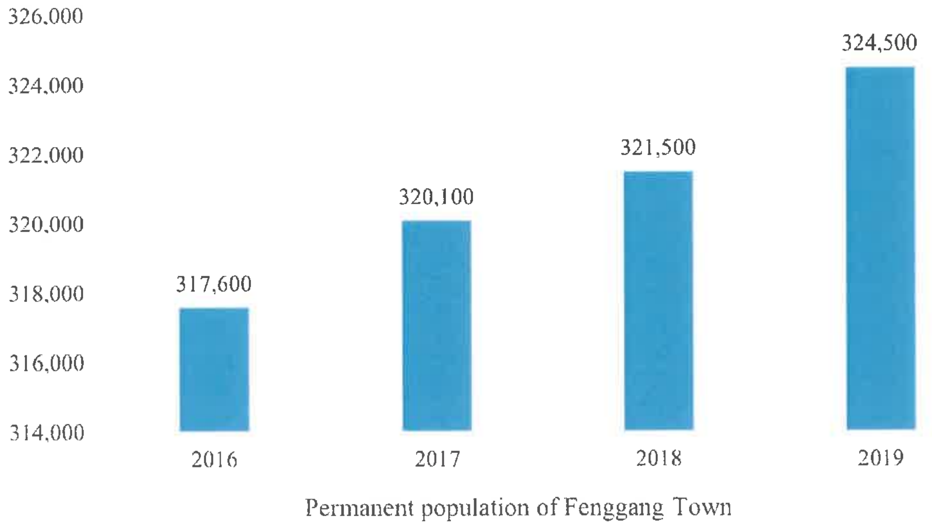
As discussed with the Management, as at 30 September 2021, the Property Development Project had been completed and there are 35 unsold residential units (comprising 23 Pre-Sold units and 12 Unsold Units), representing 5.8% of the total number of residential units of the Project Development Project. The Target Operation continues to sell the remaining residential units in the ordinary course of its business.

Other businesses including non-residential property rental business previously held by the Target Company are now being carried out by the New Entity following completion of the Corporate Division.

## Analysis of the Property Development Project

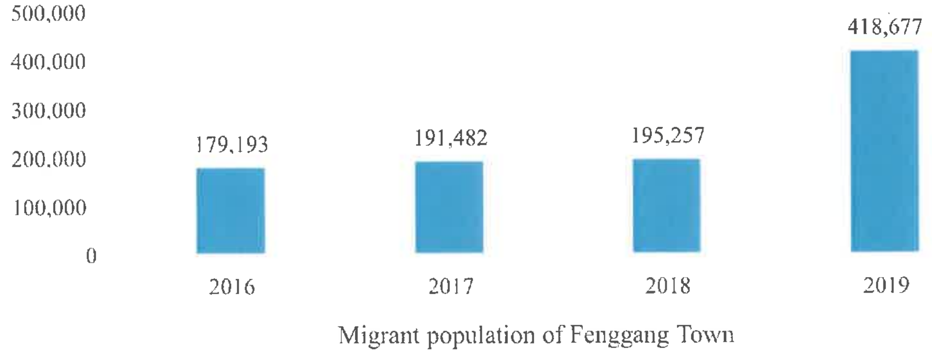
In analysing the Property Development Project, we have assessed the population in Fenggang Town. Set out in the chart below is the population in Fenggang Town issued by the Dongguan Statistics Bureau.

### Chart 1: Permanent population of Fenggang Town




*Source: Dongguan Statistics Bureau*

### Chart 2: Migrant Population of Fenggang Town

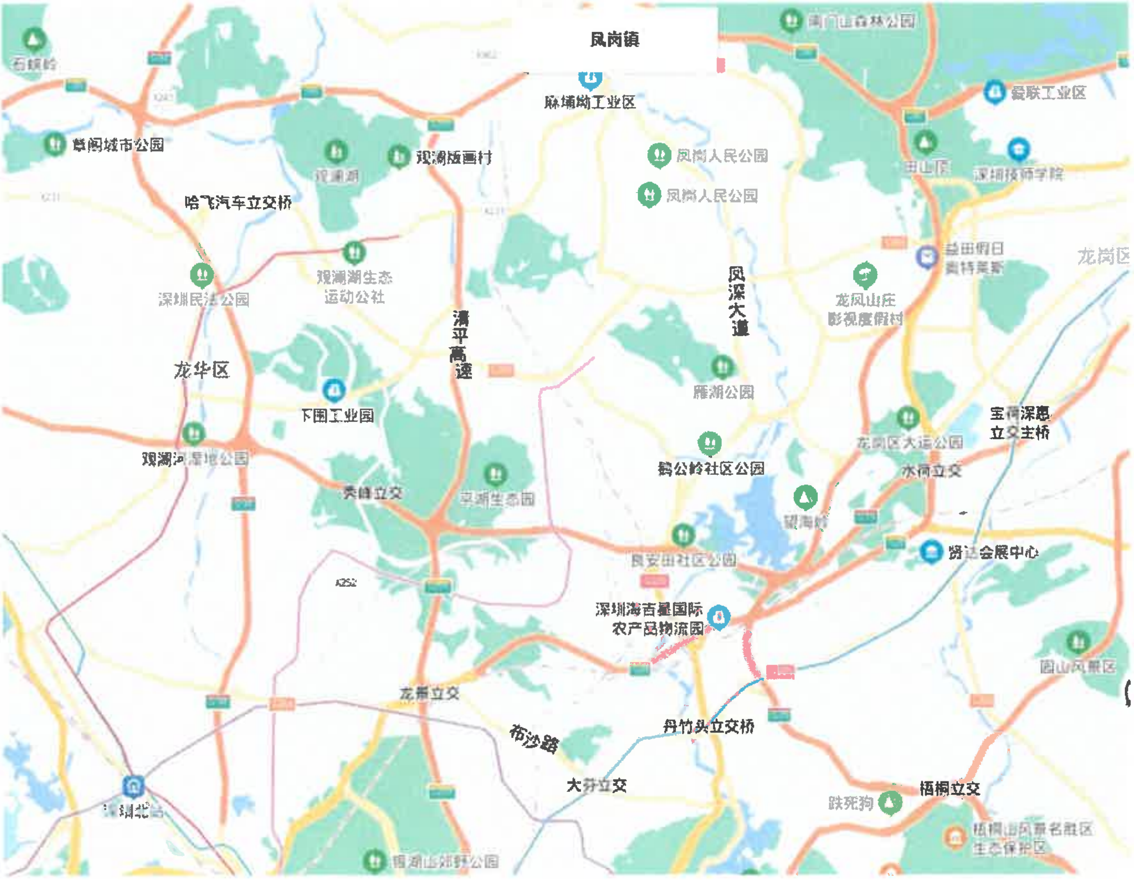



*Source: Dongguan Statistics Bureau*

As shown in the two charts above, both the permanent population and migrant population in Fenggang Town have shown an increasing trend in the past four years. The permanent population in Fenggang Town increased from 317,600 in 2016 to 324,500 in 2019, representing a compound annual growth rate of approximately 0.72%. The migrant population in Fenggang Town increased from approximately 179,193 to approximately 418,677 in 2019, representing a compound annual growth rate of approximately 32.69%.

As discussed with the management of the Project Company, the target customer for the Property Development Project also includes the residents of Shenzhen. The management of the Project Company is of the view that the favourable geographical location of Fenggang Town, which is close to Shenzhen City, and the comparatively lower sales price of residential properties in Fenggang Town as compared to that of Shenzhen City, should be able to attract the population of Shenzhen. The graph below shows the location of Fenggang Town:

**Graph 1: The location of Fenggang Town (鳳崗鎮)**




*Source: Baidu map*

Fenggang Town is located at the border of Shenzhen City and Dongguan City, which is approximately 35 kilometers from Futian central business district in Shenzhen City.

Set out below is the GDP and population of Shenzhen City:

**Table 8: Shenzhen City GDP and GDP growth**

| **Year** | **2016** | **2017** | **2018** | **2019** | **2020** |
|---|---|---|---|---|---|
| GDP *(RMB billion)* | 2,068.6 | 2,328.0 | 2,526.6 | 2,699.2 | 2,767.0 |
| GDP growth *(%)* | 12.2% | 12.5% | 8.5% | 6.8% | 2.5% |

*Source: Guangdong Statistical Yearbook 2021*

**Table 9: Shenzhen City population**

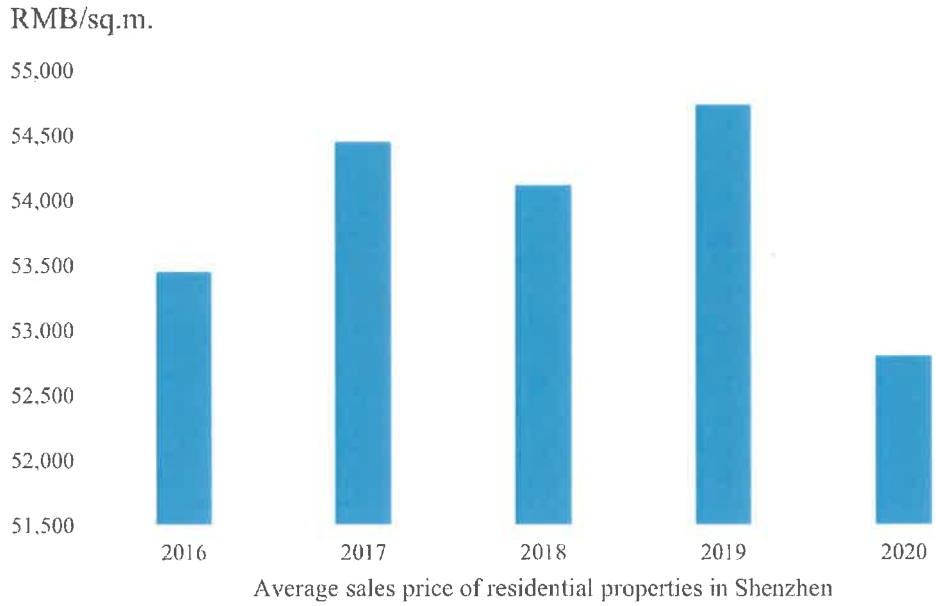
| **Year** | **2016** | **2017** | **2018** | **2019** | **2020** |
|---|---|---|---|---|---|
| Population *(million)* | 15.0 | 15.9 | 16.7 | 17.1 | 17.6 |

*Source: National Bureau of Statistics of China, Guangdong Statistical Yearbook 2021*

As shown in the 2 tables above, the GDP of Shenzhen City in 2020 has shown a growth of approximately 2.5%. The annual GDP growth rate of Shenzhen City from 2016–2020 ranged from approximately 2.5% to approximately 12.5%. The population of Shenzhen has also increased from approximately 15.0 million in 2016 to approximately 17.6 million in 2020, representing a compound annual growth rate of approximately 4.1%

We have also assessed the residential property market in Shenzhen City. Set out in the chart below is the residential property prices in Shenzhen City issued by the National Bureau of Statistics of China:

**Chart 3: Sales price of residential properties in Shenzhen City**




*Source: Shenzhen Statistics Bureau*

As shown in the chart above, the average sales price of residential properties in Shenzhen City has increased from approximately RMB53,455 per sq.m. in 2016 to approximately RMB54,741 per sq.m. in 2019, representing a compound annual growth rate of approximately 0.8%. The average sales price of residential properties in Shenzhen City has decreased to approximately RMB52,808 per sq.m. in 2020.

We noted that the average sales price of residential properties in Shenzhen City is materially higher than the average sales price of residential properties in Dongguan City.

In light of the above and also the supporting data highlighted earlier in the sub-section headed "Overview of the location of the Property Development Project", we are of the view that the Acquisitions can benefit from: (i) the increasing demand for properties in the Guangdong Province and Dongguan City; (ii) the continuing GDP growth in the Guangdong Province; (iii) the continued growth in the population in Fenggang Town; (iv) the close proximity of Fenggang Town to Shenzhen City and Dongguan City; (v) the positive economic data and increasing population in Shenzhen City; and (vi) the comparatively lower average sales price of residential properties in

Fenggang Town compared to that in Shenzhen City. Based on the above and having considered in particular that: (i) the Acquisitions are in line with the Group's long-term development plan to revitalise the land on which its factories are located in Fenggang Town; and (ii) the Property Development Project is supported by the positive economic data of the Guangdong Province, Dongguan City and Shenzhen, we are of the view that the Acquisitions are in the interest of the Company and the Shareholders as a whole.

## REASONS FOR AND BENEFITS OF THE ACQUISITIONS

As discussed with the Management, the Group is engaged in the residential real estate business in the Greater Bay Area under three main projects, namely, Phase 4 and 5 of Castfast Villas* (嘉輝豪庭) and Gong Guan Louvre Mansion* (羅浮公館). As the Target Company is the holder and owns the legal title of the Property Development Project and Kar Info International is a party to the Joint Operation Agreement, the Acquisitions would enable the Group to consolidate its management over the various phases of Castfast Villas to achieve operational and management efficiency. In addition, the Company proposes to spin-off and separately list its residential real estate business on the Main Board of the Stock Exchange in accordance with Practice Note 15 of the Listing Rules through, among other steps, the injection of relevant Group subsidiaries (including the Target Operation upon completion of the Acquisitions) and assets into a newly established Cayman Islands-incorporated company through a corporate reorganisation. The Acquisition and the Kar Info International Acquisition are, among others, the steps of such corporate reorganisation.

The Company will issue further announcement(s) of the Proposed Spin-off as and when appropriate and in accordance with the relevant requirements under the Listing Rules.

## THE KAR INFO INTERNATIONAL ACQUISITION AGREEMENT

| | |
|---|---|
| Date: | 28 January 2022 |
| Parties: | Benefit Master, an indirect wholly-owned subsidiary of the Company |
| | Mr. Ho (as vendor) |
| Consideration: | US$100 |

Under the Kar Info International Acquisition Agreement, Benefit Master has conditionally agreed to acquire the entire issued share capital of Kar Info International at a consideration of US$100.

**Conditions Precedent**

The Kar Info International Acquisition Agreement is conditional upon:

(a) The warranties remaining true and accurate and not misleading in any respect as at the date of the Kar Info International Acquisition Agreement as if repeated at completion;

(b) the approval of the Independent Shareholders; and

(c) the Acquisition Agreement having become unconditional in all respects (i.e. all the Acquisition Conditions, other than that regarding the completion of the Kar Info International Acquisition Agreement, having been satisfied).

The above conditions precedent are required to be fulfilled or waived on or before the Closing Date, which is three business days after the Kar Info International Acquisition Conditions have been fulfilled pursuant to the Kar Info International Acquisition Agreement, or such other date as Benefit Master and Mr. Ho may agree in writing.

**THE ACQUISITION AGREEMENT**

| | |
|---|---|
| Date: | 28 January 2022 |
| Parties: | KRP Development Company Limited, an indirect wholly-owned subsidiary of the Company (as the Purchaser) |
| | Kar Info Property Limited, a company wholly-owned by Mr. Ho (as the Vendor) |

Pursuant to the Acquisition Agreement, the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the entire issued equity interest of the Target Company (following completion of the Corporate Division) at a consideration of RMB38 million (equivalent to approximately HK$45.6 million), subject to the terms and conditions therein.

For the avoidance of doubt, the Purchaser is not purchasing any of the issued equity interest of the New Entity (following completion of the Corporate Division) under the Acquisition Agreement.

Pursuant to the Acquisition Agreement, it is agreed that all profits derived by the Target Company (assuming completion of the Corporate Division) before 30 September 2021 shall belong and be paid to the Vendor. For all profits derived by the Target Company (assuming completion of the Corporate Division) from 1 October 2021 onwards, they shall belong and be paid to the Purchaser.

Prior to the Closing Date, the Target Company shall complete its distribution of profits to the Vendor (the "**Profits Distribution**"). For all profits of the Target Company derived after 1 October 2021, they shall belong and be paid to the Purchaser upon the Closing Date.

All taxes arising from and/or relating to the Acquisition (including but not limited to any taxes arising from and/or relating to the Profits Distribution) shall be borne by the Vendor and the Purchaser equally.

**Consideration**

The Consideration for the entire issued equity interest of the Target Company is RMB38 million (equivalent to approximately HK$45.6 million) or its Hong Kong dollar equivalent. The exchange rate between RMB and HK$ shall be counted based on the middle rate of RMB against HK$ (offshore RMB currency (CNH)) issued by The Hongkong and Shanghai Banking Corporation Limited on the respective dates of payment.

The Consideration will be settled in cash by the Purchaser within 30 days of the Closing Date. The payment of the Consideration will be funded by internal resources of the Group.

***Consideration adjustment***

As at 30 September 2021, there were 12 Unsold Units under the Property Development Project. In the case if (i) such properties are being sold by the Target Company to third parties during the period from 30 September 2021 (being the date of the valuation) to the Closing Date; and (ii) the selling price of such properties per sq.m. is lower than the average appraisal price of such properties (the "**Adjusted Price Properties**"), the Consideration shall be adjusted in the following manner:

- *Adjusted Consideration = Consideration minus R*, in which:

  - The price of any Adjusted Price Properties would be equal to:

    The size of the property as stated on the relevant sales agreement (in sq.m.) * (the average appraisal price – the actual selling price/sq.m.) (all prices exclusive of tax)

– “R” equals to the aggregate sum of all Adjusted Price Properties

For the above purpose, “average appraisal price” refers to the average appraisal price of the 12 Unsold Units per sq.m. as indicated in the Valuation Report, being approximately RMB29,075 per sq.m. (exclusive of tax). The consideration adjustment is calculated from the perspective of each Unsold Unit sold.

**Assignment of debt liabilities**

Under the Acquisition Agreement, the Purchaser also agreed to assume the debt liabilities of the New Entity (following completion of the Corporate Division) owed to the Target Company in the amount of approximately RMB276.3 million (equivalent to approximately HK$331.5 million).

**Conditions Precedent**

The Acquisition Agreement is conditional upon:

(a) the representations and warranties of the Vendor remaining true, complete and accurate with no false or misleading statements and material omissions from the date of the Acquisition Agreement until the Closing Date;

(b) the Vendor having duly performed and complied with all agreements and undertakings under the Acquisition Agreement with no breach of any of the agreements from the date of the Acquisition Agreement until the Closing Date;

(c) the transactions contemplated under the Acquisition Agreement not being prohibited by any PRC laws or any judgment, injunction, order or decree of any courts, arbitration or government bodies; and there exists no pending or potential litigation arbitration, judgment, decree or injunction which may have a material adverse impact on the transactions as contemplated under the Acquisition Agreement;

(d) from the date of the Acquisition Agreement until the Closing Date, there exists no events, conditions, changes or other situations or reasonably foreseeable event, conditions, changes or situations which may have an adverse impact on the assets, financials, liabilities, technologies, profit forecast and normal operation of the Target Company;

(e) the Purchaser has completed its financial, business, and legal due diligence review of the Target Company, and is satisfied with the results thereof;

(f) the Vendor and the Target Company having entered into the Corporate Division Agreement, the substance and form of which shall be to the satisfaction of the Purchaser and the Corporate Division Agreement shall remain valid and effective as at the Closing Date;

(g) the Corporate Division has been formally completed in accordance with the applicable PRC laws, rules and regulations and the relevant registration procedures in connection with the Corporate Division (if any) have been completed;

(h) the Vendor has obtained approval from its board of directors for approving the Acquisition Agreement and the transactions contemplated thereunder;

(i) the Independent Shareholders have passed the resolutions at the SGM for approving the Acquisition Agreement and the transactions contemplated thereunder;

(j) the Target Company has completed the relevant registration procedures with the relevant PRC authorities in connection with the Acquisition and the Purchaser has been duly registered as the shareholder of the entire issued equity interest of the Target Company and has been provided with relevant updated licences, including the business operation licence, of the Target Company; and

(k) the Kar Info International Acquisition Agreement having become unconditional in all respects, i.e. all Kar Info International Acquisition Conditions, other than that regarding the completion of the Acquisition Agreement, having been satisfied.

The above conditions precedent are required to be fulfilled or waived on or before the Closing Date, which is three business days after the Acquisition Conditions have been fulfilled or waived (as the case may be) pursuant to the Acquisition Agreement, or such other date as the Purchaser and the Vendor may agree in writing.

Upon the fulfilment or waiver (as the case may be) of all the Acquisition Conditions, the Vendor shall deliver a certificate to the Purchaser certifying the same, except for conditions (e) and (i). If the Acquisition Conditions above are not fulfilled or waived (as the case may be) within four months of the date of the Acquisition Agreement (or any extended date as agreed by the parties in writing), the Purchaser may terminate the Acquisition Agreement by giving written notice to the Vendor. Save for conditions (c), (f), (g), (i), (j) and (k), all other Acquisition Conditions are waivable by the Vendor or the Purchaser, as applicable.

As at the Latest Practicable Date, save for conditions (f) and (g) above which have been fulfilled, none of the Acquisition Conditions have been fulfilled or waived.

### Post Acquisition Closing Undertakings

The parties to the Acquisition Agreement have agreed to the following post Acquisition Closing undertakings:

In the case if the Target Company (following completion of the Corporate Division) receives any refund of corporate income tax ("**CIT**") from the relevant PRC tax authorities within six (6) months of the Closing Date and such refund amount exceeds the estimated CIT recoverable amount of RMB37.2 million (being the net of CIT payable of RMB54.8 million and deferred tax assets of RMB92.0 million of the Target Company (assuming the completion of the Corporate Division) as at 30 September 2021), such excess amount shall be refunded and paid to the Vendor (or any other third party as designated by the Vendor) by the Target Company in an one-off manner. For the avoidance of doubt, the total tax refund to the Vendor shall not exceed RMB52 million (equivalent to approximately HK$62.4 million), which was referred to as the estimated CIT refund that would be entitled by the New Entity based on its financial information.

In the case if the Target Company (following completion of the Corporate Division) needs to pay any land appreciation tax ("**LAT**") to the relevant PRC tax authorities within six (6) months of the Closing Date and such LAT payment exceeds the provision amount for LAT (being approximately RMB363.9 million), such excess amount shall be refunded by the Vendor to the Target Company in a one-off manner.

## ANALYSIS ON CONSIDERATION

### Kar Info International Acquisition

As stated in the Letter from the Board, the consideration for the Kar Info International Acquisition was agreed after arm's length negotiations between the Benefit Master and Mr. Ho on normal commercial terms having considered that Kar Info International is an investment holding company with no operations and that the nominal consideration reflects the value of its entire issued share capital.

### The Acquisition

As discussed with the Management, the Consideration was arrived after arm's length negotiation between the Purchaser and the Vendor on normal commercial terms. The Consideration was based on the fair value of the equity interest of the Target Company of RMB316 million, minus the debt liabilities of approximately RMB276.3 million assigned to the Company and applied a discount of 4.3%.

To assess the basis in determining the Consideration, we have, amongst other things, reviewed the Valuation Report and discussed with the Valuer on the valuation. We have noted and discussed with the Valuer that they have adopted asset-based approach to value the fair value of the entire equity interest of the Target Company and the market comparison method to value the Property.

We have discussed and reviewed the assumptions that were used in formulating the valuation of the Property and the Target Company and we are of the view that the assumptions used are fair and reasonable.

In order to assess the expertise and independence of the Valuer, we have obtained and review the engagement letter of the Valuer and the relevant licenses, qualifications and experience of the Valuer and its working team. We have also discussed with the Valuer to understand its previous experiences on valuation projects, the methodologies, basis and assumptions they have adopted as well as the steps and measures taken by the Valuer in conducting such valuation. The principal signing off the Valuation Report is Chartered Surveyor who has 14 years' experience in the valuation of properties in both Hong Kong and the PRC. We also understand from the Valuer that it has carried out on-site inspections and made relevant enquiries and searches for preparing such valuation report and no irregularities were noted. The Valuer confirmed that it is independent from the Group and their respective associates. Based on the above, we consider that the Value is qualified and possesses relevant experience in conducting the valuation, and the terms and scope of work is sufficient and appropriate.

***(I) Valuation of the Property***

In determining the value of the real estate inventory under the Target Company, the Valuer has conducted a valuation on the Property.

In conducting the valuation of the Property, the valuer has adopted, among others, the following principal assumptions:

(a) transferable land use rights in respect of the Property Development Project for its specific term at nominal annual land use fees have been granted and any premium payable has already been fully paid;

(b) the owner of the Property Development Project has enforceable title to it and free and uninterrupted rights to use, occupy or assign the same for the whole of the unexpired terms as granted; and

(c) the Property Development Project is free from encumbrances, restrictions and outgoings of an onerous nature which would affect its value.

*A. Pre-sold Units*

As discussed with the Valuer, the valuation of the Pre-sold Units was based on the actual selling price of the Pre-sold Units. As at the Valuation Date, there was 2,879.36 sq.m. of Pre-sold Units under the Property Development Project. The valuation of the Pre-sold Units is computed as follow:

| | Total Pre-sold Units *(sq.m.)* | Average selling price per sq.m. *(RMB)* | Valuation *(RMB'000)* |
|---|---|---|---|
| Pre-sold Units | 2,879.36 | 24,913 | 71,734 |

*B. Unsold Units*

As discussed with the Valuer, the valuation of the Unsold Units was based on the market approach, which is commonly adopted when determining the market value of properties. As this method makes reference to comparable sales evidence as available in the relevant market, we consider it is an acceptable method to derive the market value of the Unsold Units. As at the Valuation Date, there was 1,872.27 sq.m. of Unsold Units under the Property Development Project. The valuation of the Unsold Units is computed as follow:

| | Total Unsold Units *(sq.m.)* | Valuation price per sq.m. *(RMB)* | Valuation *(RMB'000)* |
|---|---|---|---|
| Unsold Units | 1,872.27 | 29,075 | 54,436 |

Based on the valuation report, we noted that the Valuer has looked for comparable properties that (i) located in Fenggang town; (ii) in well renovated condition; (iii) completed construction within two years before or after the completion of construction of the Property Development Project; (iv) were sold in September 2021; (v) the GFA ranged between 80 and 220 sq.m. Based on these selection criteria, the Valuer have identified 3 comparable properties, which is similar to the Unsold Units. We have obtained from the Valuer the information of the comparable properties and discussed with the Valuer. We noted that the market comparison methods adopted by the Valuer was making reference to comparable sales transactions available in the relevant market, subject to appropriate adjustments including but not limited to size, location, renovation and other factors. As discussed with the Valuer, the comparable properties chosen for comparison presented a full and exhaustive list of sample based on the above selection criteria and the selection criteria are relevant for providing the Valuer's opinion.

To further assess the fairness of the Consideration, we have also conducted research on average sale price of residential properties that is available for sale in Fenggang Town based on the publicly available information as at the Latest Practicable Date (the "**Comparable Properties**"). The selection criteria of the Comparable Properties including properties that (i) located in Fenggang town; (ii) commenced of sales in the past five years; and (iii) available for sale as at the Latest Practicable Date. As far as we are aware, we have identified an exhaustive list of 12 residential properties project (excluding the Property Development Project) that are available for sale in Fenggang Town as at the Latest Practicable Date. Set out in the table below are the average sale price of the Comparable Properties in Fenggang Town:

Set out below shows the list of comparable properties and their relevant sales price:

**Table 10: Comparable properties in Fenggang Town**

| **Project Name** | **Commencement of sales** | **Average selling price RMB per sq.m. as at the Latest Practicable Date** |
|---|---|---|
| 保利招商錦上 | Aug 2021 | 37,333 |
| 世城悦湖花園 | Sep 2021 | 32,500 |
| 三正鵬程上花園 | Sep 2021 | 35,167 |
| 嘉輝豪庭逸峯 | Sep 2021 | 31,833 |
| 招商雍祥府 | Sep 2021 | 36,667 |
| 錦龍灣畔 | Jan 2019 | 30,667 |
| 東江花園 | Dec 2019 | 30,000 |
| 鳳崗四季花城 | Mar 2020 | 34,000 |
| 世城商業中心瓏寓 | Oct 2019 | 27,000 |
| 悦瀾時光 | Jul 2010 | 25,000 |
| 世紀時尚豪園 | Jun 2017 | 23,500 |
| 振江鳳凰台 | Oct 2016 | 23,000 |
| **Average** | | **30,556** |

*Source: https://dg.anjuke.com/, https://dg.fang.ke.com/loupan/, http://dongguan.jiwu.com/*

Based on the table above, the sale price of the Comparable Companies as at the Latest Practicable Date ranges from RMB23,000 to RMB37,333 per sq.m. with an average of approximately RMB30,556. Based on the Valuation Report, the valuation price for the Unsold Units is approximately RMB29,075 per sq.m., which is within the range and below the average sale price of the Comparable Properties. Having considered the abovementioned, we are of the view that the valuation for the Property prepared by the Valuer is fair and reasonable and hence the valuation for the equity interest of the Target Company is acceptable.

*(II) Valuation of the equity interest of the Target Company*

According to the Valuation Report and our discussion with the Valuer on the methodologies underlying the Valuation Report, we understood that the Valuer has considered three generally accepted approaches, namely the income approach, market approach and asset-based approach for the valuation of the equity interest of the Target Company.

As advised by the Valuer, the discounted future cash flow method under the income approach requires an explicit forecast of the future benefit stream of the business over a reasonably foreseeable short term and an estimate of a long-term benefit stream of the business that is stable and sustainable. The Target Company was set up for a single property development project, which its ability to generate stable stream of revenue is uncertain. As such, the Valuer considered the income approach is not appropriate.

The market approach provides an indication of value by comparing the subject asset/transaction to similar assets that have been sold in the market/transaction, with appropriate adjustments for the differences between the subject asset/transaction and the assets/transaction that are considered to be comparable. Due to limited comparable transactions and the comparable listed companies having low comparability in terms of number of unsold properties, the Valuer considered that it is not appropriate to use market approach in the valuation.

As discussed with the Valuer, the Valuer is of the view that asset-based approach is the most optimal approach as the major assets owned by the Target Company is fixed assets, we concur with the Valuer that it is an acceptable method to derive the value of the equity interest of the Target Company.

In conducting the valuation of the equity interest of the Target Company, the Valuer has adopted, among others, the following major assumptions:

(i) the information provided to the Valuer by the Company and/or its management has been prepared on a reasonable basis after its/their due and careful consideration;

(ii) There will be no major change in the current taxation laws in the localities in which the Target Company operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

(iii) The core business operation of the Target Company will not differ materially from those of present or expected; and

(iv) The information provided has been prepared on a reasonable basis after due and careful consideration by the management of the Target Company and the Company.

Other assumptions underlying the valuation of the equity interest of the Target Company by the Valuer have been stated in the Valuation Report. Shareholders should note that any changes in the abovementioned assumptions will likely affect the valuation of the equity interest of the Target Company.

For valuation of the equity interest of the Target Company, the Valuer had considered the type of assets and liabilities of the Target Company. The Valuer adopted appropriate valuation methodology for each different class of assets and liabilities as follows:

| **Assets** | **Valuation Approach & Methodology** |
|---|---|
| Cash and cash equivalent, prepaid accounts, other receivables and deferred tax assets | Based on values in the management account of the Target Company.<br>For structured deposit, the fair value is estimated by adjusting the accrued interest as of 30 September 2021 on the basis of the deposit principal in the management account of the Target Company. |
| Real estate inventory | Based on property valuation conducted by the Valuer. |
| Property plant and equipment | The cost approach was adopted for equipment.<br>The market approach was adopted for vehicles. |

| **Liabilities** | **Valuation Approach & Methodology** |
|---|---|
| Accounts payable, dividend payable, advanced from customers, accrued expenses and other liabilities | Based on values in the management account of the Target Company. |
| Deferred tax liabilities and provision for land appreciation tax | Deferred tax liabilities are estimated based on increase in value from book value of the structured deposit, PPE and inventories that were for sale purposes. 25% tax rate is applied. |
| Provision for land appreciation tax | The provision for tax on surplus arising from the valuation of inventories that were for sale purposes. |

Accordingly to the Valuation Report, the total equity of the Target Company is approximately RMB316 million, which is derived as follow:

| | **Value** |
|---|---|
| | *(RMB'000)* |
| ***Total assets*** | **951,752** |
| Cash and cash equivalent | 83,338 |
| Pre-paid accounts | 112 |
| Real estate inventory | 126,170 |
| Property, plant, and equipment | 311 |
| Deferred tax asset | 91,921 |
| Other receivable | 649,900 |
| ***Total liabilities*** | **635,913** |
| Accounts payable | 993 |
| Dividends payable | 170,000 |
| Advances from customers | 30,790 |
| Accrued expenses and other liabilities | 383,376 |
| Deferred tax liabilities | 14,706 |
| Provision for land appreciation tax | 36,049 |
| **Total equity** | **316,000** |

As discussed with the Management, the other receivables of approximately RMB650.0 million was the amounts due from the New Entity. As at the Latest Practicable Date, approximately RMB167.5 million has been settled and the remaining balance of RMB276.3 million will be assigned to the Company. In view of the above, we consider that the Valuation Report to be the appropriate source of information for the purpose of our assessment on the fairness and reasonableness of the Consideration.

According to the Valuation Report, the appraised total equity of the Target Company is approximately RMB316 million (equivalent to approximately HK$379.2 million), a 4.3% discount will be applied after the deduction of the debt liabilities of approximately RMB276.3 million to derived the Consideration.

To further assess the fairness and reasonableness of the Consideration, we had carried out, on a best effort basis, a comparable table on consideration paid by other listed issuers in property transaction using the following selection criteria: (i) acquisition of properties in PRC by companies listed on the Stock Exchange in the past six months from 1 June 2021 to 31 December 2021 ("**Property Transaction Research Period**") which constitute a notifiable transaction; and (ii) appraised value of the property(ies) by independent valuer as basis of determination of consideration set out in the circular. We have identified and made references to 11 comparable transactions ("**Comparable Property Transactions**") which meet the aforesaid criteria, and these Comparable Property Transactions are exhaustive and representative. The table below set out the brief summary of relevant information of the Comparable Property Transactions:

| No. | Company (Stock code) | Date of circular | Transaction | Connected transaction | Consideration | Adjusted NAV/ valuation of property | Premium/ discount of adjusted NAV/ valuation of property |
|---|---|---|---|---|---|---|---|
| 1 | Wai Chi Holdings Company Limited (1305.HK) | 10-Dec-21 | Acquisition of target company in the PRC | Yes | RMB91.0 million | RMB101.4 million | -20.0% |
| 2 | Tai United Holdings Limited (0718.HK) | 30-Nov-21 | Acquisition of commercial property in Anhui, the PRC | No | RMB370.0 million | RMB502.0 million | -30.0% |
| 3 | China 21st Century Education Group Limited (1598.HK) | 26-Nov-21 | Acquisition of commercial property in Hebei, the PRC | Yes | RMB310.0 million | RMB310.38 million | 0.0% |
| 4 | Yuexiu Real Estate Investment Trust (405.HK) | 13-Nov-21 | Acquisition of commercial property in Guangzhou, the PRC | Yes | RMB7,800 million | RMB8,030 million | -2.9% |
| 5 | Ye Xing Group Holdings Limited (1941.HK) | 22-Oct-21 | Acquisition of commercial property in Beijing, the PRC | Yes | RMB22.76 million | RMB23 million | -2.0% |

| No. | Company (Stock code) | Date of circular | Transaction | Connected transaction | Consideration | Adjusted NAV/ valuation of property | Premium/ discount of adjusted NAV/ valuation of property |
|---|---|---|---|---|---|---|---|
| 6 | China Tangshang Holdings Limited (674.HK) | 22-Oct-21 | Acquisition of target company in the PRC | Yes | RMB137 million | RMB163 million | -15.9% |
| 7 | Rich Goldman Holdings Limited (70.HK) | 24-Sep-21 | Acquisition of 51% of the issued share capital of target company | No | HK$74 million | HK$95 million | -22.6% |
| 8 | Dongjiang Environmental Company Limited (895.HK) | 20-Aug-21 | Acquisition of 70% equity interest in the target company | No | RMB429 million | RMB362 million | 22.2% |
| 9 | Yuexiu Property Company Limited (123.HK) | 11-Aug-21 | Acquisition of 98% equity interest in target company | Yes | RMB1,874 million | RMB1,874 million | 0.0% |
| 10 | C&D International Investment Group Limited (1908.HK) | 30-Jul-21 | Acquisition of 100% Equity interests in target company | Yes | RMB24.0 million | RMB27.6 million | 12.7% |
| 11 | Future World Holdings Limited (572.HK) | 23-Jul-21 | Acquisition of property | No | RMB1,356 | RMB1,728 | -21.5% |
| | | | | | | Average | -7.3% |
| | | | | | | Minimum premium | 22.2% |
| | | | | | | Maximum discount | -30.0% |

As discussed with the Management, the adjustment ensure the Company to acquire the Adjusted Price Properties at the price not higher than the actually selling price. As the Consideration was arrived at a slight discount of 4.3% of the valuation of the equity interest of the Target Company (which include the value of the Properties), the consideration adjustment will eliminate the potential risk of the Company during the period of the Valuation Date and the Closing Date. We are of the view that the Consideration adjustment is acceptable.

Based on the above and having considered in particular that:

(i) The valuation of the Pre-sold Units was based on the actual selling price of the Pre-sold Units;

(ii) the valuation price for the Unsold Units is within the range and below the average sale price of the Comparable Properties;

(iii) the major assumptions made in connection with the valuation approach are reasonable;

(iv) the discount of approximately 4.3% is within the range of discount of the Comparable Property Transactions; and

(v) the Consideration adjustment is acceptable and ensure the Company to acquire the Adjusted Price Properties at the price not higher than the actually selling price,

we are of the view that the Consideration is fair and reasonable so far the Company and the Independent Shareholders are concerned.

**FINANCIAL EFFECTS**

Upon the closing of the Acquisitions, the Company will become the ultimate holding company of each of Kar Info International and the Target Company and the financial results, assets and liabilities of the Target Group will be consolidated into the accounts of the Company.

As discussed with the Management, as the Company and the Target Operation are ultimately controlled by Mr. Ho before and after the Acquisitions and that control is not transitory, there would be a continuation of the risks and benefits to Mr. Ho and therefore the Acquisitions should be regarded as a business combination of entities under common control. Kar Info International had been an indirect holding company of the Target Company (via the Vendor). During the cooperation period under the Joint Operation Agreement, Kar Info International was entitled to share 50% of the revenue and expenses of the Property Development Project, except for the CIT, and both the Company (via Massive Era Limited) and Kar Info international were the beneficiaries of the Property Development Project during such period; after the expiry of the Joint Operation Agreement on 22 March 2021, Kar Info International was entitled to 100% interest of the Property Development Project as it was, at the time, an indirect holding company (via the Vendor) of the Target Company and the Target Company is the beneficiary of the Property Development Project. As at the Latest Practicable Date, the Target Company has completed the Corporate Division such that only the assets and liabilities in connection with the Property Development Project were retained by the Target Company. Accordingly, the consolidated financial statements of the Company will be restated and prepared using the merger basis of accounting as if the Target Group had always been the subsidiaries of the Company since the date the Company and the Target Group were under common control (which was before 1 April 2018).

The following table sets forth the significant financial effect of the Acquisitions on the Enlarged Group, as identified in the Unaudited Pro Forma Financial Information, assuming that the Closing had taken place on 30 September 2021, as compared to the financial position of the Group as at 30 September 2021:

**Table 11: Financial effect of the Acquisitions on the Enlarged Group**

| | **As at 30 September 2021** | **Pro forma adjustment** | **Upon Acquisitions Closing (pro forma Enlarged Group)** | **Change** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *%* |
| Net current assets | 1,377,547 | -218,453 | 1,159,094 | -15.9 |
| Total assets | 4,454,837 | +390,181 | 4,845,018 | +8.8 |
| Total liabilities | 2,884,043 | +498,277 | 3,382,320 | +17.3 |

### Assets and liabilities

Based on the Unaudited Pro Forma Financial Information, the unaudited pro forma consolidated total assets of the Enlarged Group as at 30 September 2021 would increase by approximately 8.8% to approximately HK$4,845 million, and the unaudited pro forma consolidated total liabilities of the Enlarged Group as at 30 September 2021 would increase by approximately 17.3% to approximately HK$3,382, after the Acquisitions, assuming that the Acquisition Closing had taken place on 30 September 2021.

The net assets, the total assets, and the total liabilities of the Enlarged Group which are referred to in this subsection were extracted from the Unaudited Pro Forma Financial Information, which was based on, among other things, a Consideration of approximately RMB38 million (equivalent to approximately HK$45.6 million) and the assumption that the completion of the Acquisitions had occurred on 30 September 2021. As the actual amounts of the assets and liabilities of the Target Company will be different from the amounts used in the Unaudited Pro Forma Financial Information, the abovementioned figures as at the date of Acquisition Closing may also be different from the corresponding amounts presented in the Unaudited Pro Forma Financial Information.

### Earnings

Based on accountants' report of the Target Operation as set out in Appendix II to the circular, it is expected that the earnings of the Enlarged Group will increase as a result of the Acquisitions. After considering the factors set out in the section headed "Reasons for and benefits of the Acquisitions" of the Letter of the Board, the Directors expect that the Acquisitions could produce a positive impact on the earnings of the Group in the near future.

## RECOMMENDATION

In light of the above and having considered in particular that:

(I) The Property Development Project is supported by the positive economic data of Guangdong Province, Dongguan City and Shenzhen City and the continued growth in the population in Fenggang Town, Dongguan City and Shenzhen City;

(II) the Acquisitions are part of the corporate re-organization steps of the Group; and

(III) the Consideration is fair and reasonable as the valuation for the Property and the Target Company is acceptable,

we are of the opinion that: (i) the Acquisitions are in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Kar Info International Acquisition Agreement and the Acquisition Agreement are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned; and (iii) the Acquisitions are in the ordinary and usual course of business of the Company. Accordingly, we recommend: (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the relevant resolution to be proposed at the SGM to approve, among other things, the Kar Info International Acquisition Agreement and the Acquisition Agreement and the transaction contemplated thereunder.

Yours faithfully,
For and on behalf of
**China Tonghai Capital Limited**

**Leo Chan**
*Managing Director*

**Beverly Seeto**
*Vice President*

*Mr. Leo Chan is a Managing Director of China Tonghai Capital Limited and is licensed under the SFO as a Responsible Officer to carry out, among others Type 6 (advising on corporate finance) regulated activity and has approximately 24 years of experience in corporate finance.*

*Ms. Beverly Seeto is a Responsible Officer of China Tonghai Capital Limited licensed under the SFO to carry out, among others Type 6 (advising on corporate finance) regulated activity and has approximately 9 years of experience in corporate finance.*