DIFFER GROUP HOLDING COMPANY LIMITED
鼎豐集團控股有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 6878)

Executive Directors:
Mr. HONG Mingxian *(Chairman)*
Mr. NG Chi Chung *(Chief executive officer)*
Mr. CAI Huatan

Non-executive Director:
Mr. CAI Jianfeng
Mr. WU Qinghan

Independent non-executive Directors:
Mr. CHAN Sing Nun
Mr. LAM Kit Lam
Mr. ZENG Haisheng

Registered Office:
Cricket Square
Hutchins Drive
PO Box 268
Grand Cayman
KY1-1111
Cayman Islands

Headquarters and principal place of business in the PRC:
33/F, Differ Fortune Centre,
No. 503 Gaolin Middle Road,
Huli District,
Xiamen City,
Fujian Province, PRC

Principal place of business in Hong Kong:
Room 1602, Euro Trade Centre,
13-14 Connaught Road Central,
Central, Hong Kong

31 December 2018

To the Shareholders and Optionholder(s) for information only,

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF PRIME THRIVE INVESTMENTS LIMITED INVOLVING ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE AND (2) APPLICATION FOR WHITEWASH WAIVER (3) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 7 November 2018 in relation to, among others, the Acquisition, the Specific Mandate and the Whitewash Waiver. The Acquisition constitutes a major and connected transaction of the Company under the Listing Rules.

Reference is further made to the clarification announcement made by the Company dated 13 November 2018 informing the public that the Acquisition was aggregated for calculation of the applicable percentage ratio(s) (as defined in the Listing Rules) with the other transactions of the Company and the Acquisition will be reclassified as a very substantial acquisition of the Company pursuant to the Listing Rules.

The purpose of this circular is to provide you with (i) further information on the Acquisition, the grant of Specific Mandate and other information as required to be disclosed under the Listing Rules and the Takeover Codes; (ii) details of the Whitewash Waiver; (iii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Acquisition; (iv) the recommendation of the Connected Transaction Independent Board Committee to the Independent Shareholders in relation to the Acquisition; (v) the letter of advice from Euto to the Independent Board Committee, Connected Transaction Independent Board Committee and the Independent Shareholders; (vi) the financial information of the Group and the Target Group; (vii) a notice of the EGM; and (viii) a form of proxy.

THE ACQUISITION

On 7 November 2018 (after trading hours), the Purchaser, an indirect wholly-owned subsidiary of the Company, and the Vendor entered into the Agreement, pursuant to which the Purchaser has conditionally agreed to purchase, and the Vendor has conditionally agreed to sell the Sale Share, representing the entire issued share capital of the Target Company, at the total Consideration of RMB499,972,000 (equivalent to approximately HK$568,150,000).

THE AGREEMENT

Set out below are the principal terms of the Agreement:

Date	:	7 November 2018 (after trading hours)
Parties	:	(i) the Purchaser; and
		(ii) the Vendor.

As at the Latest Practicable Date, the Vendor is the spouse of Mr. Hong, who is the chairman, executive Director and the substantial Shareholder of the Company. Therefore, the Vendor is an associate of Mr. Hong and hence a connected person of the Company under Chapter 14A of the Listing Rules.

Assets to be acquired

Pursuant to the Agreement, the Purchaser has conditionally agreed to purchase, the Vendor has conditionally agreed to sell the Sale Share, representing the entire issued share capital of the Target Company.

As at the Latest Practicable Date:

(i) the Target Company directly holds all issued share capital of the HK Subsidiary;

(ii) the HK Subsidiary in turn directly holds the entire equity interest in the PRC Subsidiary A;

(iii) the PRC Subsidiary A then directly holds the entire equity interest in the PRC Subsidiary B; and

(iv) the PRC Subsidiary B directly holds the entire equity interest in the PRC Subsidiary C.

For details, please refer to the diagram under the section headed "INFORMATION ON THE TARGET GROUP" in this letter from the Board of this circular below.

Upon the Completion, the Target Company, the HK Subsidiary, the PRC Subsidiary A, the PRC Subsidiary B and the PRC Subsidiary C will all become indirect wholly-owned subsidiaries of the Company. The financial results of the Target Group will be consolidated into the financial results of the Group.

As informed by the Vendor, the PRC Subsidiary B has legally and validly obtained and holds the land use rights for the Land, which is for commercial development and on which a property development project named Phoenix Ancient Town* (鳳凰古鎮) is currently under construction. As further advised by the Vendor, currently the major part of the development project has been completed, including the waterproof construction and greening work at the ground levels. Outstanding construction work of Phoenix Ancient Town*(鳳凰古鎮) include approximately 30% of the fire protection system, approximately 40% of the power system, approximately 40% of the insertion of doors and windows, partition walls of the basement and various ground works. Upon completion of its construction, which is expected to be by the end of the second quarter of 2019, Phoenix Ancient Town (鳳凰古鎮) will comprise a total planned gross floor area of approximately 311,585.3 sq.m..

Consideration

Pursuant to the Agreement, the Consideration is RMB499,972,000 (equivalent to approximately HK$568,150,000), which shall be satisfied by way of allotment and issue of the Consideration Shares at the Issue Price to the Vendor or its nominee within ten (10) Business Days after the Completion Date. As the parties to the Agreement have agreed the exchange rate of HK$1: RMB0.88, the total Consideration of RMB499,972,000 shall be equivalent to HK$568,150,000. Accordingly, 1,033,000,000 new Shares will be allotted and issued by the Company to the Vendor or its nominee at the Issue Price for settling the Consideration, subject to the Completion.

The Consideration was determined by the Purchaser and the Vendor after arm's length negotiations with reference to (i) the unaudited adjusted consolidated net asset value of the Target Group (the "**Adjusted NAV**") as at 30 September 2018; and (ii) the average closing price of the Shares as quoted on the Stock Exchange for the last five trading days immediately prior to the date of the Agreement.

The Adjusted NAV of RMB531,714,700 represents an aggregated value of:

(a) the audited consolidated net asset value of the Target Group attributable to the Vendor as at 30 September 2018 in the amount of approximately RMB119,414,000, as disclosed in the "Combined Statements of Financial Position" in Appendix II; plus

(b) the amount of (i) the valuation of the market value of the properties interest held by the Target Group as at 30 September 2018 prepared by the Valuer in the sum of RMB1,899,000,000 as disclosed in Appendix V; less (ii) the relevant book value in the sum of RMB1,386,698,000 as disclosed in the "Combined Statements of Financial Position" in Appendix II, in the amount of approximately RMB512,302,000; and minus;

(c) the amount due to Dragon Holdings of approximately RMB100,001,300 by the PRC Subsidiary A. Please refer to the paragraph headed "Consideration for the equity interest of the PRC Subsidiary B" under the section "Potential connected financial assistance upon Completion" of this letter from the Board in this circular for details.

As advised by the Vendor, the original acquisition cost incurred by the Vendor for the acquisition of PRC subsidiary B from Dragon Holdings was approximately RMB100 million.

As further advised by the Vendor, the majority of the assets of the Target Group are held by the PRC Subsidiary B, which was originally owned by Dragon Holdings, which is an associate of Mr. Hong. The transfer of the entire interest in the PRC Subsidiary B was merely for the purpose of a corporate reorganisation. As it is a transfer between the Vendor and an associate of her spouse, Mr. Hong, the original acquisition cost was determined with reference to the registered capital of the PRC Subsidiary B but not taking into consideration of the property interest held by the PRC Subsidiary B.

As further advised by the Vendor, the original acquisition costs of the Target Group previously acquired by Dragon Holdings are as follows:

From Independent Third Party to Dragon Holdings

(a) On 20 April 2015, Dragon Holdings acquired 51% shares of PRC Subsidiary B from an Independent Third Party ("**Party A**") for the consideration of RMB51,001,300 ("**DH Acquisition 1**").

(b) On 26 September 2018, Dragon Holdings and an individual (who held on trust for Dragon Holdings) acquired the remaining 48% and 1% shares respectively of PRC Subsidiary B from an Independent Third Party ("**Party B**") at the total consideration of RMB49,000,000 ("**DH Acquisition 2**").

From Dragon Holdings to PRC Subsidiary A

(c) On 18 October 2018, PRC Subsidiary A acquired 100% shares of PRC Subsidiary B from Dragon Holdings and an individual (who held on trust for Dragon Holdings) at total consideration of RMB100,001,300 ("**DH Acquisition 3**").

During the material time, Dragon Holdings was wholly owned by Mr. Hong. On 13 November 2018, Mr. Hong transferred the entire issued share capital of Dragon Holdings to his sister, Ms. Hong Mei Guan (洪美観).

The relationship between Party A and Party B is father and son. After Party A sold 51% interests of PRC Subsidiary B in DH Acquisition 1 to Dragon Holdings in 2015, Party B remained as shareholder of PRC Subsidiary B due to his local knowledge and local relations, however was a passive investor and operator as he had minimal involvement in major decision-making.

Based on the recollection of Mr. Hong, in or around 2012, Mr. Hong befriended with an independent third party ("**Party C**"), who is the son-in-law of Party A (one of the shareholders of PRC Subsidiary B, who later sold the 51% interests of PRC Subsidiary B to Dragon Holdings in 2015 as per DH Acquisition 1). Party C became the business acquaintance of Mr. Hong and they have conducted certain business cooperation together.

In 2013, Party C introduced Party A and Party B (who then later sold the 49% interests of PRC Subsidiary B in September 2018 to Dragon Holdings as per DH Acquisition 2) to Mr. Hong. Mr. Hong, has also conducted certain business cooperation with Party A and Party B, who are father and son.

In relation to the consideration of DH Acquisition 2, the costs of the development project are mainly financed by Dragon Holdings and Mr. Hong. Mr. Hong understands from Party B that due to the following personal and financial reasons, the Party B decided to exit from the Zhejiang market in September 2018, and contemplated on changing his area of investment:

Personal Reasons

Party B's previous business developments primarily focused on Lishui but due to a lack of a core team, these said business projects were unable to progress further. Following the regulation of the PRC market and increased competition, previous management methods were now inadequate in meeting the demands of Phoenix Ancient Town (鳳凰古鎮), which is a large-scale and complex development project. In addition, Party B and his family have purchased property and obtained the household registration* (户籍) in Xiamen. Therefore, Party B decided to gradually withdraw from the project and has now moved to Xiamen.

Financial Reasons

In September 2018, the Group has taken up 30% interest in Lishui Fu Feng and Jingning Differ. After completion, Lishui Fu Feng and Xiamen Differ are indirect wholly-owned subsidiaries of the Company.

Before Lishui Fu Feng become an indirect wholly-owned subsidiary of the Company, Lishui Fu Feng was owned by Xiamen Differ and Party A as to 70% and 30% respectively. Whereas, before Jingning Differ become an indirect wholly-owned subsidiary of the Company, Jingning Differ was owned by Xiamen Differ and Party B as to 70% and 30% respectively.

In July 2018, the Company learnt that Party A and Party B have charged their respective shareholding in Lishui Fu Feng and Jingning Differ to Ms. Hong Qiaosi* (洪巧絲) (the "**Creditor**"), a citizen and businesswoman in the PRC, an Independent Third Party. Party A and Party B owed the sum of RMB190 million (the "**Transferred Loan**") to the Creditor.

Party A and Party B was experiencing financial difficulty and had not repaid the Transferred Loan to the Creditor on time. The Company further understood that the Creditor intended to exercise its rights to enforce the said securities. In order to avoid operating the businesses of Lishui Fu Feng and Jingning Differ with any unfamiliar third party when the said securities would become enforceable by the Creditor, the Company immediately struck a deal with the Creditor and entered into the sale and purchase agreement dated 18 September 2018 with the Creditor, Party A and Party B. Pursuant to the respective sale and purchase agreement, Party A and Party B agreed to give up their respective interest in Lishui Fu Feng and Jingning Differ and the Company acquired the Transferred Loan at the consideration in the sum of RMB190 million.

For details of the respective sale and purchase agreement please refer to the Company's announcement dated 18 September 2018.

As advised by the Vendor, Dragon Holdings and Party B have negotiated and, after friendly negotiations, finally agreed on the amount of consideration at RMB49,000,000 for 49% of the equity interest of PRC Subsidiary B because:

1. apart from the paid-up capital, Party B has not contributed any amount for the operation of the PRC Subsidiary B;

2. Party B is only a passive investor and operator. The involvement of major operating and financial decision is minimal;

3. under the current PRC law, Dragon Holdings has a pre-emptive right on Party B's sale of its interest in the PRC Subsidiary B, therefore Party B will have difficulty to sell its interest to other person unless agreed by Dragon Holdings;

4. the PRC Subsidiary B (including the development of the Land) was mainly financed by the fund contributed by Dragon Holdings and bank loans. As disclosed in page 18 of the Circular, there was an outstanding loan granted by Dragon Holdings; as most of the operating expenses and construction costs of PRC Subsidiary B were paid by the Dragon's Loan, therefore the financial contribution from Party B was limited to its registered capital;

5. Dragon Holdings for its interest will try to bargain for a good price as its fund will continue to be locked in the PRC Subsidiary B;

6. the other source of finance for the PRC Subsidiary B, namely, the bank loan, was negotiated by Mr. Hong, the shareholder of Dragon Holdings at that material time, rather than by Party B, who took on a comparatively passive role.

Accordingly, in light of the above after negotiation, Party B eventually willing to give up the gain on land appreciation and sold its 49% interests of PRC Subsidiary B to Dragon Holdings at its original cost of capital, which might be much lower than the possible market value of the Land.

The Company understands that the Party B did not contemplate to sell the 49% of the PRC Subsidiary B directly to the Company for the following reasons:

1. The Party B requested for payment of cash as consideration only. The Company at that material time considered that may not be beneficial to the Company and its Shareholders, as a whole, to have such amount of cash outflow of which would have a significant impact on the cashflow of the Company, for the reason stated below. Comparatively, for the current Acquisition, Consideration Shares are offered as Consideration for the Sale Share, which provides greater flexibility to the financial status of the Company. Although the Company had cash, this was primarily ear marked for payment at that time to be made by Cultural Tours to the Creditor, an Independent Third Party for the Transferred Loan in the sum of RMB190 million, as disclosed in the Company's announcement dated 18 September 2018.

   The Company has also explored means to increase its available fund for the possibility of acquiring the 49% of the PRC Subsidiary B by cash. As a result, the Company attempted to raise funds through the placing of bonds, as disclosed in the Company's announcement dated 14 September 2018 through placing agent. However, unfortunately the placing of the bonds have not been materialised and could not proceed and therefore the Company did not have spare cash for the acquisition of 49% interest of PRC Subsidiary B from Party B as the Company should keep sufficient cash for daily operation and other business. The Company has also considered to obtain bank loan for the acquisition, however, the Company believes that may not be beneficial to the Company and its Shareholders a whole, as it may (i) create immediate additional interest burden to the Group, which might affect the Group's financial performance; (ii) involve provision of security; and (iii) subject to, including but not limited to, lengthy due diligence due to investigation by the lending banks on pledged assets (if required) and negotiations with the banks with regards to the Group's financial position and capital structure; and (iv) the then prevailing stock market condition, the Directors consider that obtaining a bank loan may be uncertain and time consuming.

2. The Company preferred to acquire the PRC Subsidiary B through an oversea incorporated vehicle because the Company prefers a simple structure which is also the usual norm for listed companies. However, the Party B would not consider such arrangement as the Party B did not bother to take the time for completion of such procedure.

3. Party B requested for a speedy completion but at that material time, the Company was unable to satisfy this request, therefore Party B did not contemplate to sell 49% of the PRC Subsidiary B directly to the Company. Further, assuming the Company has sufficient fund to acquire the 49% interest of PRC Subsidiary B directly from Party B in cash at that time. Such transaction would constitute as a major and connected transaction at subsidiary level for the Company. The Company will have to take time to comply with the Listing Rules which was unlikely to meet Party B's request for a speedy completion.

As the original acquisition cost for both the transfer (1) from Independent Third Party to Dragon Holdings and (2) from Dragon Holdings to PRC Subsidiary A are approximately at RMB100 million, the Board noted that the Consideration represents approximately five times of the original acquisition cost. However, the Board consider that the basis of Consideration is fair and reasonable because the Board understand that:

i. the market value of the property of the Target Group has increased during the period from second half of 2015 to year 2018, the consideration of the DH Acquisition 1 might not be a meaningful reference point;

ii. For DH Acquisition 2, as most of the operating expenses and construction costs of PRC Subsidiary B are paid by Dragon Holdings in the past (equivalent to the sum of the Dragon's Loan i.e. RMB334,872,383), the financial contribution from the Independent Third Party is limited, as such, Dragon Holdings and an individual (who held on trust for Dragon Holdings) only need to pay RMB49,000,000 (based on the amount of 49% of registered capital of PRC Subsidiary B) to the Independent Third Party for the acquisition of 49% of PRC Subsidiary B. Under the relevant legislation the minimum number of shareholders of the PRC Subsidiary B should be two as Dragon Holdings only has one shareholder at that time. Accordingly. an individual held 1% interest on trust for Dragon Holdings; and

iii. For DH Acquisition 3, the original acquisition cost is paid by Vendor to her connected parties mainly for reorganization purpose. Accordingly, it did not represent the fair value of the properties between any usual market seller and purchaser.

Furthermore, although comparatively, 49% of the Consideration for the Acquisition is greater than the consideration by RMB195,986,280 i.e. approximately 400%, paid by the Vendor, for 49% of the shares of PRC Subsidiary B in DH Acquisition 2 at RMB49 million, given the circumstances stated above, the Company believes that it is still in the best interest of the shareholders and the Company as a whole as the Company did not have sufficient available cash at the time of DH Acquisition 2 and the Consideration Shares offered as Consideration for the current Acquisition will be allotted and issued at the Issue Price which represents a premium over the closing price and the average closing price of the Share on the date of the Agreement.

Consideration Shares

The Consideration Shares represent approximately 19.38% of the existing issued share capital of the Company as of the Latest Practicable Date and approximately 16.23% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares immediately after the Completion (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date to the Completion Date, save as the issue of the Consideration Shares).

The Consideration Shares will be allotted and issued at the Issue Price, which represents:

(i) a premium of approximately 3.77% to the closing price of HK$0.53 per Share as quoted on the Stock Exchange on the date of the Agreement;

(ii) a premium of approximately 5.77% to the average closing price of HK$0.52 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Agreement;

(iii) a premium of approximately 11.11% to the closing price of HK0.495 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(iv) a premium of approximately 1.85% to the closing price of HK$0.54 per Share as quoted on the Stock Exchange on the Last Trading Day; and

(v) a premium of approximately 71.88% to the audited consolidated net asset value per Share attributable to equity holders of the Company of approximately HK$0.32 per Share as at 31 December 2017.

The Consideration was determined with reference to the Adjusted NAV of the Target Group as at 30 September 2018 which includes the value of the audited consolidated net asset value of the Target Group attributable to the Vendor as at 30 September 2018, which has already taken into account the Dragon's Loan. Therefore, the Board has considered the Dragon's Loan when determining the Consideration and the Board considered that it is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

The Consideration for the Acquisition is considered by the Company to be competitive because:

(a) The Consideration was determined with reference to the Adjusted NAV of the Target Group as at 30 September 2018. The Adjusted NAV has included the amount of valuation of the market value of the properties interest held by the Target Group as at 30 September 2018 prepared by the Valuer and deducting the Former Consideration and it is 6% discount to the Adjusted NAV; and

(b) Instead of the payment of cash, Consideration Shares are offered as Consideration for the Sale Share, therefore, there will be no cash outflow for the Acquisition, which provides comparatively greater flexibility to the financial status of the Company.

The Issue Price was determined after arm's length negotiation between the Purchaser and the Vendor, with reference to the prevailing market price of the Shares. The Directors (excluding the independent non-executive Directors whose views, after considering the advice from Euto, are contained in this circular) consider that the Issue Price and the Consideration are fair and reasonable, on normal commercial terms and in the interests of the Group and the Shareholders as a whole.

Based on the requested terms from the Party B at that material time, the Company was unable to meet the Party B's request to grasp the opportunity to acquire 49% interests of PRC Subsidiary B at its original cost of capital from the Party B, which is much lower than the market value of PRC Subsidiary B. The Company is now able to offer Consideration Shares as Consideration for the Sale Share instead of payment of cash to the Vendor for acquisition of the Target Group which consist of the PRC Subsidiary B.

The Board believes that the Acquisition is in the interests of the Company and its shareholders as a whole as there is no cash outflow for the Company by offering Consideration Shares as Consideration in lieu of cash, which would provide greater flexibility to its financial status.

Specific Mandate

The Consideration Shares will be allotted and issued under the Specific Mandate to be sought at the EGM. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

Conditions precedent

Completion is conditional upon the satisfaction (or waiver, if applicable) of, *inter alia*, the following conditions precedent on or before the Long Stop Date in accordance with the terms of the Agreement:

(a) the passing of the resolution(s) by the Independent Shareholders at the EGM, to approve the Agreement and the transactions contemplated thereunder, including but not limited to (i) the grant of the Specific Mandate for allotment and issue of Consideration Shares and (ii) the Whitewash Waiver;

(b) the Executive having granted the Whitewash Waiver;

(c) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Consideration Shares;

(d) the Purchaser having completed the due diligence review (including but not limited to the assets, the Land, debt, operation and business conditions of the Target Group) and the Purchaser being satisfied with the results of such due diligence review;

(e) the Purchaser having received (and being satisfied with) the relevant transfer documents showing that the Sale Share has been transferred from the Vendor to the Purchaser and/or its nominee and the person specified by the Purchaser having been appointed as the administrator;

(f) the Target Company having obtained the approvals relating to the share transfer contemplated under the Agreement, from its board of directors;

(g) there being no substantial change in the present management of the Target Group or any action taken that leads to a material adverse impact on the business, assets, property, financial condition, operation and future aspects of the Target Group prior to and at Completion and all warranties remain true and accurate as at the Completion Date;

(h) the Purchaser having received a PRC legal opinion regarding the legality of the members of the Target Group which are established in the PRC (in a form and content satisfactory to the Purchaser);

(i) the Purchaser having received (and being satisfied with) the relevant documents to show that the persons specified by the Purchaser have been appointed as the Target Group members' director, legal representative and secretary;

(j) the Purchaser having received a valuation report in respect of the Land prepared by the Valuer engaged by the Purchaser (in a form and content satisfactory to the Purchaser); and

(k) the Purchaser having received all other documents requested by the Purchaser to be supplied and/or executed by the Vendor or members of the Target Group before the Completion Date.

Save and except the conditions (a), (b) and (c) above, all other conditions may be waived by the Purchaser in writing at its discretion. Such waiver may be conditional waiver and subject to terms and conditions imposed by the Purchaser. The above conditions (a), (b) and (c) shall not be waivable at all times. As at the Latest Practicable Date, to the best knowledge of the Purchaser, the Purchaser does not have any intention to waive any of the conditions precedent.

If any of the above conditions have not been fulfilled or waived (as the case may be) on or before the Long Stop Date, the Agreement shall lapse and the Vendor shall forthwith return to the Purchaser all monies previously paid by the Purchaser without interest, if any. Thereafter neither party shall make any claims against any other parties pursuant to the terms nor conditions of the Agreement, save for any antecedent breaches of the terms of the Agreement.

As at the Latest Practicable Date, Conditions (h) and (j) have been fulfilled. Apart from that, none of the above conditions has been fulfilled or waived.

Completion

The Completion shall take place within five (5) Business Days after the Purchaser is fully satisfied with (except those waived by the Purchaser) all the conditions precedent or such other day as the parties to the Agreement may agree in writing.

Upon the Completion, the Target Company, the HK Subsidiary, the PRC Subsidiary A, the PRC Subsidiary B and the PRC Subsidiary C will all become indirect wholly-owned subsidiaries of the Company. The financial results of the Target Group will be consolidated into the financial results of the Group.

Potential connected financial assistance upon Completion

Consideration for the equity interest of the PRC Subsidiary B

As informed by the Vendor, the PRC Subsidiary B was formerly respectively owned as to 1% and 99% by an individual, who held on trust for Dragon Holdings, and Dragon Holdings. Under the relevant legislation the minimum number of shareholders of the PRC Subsidiary B should be two as Dragon Holdings only has one shareholder at that time. Accordingly. an individual held 1% interest on trust for Dragon Holdings. As Dragon Holdings is an associate of Mr. Hong, it is a connected person to the Company.

Pursuant to the Former Transfer Agreement entered among the PRC Subsidiary A, as purchaser, and Dragon Holdings and an individual, together as vendors, in respect of the entire equity interest in PRC Subsidiary B, the Former Consideration shall be paid by the PRC Subsidiary A to the said vendors within 1 year from 19 October 2018 (i.e. on or before 18 October 2019). As informed by the Vendor, payment of such consideration is interest free, unsecured and the PRC Subsidiary A has the right to early repay for all or part of the consideration without incurring any expenses. Therefore, upon the Completion, the PRC Subsidiary A, which will be a wholly-owned subsidiary of the Company, will owe RMB100,001,300 (equivalent to approximately HK$113.64 million) to Dragon Holdings and it will constitute a financial assistance by connected person to the Company. The PRC Subsidiary A will finance the payment of the Former Consideration by its own resources.

Since (i) it is intended that the Former Consideration will continue to be repaid on the same term after the Completion, namely interest free, payable on or before 18 October 2019 and the PRC Subsidiary's right to early repay for all or part of the consideration without incurring any expenses; (ii) the arrangement relating to the outstanding Former Consideration is conducted on normal commercial terms or better; and (iii) as informed by Dragon Holdings, it does not intend to obtain any security from the Group to secure the payment of the Former Consideration, the said arrangement will be an exempted financial assistance to the Company and is fully exempted from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Outstanding loan granted by Dragon Holdings

As at the Latest Practicable Date, the PRC Subsidiary B owed the Dragon's Loan, being RMB334,872,383 (equivalent to approximately HK$380.5 million) to Dragon Holdings, which is the former shareholder of the PRC Subsidiary B.

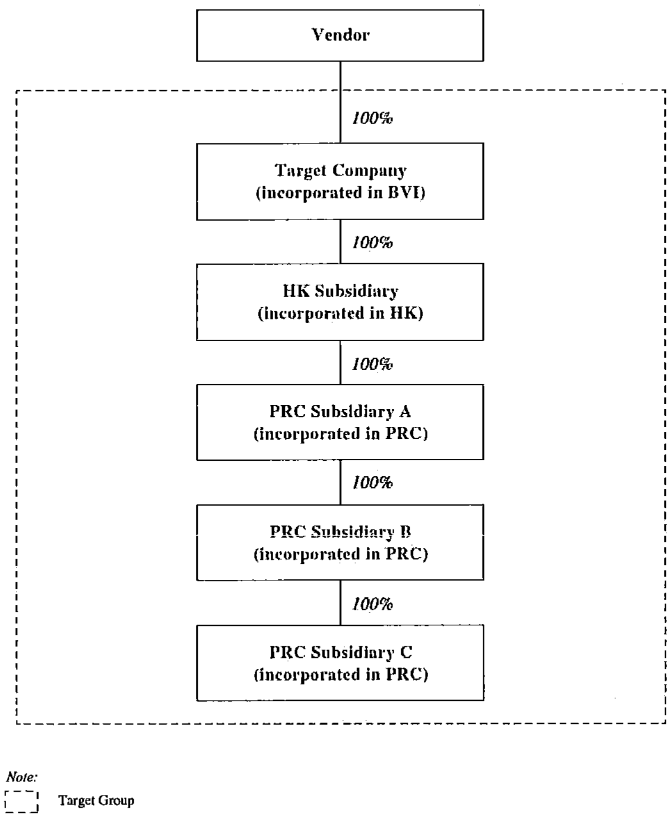
As informed by the Vendor, Dragon's Loan is interest free, unsecured and for a term up to 30 September 2019. The PRC Subsidiary B has the right to make early repayment for all or part of the Dragon's Loan without incurring any expenses. Therefore, upon the Completion, the grant of Dragon's Loan by Dragon Holdings to the PRC Subsidiary B, which will become an indirect wholly-owned subsidiary of the Company upon the Completion, will constitute a financial assistance by connected person to the Company.

Since (i) it is intended that Dragon's Loan will continue to be repaid on the same term after the Completion, namely interest free, unsecured, for a term up to 30 September 2019 and the PRC Subsidiary's right to make early repayment for all or part of the Dragon's Loan without incurring any expenses; and (ii) the grant of Dragon's Loan is conducted on normal commercial terms or better, the grant of Dragon's Loan will be an exempted financial assistance to the Company and is fully exempted from the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In any event, if any of the arrangement relating to the Former Consideration and the grant of Dragon's Loan constitutes a non-exempted financial assistance by the connected person under Chapter 14A of the Listing Rules, the Company will comply with the Listing Rules and make relevant disclosure as applicable and appropriate.

INFORMATION ON THE TARGET GROUP

The following diagram illustrates the shareholding structure of the Target Group as at the Latest Practicable Date:



As advised by the Vendor,

1. the Target Company is a company incorporated in the BVI with limited liability in July 2011 and its principal business of the Target Company is investment holding;

2. the HK Subsidiary is a company incorporated in Hong Kong with limited liability in October 2018 and its principal business of the HK Subsidiary is investment holding;

3. the PRC Subsidiary A is a company established in the PRC with limited liability in October 2018 and its principal business of PRC Subsidiary A is investment holding;

4. the PRC Subsidiary B is a company established in the PRC with limited liability in November 2013 and its principal business of PRC Subsidiary B is tours property development and management in Lishui City, Zhejiang Province; and

5. the PRC Subsidiary C is a company established in the PRC with limited liability in January 2015 and its principal business of PRC Subsidiary C is property development and operation in Lishui City, Zhejiang Province.

Financial information of the Target Group

As advised by the Vendor, the HK Subsidiary and the PRC Subsidiary A have only been incorporated and established for a short period. Due to the short operation history of the HK Subsidiary and the PRC Subsidiary A, the financial performances of the said companies are insignificant.

Based on the audited consolidated accounts of the Target Company, the PRC Subsidiary B and the PRC Subsidiary C for each of the two financial years ended 31 December 2016 and 2017 prepared by the reporting accountants, the audited consolidated financial information of the said companies are as follows:

	For the year ended 31 December 2016 *RMB'000* (audited)	**For the year ended 31 December 2017** *RMB'000* (audited)
Net loss before taxation	1,341	1,508
Net loss after taxation	1,341	1,508

As at 30 September 2018, the audited consolidated total asset value and net assets value of the Target Group were approximately RMB1,391,416,000 and RMB119,414,000, respectively. As there was a net loss, there is no profit taxable. Therefore, the amount of the net loss before and after taxation are the same.

As disclosed under Note 30, related party transactions, of Appendix II of this Circular, that on 19 January 2018, the Target Group entered into a guarantee service agreement with Jingning Differ ("**Guarantee Service Agreement**"). The terms are as follows:

Guarantee Service Agreement

Guarantor	:	Jingning Differ
Borrower	:	PRC Subsidiary B
Guarantee amount	:	RMB250 million together with any interests, penalty interests, compensation and other related fees and expenses owed to a local branch of a PRC commercial bank to PRC Subsidiary B
Guarantee fee rate	:	2.1% per annum of the guarantee amount (which is calculated proportionally for each month, and any part thereof shall be charged at the full monthly rate)
Consultancy fee rate	:	1.0% per annum of the guarantee amount (which is calculated proportionally for each month, and any part thereof shall be charged at the full monthly rate)
Term	:	from 23 January 2018 to 30 September 2022

The Vendor and Mr. Hong have executed a counter indemnity to counter indemnify Jinging Differ for all loss, liabilities and expenses which may be suffered or incurred by Jinging Differ.

As at the Latest Practicable Date, the said Guarantee Service Agreement is a transaction for provisions of financial assistance and amount to non-exempt continuing connected transactions of the Company and are subject to reporting, annual review, announcement, circular and independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. The independent shareholders of the Company have approved the said Guarantee Service Agreement on 12 January 2018. For further details of the said Guarantee Service Agreement please refer to the circular of the Company dated 23 December 2017.

Upon completion of the Acquisition, PRC Subsidiary B and Jungning Differ will become fellow subsidiaries of the Company, then the PRC Subsidiary B and Jingning Differ are no longer connected parties pursuant to Chapter 14A of the Listing Rules.

REASONS OF AND BENEFITS FOR THE ACQUISITION

The Group is a provider of short to medium-term financing and financing-related solutions in the PRC and Hong Kong and is principally engaged in the provision of (i) assets management business (including investments in properties, equities and distressed assets), (ii) finance lease services and (iii) financial services (including financial consultancy services, express loan services, guarantee services and supply chain services).

As disclosed in the interim report of the Company for 2018, the Group considers the asset management business is the key growth driver and actively looks for opportunity to expand this business. The Group continued its business strategy and is actively looking for the good quality assets which potentially offer returns in other provinces.

The Acquisition was first discussed and contemplated on or around late August 2018. Mr. Hong initiated discussion with Mr. Ng Chi Chung, the chief executive officer and executive director of the Company about the potential disposal of Phoenix Ancient Town (鳳凰古鎮) to the Company. Mr. Hong and the Board consider that the Land and the property development erected thereon will offer positive investment return to the Group. As the chairman of the board of directors and substantial shareholder of the Group, Mr. Hong's efforts are now primarily focused on the Group. As advised by Mr. Hong that was one of the reason for Mr. Hong to transfer the entire issued share capital of Dragon Holdings to his sister, Ms. Hong Mei Guan (洪美觀) on 13 November 2018. Furthermore, Mr. Hong considers as he is also one of the Shareholders of the Company, he will also enjoy the growth with the Company and its Shareholders as a whole in the future.

As the location of the two projects of Phoenix Ancient Town (鳳凰古鎮), the subject of the Acquisition, and Differ Sky Realm (鼎豐天境), owned by the Group, are adjacent to each other and the Phase 1 of Differ Sky Realm has been completed and delivered to the purchasers in the second quarter of 2018, the experienced sales team of Differ Sky Realm will be available to handle the sales of properties at Phoenix Ancient Town (鳳凰古鎮). Further, with the completed construction of the the nearby roads, there will be increase of consumer traffic flow and also with the increased flow of people in the area generated from the development of Differ Sky Realm Phoenix Ancient Town (鳳凰古鎮) will in turn benefit from that.

The Group's original asset management business is mainly focus on the distressed assets, mostly lands and properties. The Group seeks opportunities to acquire distressed assets from banks or other entities or individuals at attractive prices. After acquiring the distressed assets, the Group will assume the pre-existing rights and obligations between the banks and the debtors and will then formulate plans to achieve recovery based on the Group's target on profit, cash flow, cost and return on investments.

Following the completion of the acquisition of Differ Cultural Tourism Development Company Limited ("**Differ Cultural**") and its subsidiaries ("**Differ Cultural Group**") in January 2018, the Board considers the property development business to be an extension of the Company's original asset management business and a key link in asset consolidation and asset value enhancement. The major differences of the original asset management business and the property development business is that:

i) For the original asset management business, the Group acquires of lands and properties (which usually embedded with certain problems, such as late handover of the property by the property developer) at a comparatively prices below market value and the Group planned to resell such properties to third parties in a short period of time. The Group did not involve of the property construction process; and

ii) For the property development business, the Group acquires of lands and properties at competitive prices and planned to dispose large number of units of the properties to different customers. The Group outsources the construction work of its property development projects to qualified contractors.

The existing business of the Group involves many valuable assets such as secured collateral, distressed assets, distressed debts and other value assets, many of which are linked with lands and properties under constructions. The experience of the Group under its existing business has greatly enhance the property value evaluation, cost control and disposal of properties. At present, the Group's property development business has full capacity of independently developing and operating valuable assets, and has become a key driver for the Group's overall revenue and profit growth.

Phoenix Ancient Town (鳳凰古鎮) is located at the northern side of Renmin North Road and the eastern side of Waishe Road, Lishui, Zhejiang Province, the PRC. Phoenix Ancient Town (鳳凰古鎮) is a commercial cultural development with total site area of approximately 173,933.62 sq.m. and is currently under construction. Phoenix Ancient Town (鳳凰古鎮) will comprise a total planned gross floor area of approximately 311,585.3 sq.m. The Land and property development acquired from the Acquisition is adjacent to the major residential project of Differ Cultural Group, namely Differ Sky Realm (鼎豐天境) located in Lishui, the PRC. The Group plans to construct approximately 96 buildings on the Land. The said buildings are all antique buildings with a total height of 2-3 floors, creating a historical and cultural touch. The aim of the whole project is to create a one-stop She (佘族) cultural ancient street area filled with shopping, leisure, restaurants, entertainment, culture, tourism, hotels and street performances. The Phase 1 of Differ Sky Realm (鼎豐天境) which was completed and delivered to the purchasers in the second quarter of 2018 and the Phase 2 of the said property will be completed and delivered to the purchasers in near future, the Board considers that this will greatly increase the flow of people in the area and bring considerable sales to the commercial project, Phoenix Ancient Town (鳳凰古鎮). Further, as the Consideration represents approximately 6% discount of the Adjusted NAV, the Board considers the Acquisition to be fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Board, having considered the overview of the economy of the areas where the properties developments are located and the expertise of the management for the development of the properties, believe that the Land and the property development erected thereon will offer a positive business opportunity and return to the Company through the sales of properties.

As at the Latest Practicable Date, the completion date of the construction of Phoenix Ancient Town (鳳凰古鎮) is expected to be by the end of the second quarter of 2019 and revenue is expected to be generated from the second quarter of 2019 to 2021. As at 30 September 2018, over 90% of the development costs have been settled. The amount of remaining development costs to be paid is approximately RMB105 million. Approximately RMB45 million will be paid within 28 days after completion of construction works and approvals from local authorities (i.e around June 2019); and the remaining balance of approximately RMB60 million will be the retention fee for quality warranties purpose, which will be settled after the warranty period of two years.

EXPERTISE OF THE MANAGEMENT OF THE TARGET GROUP

Upon completion of the Acquisition, the Group will appoint certain management team from Differ Cultural Group to the Target Group, Mr. Gong Bin (宮斌) shall be the project leader of Phoenix Ancient Town (鳳凰古鎮). Mr. Gong joined the Group on June 2017 and has had extensive experience overseeing property development projects of various property development companies.

From 2008 to 2012, Mr. Gong served as the executive manager at the engineering department of a sizable PRC company, where his main tasks included (but were not limited to) formulating various management systems for project management, preparing project development plans, coordinating demolition in the early stage of the project, participating in project bidding procurement, overseeing quality control, progress, cost and supervision of on-site management.

In 2013, he served as the deputy general manager of the engineering technology center of that company and his main tasks included (but were not limited to) cooperating with external associations to carry out various reports and approvals, completing the standardized design of the parts and components, the decomposition of the quota design indicators, the definition of the soft and hard ratio of the landscape design and the implementation details of the design changes.

From 2014, Mr. Gong began to serve as the vice president of that company. His main tasks then included (but were not limited to) formulating the overall control plan for the development schedule of the development project, coordinating the progress of the projects of the participating units to be completed in strict accordance with the schedule, organizing various special topics and routine meetings to control and coordinate with technical problems, safety management, safety and civilized construction in the progress of the project, performance appraisal and incentives for the team, management and sales.

With a view to overseeing the overall strategic planning, execution and development of the properties, and supervising the project management team of the Target Group, the Directors are of the view that the expertise and experience of Mr. Gong would be very beneficial to the project.

The principal responsibilities of the members of the project management team shall be as follows:

Position	**Principal responsibilities**
Executive director of the subsidiary of Differ Cultural	Overseeing the general operations
Assistant manager of the subsidiary of Differ Cultural	Overseeing project sales
Deputy property manager of the subsidiary of Differ Cultural	Management of the project properties

Ms. Huo Jing* (霍靜), Executive director of the subsidiary of Differ Cultural, is responsible for overseeing the general operations. Prior to joining the Group, she served as deputy general manager of a PRC property services company from 2004 to 2014.

Mr. Jiang Hai Long* (蔣海龍), Assistant manager of the subsidiary of Differ Cultural, is responsible for overseeing the project sales. Prior to joining the Group, he has taken up various sales and marketing managerial positions at PRC real estate related companies since 2002.

Mr. Ma Yuan Xiang* (馬元祥), Deputy property manager of the subsidiary of Differ Cultural, is responsible for management of the project properties. Prior to joining the Group, he has taken up various managerial roles at property related companies since 2010.

The Directors (including the independent non-executive Directors who have taken into account the advice from Euto) believe that the Acquisition is in the interests of the Group and the Shareholders as a whole as the Acquisition represents a strategic geographic expansion of the Group in line with the Group's general business strategy.

Based on the above, the Board (including the independent non-executive Directors who have taken into account the advice from Euto) is of the view that the terms of the Agreement, the Issue Price and the Consideration are fair and reasonable and on normal commercial terms and that the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole.

OUTSOURCING OF CONSTRUCTION WORK

The Company has a professional team to manage the development project, who are actively involved in project design and overseeing construction. After approving the project plan, the Company will hire a professional construction company with relevant qualifications to undertake construction, as well as a qualified supervisory unit to supervise the whole construction process. The Company used to carry out regular inspections to maintain quality and to ensure that the construction is in line with the original design plan. As such, the Company believes that its internal controls will prevent over-reliance on the outsourced company. The Company believes that there are other comparable contractors in the market which the Company can select from time to time. The Company believes that the Company will always be able to find suitable contractors. Therefore, there will not be any material reliance on any particular outsourced contractor.

The construction of existing property projects of the Group has been outsourced to certain qualified contractors. The construction of Phoenix Ancient Town (鳳凰古鎮) has been outsourced to the qualified contractor, 武夷隆鑫集團有限公司 (Wuyi Longxin Group Limited*), formerly known as 福建省南平市隆鑫建築工程有限公司 (Nanping City, Fujian Province Longxin Construction Engineering Co., Ltd*) ("**Contractor**"), which is an Independent Third Party. The Contractor is a sizable construction company and is located at No. 128 Xinjian Road, Yanping District, Nanping City, Fujian Province.

In selecting the contractor for a particular project, the minimum criteria is as follows: (1) the background of the shareholders and the size of the capital (company strength); (2) the company's qualifications and the main projects undertaken (capacity); (3) the configuration of the project team members; (4) schedule/time requirements; (5) quality standards; (6) project quotations; (8) project progress; (7) settlement of funds; (8) quality assurance. The Company will continue to adopt the same criteria for selection of contractors for the projects under the Acquisition.

The construction contractors will enter into a construction agreement based on the standard template provided by the relevant government authority. Pursuant to such agreements, the construction contractors are obliged to undertake the entire construction project in strict compliance with the applicable laws and regulations as well as our design specifications and time schedule. In general, the Company pays the contractor around 80% to 90% of the total contract price during the construction process by payments in stages in accordance to the stages of the construction process. The Company usually pays approximately 95% of the total contract price upon the completion of the project and settlement, while holding back the remaining approximately 5% as retention fee for quality warranties purpose.

The construction contractors are generally required to provide the Company with a warranty period of two years, for any losses the Company may incur as a result of not being able to meet contractually specified quality standards. The unused portion of the retention fee will be returned to the contractors after the warranty period has expired. The Company may also agree to settle the retention fee by instalments over the warranty period. However, the Company will also be able to claw back any portion of such retention fee already remitted to the contractor to cover any losses that may be incurred that is greater than the unremitted portion.

BUSINESS MODEL

The property development business of the Group is primarily in the theme of cultural tourism, covering operation and development of valuable properties in the areas of commercial properties, residential properties, hotel and property management, with cultural tourism characteristic towns as its main focus. The Group has had experience in many high value property development projects such as Differ Sky Realm (鼎豐天境) and Chu Zhou Fu Cheng (處州府城), which comprised of both commercial and residential properties. The Group outsources the construction work of its property development projects to qualified contractors. The Group usually engages a general contractor for the major construction of a project, including main structure construction, equipment installation and engineering work. The Group's in-house sales and marketing team is in charge of formulating sales and marketing strategies, setting sales goals, determine of time of pre-sale, pricing policies and payment arrangement. The Group relies on the efforts of its own sales and marketing management team for the sale of most of its properties.

MARKET AND INDUSTRY OVERVIEW

(i) Overview of the PRC real estate market

In line with the growth of the PRC economy and the accelerated fixed assets investment, real estate investment in the PRC has increased rapidly. Consequently, as a result of the PRC's rapid urbanization process and the strong investment appetite in real estate, the total investment in the PRC property market has been increased from approximately RMB8,601 billion in 2013 to RMB10,980 billion in 2017, representing a CAGR of approximately 5.01%, as stated in the website of the National Bureau of Statistic of China http://www.stats.gov.cn/tjsj/.

As further noted from an article entitled "List of major real estate policies issued by the PRC government in 2018* (中國政府2018年出台的房地產主要政策一覽)" as published by Reuters (https://cn.reuters.com/article/背景資料%EF%BC%9A中國政府2018年出台的房地產主要政策一覽-idCNL4S1V61YS), we note that it is the intention of the PRC government to (i) improve the long-term mechanism to promote the stable and healthy development of the real estate market, (ii) maintain the continuity and stability of the real estate market regulation policy, (iii) distinguish central and local powers, and (iv) implement differentiated regulation on the property market. We further note that the PRC government imposed cooling measures, including lending curbs, higher mortgage rates and restrictions on the number of homes each family can buy, which will potentially slow down the growth in the PRC properties market and results in a decline in the demand in real estate. However, despite the cooling measures in the housing market imposed by PRC government, after taking into account the growth in demand in both the overall real estate investment and construction as demonstrated above, the Company is of the view that the overall property market in the PRC remains positive which will lead to a potential growth in the developing province under the real estate development sector.

(ii) Overview of the real estate development in Zhejiang

The Land is located in the city of Lishui, Zhejiang Province. As one of the prefecture level Province, Zhejiang witnessing strong market demands for commercial properties. Based on the data relating to Zhejiang Province real estate development investment indicator (房地產投資主要指標)for the period from 2012 to 2017, available on the official website of Zhejiang Sheng Tong Ju Ju* (浙江省統計局)(http://tjj.zj.gov.cn/), the total investment in commercial properties in Zhejiang Province has been increased from approximately RMB58.50 billion in 2013 to approximately RMB94.21 billion in 2017, representing a CAGR of approximately 10.0%. In view of the above growing trend, the commercial properties development market in Zhejiang has maintained a steady growth.

In respect of the property price of the commercial properties located in Lishui, the historical commercial property price information of Lishui city as published by China's Housing Price Platform* (中國房價行情網) (i.e. http://www.creprice.cn/market/ls/forsale/ALL/11.html) held by China Real Estate Association* (中國房地產業協會), an association monitored by the Construction Department of PRC* (中華人民共和國建設部), the average monthly pricing of the commercial properties in Lishui for the ten months ended 31 October 2018 was approximately RMB26,195 per square meter, representing an increase of approximately 14.41% as compared to the average monthly pricing of the same for the year 2017 of approximately RMB22,896 per square meter. According to the above research results, there is a growing trend in the development of commercial properties in Lishui of Zhejiang Province showing a potential investment return to the Group upon completion of Acquisition.

RISK FACTORS

(i) The performance of the Target Group depends upon the performance of the PRC property market, which in turn is subject to fluctuations in market conditions and economic performance

As at the Latest Practicable Date, the Target Group concentrate on the development of commercial developments in the PRC. Therefore, if the property market, particularly the property market in the PRC performed badly, it would have a direct negative impact on the performance of the Target Group.

(ii) Unable to successfully complete the construction on time

The construction of the property development project i.e. Phoenix Ancient Town* (鳳凰古鎮) require substantial capital expenditures prior to and during the construction period, and construction of a property project may take longer than half year before the development generates cash flow through pre-sale or sale. The progress and costs of the development project may be affected by factors including (a) delay in obtaining necessary certificates, licenses, permits or approval from government authorities; (b) changes in market conditions; (c) delays in or increased cost of materials, equipment and skilled labor; labor disputes; and adverse weather conditions. In view of the above, the Target Group's inability to complete projects as planned may have a material adverse effect on the Target Group's business, financial conditions, results of operations and prospects.

(iii) Risk of delay and impact on income

During the construction phase the Land will not generate any income for the Group. This period may be prolonged if completion of the construction phase is delayed. As disclosed in the valuation report, appendix V of this circular, only portion of Real Estate Title Certificate and Pre-sale Permits have been obtained for the Land. There is a risk that given the lengthy construction phase (with completion expected on or before second quarter of 2019), the commercial property market may deteriorate, in which case the Group's financial return may be less than expected.

COMPANY'S PLANS OF MITIGATION

Although the Board cannot guarantee that there will be no further measures implemented by the PRC government to control the growth of the property market, or that there will be no major negative changes in the PRC's economy, the Board will take all reasonable steps, by setting up a risk management committee, consisting of (i) Mr. Hong, the chairman and the executive Director of the Company; (ii) Mr. You Wei* (遊瑋), the in-house PRC lawyer; (iii) Mr. Gong Bin* (宮斌), the project leader of Phoenix Ancient Town (鳳凰古鎮); (iv) Ms. Huo Jing* (霍靜), executive director of the subsidiary of Differ Cultural; (v) Mr. Jiang Hai Long* (蔣海龍), assistant manager of the subsidiary of Differ Cultural; and (vi) Mr. Ma Yuan Xiang* (馬元祥), deputy property manager of the subsidiary of Differ Cultural. The risk management committee will aim to (i) monitor and obtain information relating to the regulations or policies as implement or planned by the PRC government, (ii) identify and assess the potential risk of the policies, perform sensitivity analysis on the sales of Properties and (iii) assess the timing for the pre-sale of the Properties, etc, to monitor the market conditions and the risk faced by the Target Group, and will potentially diversify the risk through formation of strategic alliance. For backgrounds of Mr. Gong Bin* (宮斌), Ms. Huo Jing* (霍靜), Mr. Jiang Hai Long* (蔣海龍) and Mr. Ma Yuan Xiang* (馬元祥), please refer to pages 23 to 24 of this circular.

The Board will mitigate any time risks by professional project management and effective cost control including clear documentation, co-ordination and communication between project parties, selection of experienced and qualified external parties, and timely commencement of marketing.

To mitigate risks of delay and impact on income, the Board will take all reasonable steps, by visiting the site, setting up milestone dates for each certain progress that must be reached, and monitor actual progress against the schedule, to monitor the progress of the construction and avoid any delay. The Board will perform a systematic and comprehensive feasibility analysis, a timely start to the marketing of the project and potentially sharing the risks through formation of strategic alliances.

Although only a portion of the Real Estate Title Certificate and Pre-sale Permits have been obtained for the Land, as advised by the Company's PRC lawyer, Tian Yuan Law Firm, there is no material foreseeable obstacle for the Target Group to obtain the remaining portion of the Real Estate Title Certificate and Pre-sale Permits, upon fulfilment of the relevant requirements (including the completion of construction and discharge of mortgage, respectively) and submission of the necessary documents. Based on the legal opinion issued by the Company's PRC lawyer, (i) only possessing portion of the Real Estate Title Certificate and Pre-sale Permits for now does not affect the title of the Land; (ii) PRC Subsidiary B is the legal and effective owner of the land use rights of the Land.

Major certificates and/or approvals in relation to the Land

The Real Estate Title Certificate《不動產權證書》are yet to be fully obtained as the Land has not yet reached the stage of the project development process. Subsequent to obtaining the State-owned Land Use Rights Certificates《國有土地使用權證》, the PRC Subsidiary B applied for and obtained a construction land planning permit《建設用地規劃許可證》from the municipal planning authority. After obtaining the said construction land planning permit, the PRC Subsidiary B conducted all necessary planning and design works in accordance with relevant planning and design requirements, which was submitted to the municipal planning authority, and a construction work planning permit《建設工程規劃許可證》was subsequently obtained from the municipal planning authority. The PRC Subsidiary B then applied for a construction work commencement permit《建築工程施工許可證》from the relevant construction authority.

Upon the completion of real estate development project, the real estate development enterprise shall submit an application to the competent department of real estate development of local people's government at or above county level, where the project is located, for examination upon completion of building and for filing purposes; and to obtain the Construction Work Completion and Inspection Certificate/Table《建設工程竣工驗收證／表》. A real estate project shall not be delivered before passing the acceptance examination. After passing the acceptance examination, the PRC Subsidiary B can proceed to applying for the remaining Real Estate Title Certificates for PRC Subsidiary B itself or for the purchasers of the development properties.

Before the PRC Subsidiary B sells the development properties in advance, it shall apply to the real estate administrative authority to obtain a pre-sales permit《預售許可證》. As portions of the land use rights and properties under development were pledged against certain bank borrowings of the PRC Subsidiary B ("**Mortgage**"), the grant of the remaining Pre-Sale Permits will be subject to the discharge of the Mortgage. The PRC Subsidiary B will repay certain bank borrowings in appropriate time in order to discharge of the Mortgage and obtain the remaining Pre-Sales Permits in stages.

Due to the aforesaid reasons, portion of the Real Estate Tile Certificates and Pre-Sale Permits are yet to be obtained by PRC Subsidiary B and will not be obtained prior to Completion.

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, there are an aggregate outstanding Share Options to subscribe for 43,238,000 Shares, all of which were granted on 25 April 2016 at exercise price of HK$0.734 per Share.

As at the Latest Practicable Date, the Company has 5,330,387,880 Shares in issue. Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the allotment and issue of the Consideration Shares; and (iii) immediately upon the allotment and issue of Consideration Shares and the exercise of all outstanding share options and assuming there are no other changes in the share capital of the Company from the Latest Practicable Date to the Completion Date:

	(i) As at the Latest Practicable Date		(ii) Immediately upon the allotment and issue of Consideration Shares		(iii) Immediately upon the allotment and issue of Consideration Shares and the exercise of all outstanding share options	
	No. of Shares	*Approximate %*	*No. of Shares*	*Approximate %*	*No. of Shares*	*Approximate %*
Expert Corporate *(Note 1)*	1,968,200,000	36.92%	1,968,200,000	30.93%	1,968,200,000	30.72%
The Vendor *(Note 2)*	-	-	1,033,000,000	16.23%	1,033,000,000	16.12%
Mr. Hong *(Note 4)*	-	-	-	-	6,400,000	0.10%
Sub-total of the Concert Group	**1,968,200,000**	**36.92%**	**3,001,200,000**	**47.16%**	**3,007,600,000**	**46.94%**
Ever Ultimate Limited *(Note 3)*	1,115,800,000	20.93%	1,115,800,000	17.54%	1,115,800,000	17.42%
Mr. Ng Chi Chung *(Notes 3 & 4)*	12,098,000	0.23%	12,098,000	0.19%	18,498,000	0.29%
Public Shareholders	2,234,289,880	41.92%	2,234,289,880	35.11%	2,234,289,880	34.87%
Other holders of share options *(Note 4)*	-	-	-	-	30,438,000	0.48%
Total	5,330,387,880	100.00%	6,363,387,880	100.00%	6,406,625,880	100.00%

Notes:

1. Expert Corporate is beneficially wholly-owned by Mr. Hong, the chairman and the executive Director of the Company. Mr. Hong is therefore deemed to be interested in the Shares owned by Expert Corporate.

2. The Vendor is the spouse of Mr. Hong. The Vendor is therefore deemed to be interested in all the Shares owned by Mr. Hong.

3. Ever Ultimate Limited is beneficially wholly-owned by Mr. Ng Chi Chung, the executive Director of the Company. Mr. Ng Chi Chung is therefore deemed to be interested in the Shares owned by Ever Ultimate Limited.

4. The share options refer to the total of 43,238,000 outstanding share options granted by the Company on 25 April 2016 pursuant to the share option scheme of the Company adopted on 26 November 2013.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon the Completion, the Target Company, the HK Subsidiary, the PRC Subsidiary A, the PRC Subsidiary B and the PRC Subsidiary C will all become indirect wholly-owned subsidiaries of the Company. The financial results of the Target Group will be consolidated into the financial results of the Group

Net Assets

Set out in Appendix IV to this circular is the unaudited pro forma statement of assets and liabilities of the Enlarged Group which illustrates the financial effects of the Acquisition assuming Completion had taken place on 30 June 2018. Based on the unaudited pro forma financial information of the Enlarged Group, the total assets of the Group would increase approximately 41.8% from approximately RMB3,350.2 million to approximately RMB4,752.1 million and its total liabilities would increase approximately 73.8% from approximately RMB1,875.0 million to approximately RMB3,258.4 million. As advised by the Vendor, the original costs of the Target Group is approximately RMB100,001,300. The Board noted that the Consideration represents 5.0 times of the original acquisition costs. However, the Board does not consider that is relevant, unfair and unreasonable because the Board has also considered a number of factors which are:

i) the Consideration, as disclosed above, is not based on the net assets value of the properties but instead the Adjusted NAV of the Target Group as at 30 September 2018; and

ii) the original acquisition cost are paid by Vendor to her connected parties mainly for reorganization purpose. Accordingly, it did not represent the fair value of the properties.

Accordingly, the Board is of the view that the Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole in the circumstances.

Earnings

According to the accountants' report on the Target Group as set out in Appendix II to this circular, the Target Group recorded a net loss attributable to owners of the company of approximately RMB0.4 million for the period from 1 January 2018 to 30 September 2018. The Acquisition would lead to a decrease on the Group's earnings if the Acquisition were completed on 1 January 2018.

APPLICATION FOR LISTING

The Consideration Shares comprising 1,033,000,000 Shares will be allotted and issued pursuant to the Specific Mandate to be sought at the EGM. The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares, when allotted and issued following the Completion, will rank *pari passu* in all respects with the existing Shares in issue.

IMPLICATIONS UNDER LISTING RULES

As one or more of the applicable percentage ratio(s) (as defined in the Listing Rules) in respect of the Acquisition in aggregate with the previous transactions of the Company namely, the (i) major transaction in relation to the participation of the acquisition of land plots in Zhejiang Province as per the Company's announcement dated 8 November 2018, which was subsequently reclassified as a very substantial acquisition as per the Company's clarification announcement dated 13 November 2018; (ii) discloseable transaction in relation to acquisition of entire issued share capital of Karhoe Company Limited as per the Company's announcement on 27 July 2018; and (iii) major and connected transaction in relation to the acquisition of all issued share capital of Differ Cultural Tourism Development Company Limited as disclosed in the Company's announcement dated 21 November 2017 exceeds 100%, the Acquisition constitutes a very substantial acquisition transaction of the Company under Chapter 14 of the Listing Rules. Accordingly, the Acquisition is subject to the reporting, announcement, circular and the Shareholders' approval requirements under the Listing Rules.

As the Vendor is the spouse of Mr. Hong, who is the chairman, the executive Director and the substantial shareholder of the Company, the Vendor is an associate of Mr. Hong and hence a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the relevant percentage ratios for the Acquisition exceeds 100% and the Consideration of the Acquisition exceeds HK$10,000,000, the Acquisition constitutes non-exempt connected transactions for the Company and are subject to reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

IMPLICATIONS UNDER TAKEOVERS CODE AND APPLICATION FOR THE WHITEWASH WAIVER

As at the Latest Practicable Date, the issued share capital of the Company comprises 5,330,387,880 Shares and the Concert Group is interested in 1,968,200,000 Shares in aggregate, representing approximately 36.92% of the issued share capital of the Company. Following the allotment and issue of the Consideration Shares, the shareholding of the Concert Group in the Company will be increased to 3,001,200,000 Shares in aggregate, representing approximately 47.16% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. As the Acquisition will increase the Concert Group's collective holding of voting rights of the Company by more than 2%, in the absence of the Whitewash Waiver, the Vendor would be under an obligation to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by the Concert Group pursuant to Rule 26 of the Takeovers Code.

As at the Latest Practicable Date, the Vendor has confirmed that, other than (i) 1,968,200,000 Shares held by the Concert Group; (ii) outstanding options granted to Mr. Hong under the share option scheme entitling the Concert Group to acquire 6,400,000 Shares (representing approximately 0.12% of the issued share capital of the Company as at the Latest Practicable Date) upon exercise of these options in full; and (iii) the transactions contemplated under the Agreement:

(a) none of the members of the Concert Group has received any irrevocable commitment from the Independent Shareholders in relation to voting in favour of or against the resolutions in respect of the Acquisition, the transactions contemplated thereunder or the Whitewash Waiver at the EGM;

(b) there is no outstanding derivative in respect of the securities of the Company which has been entered into by any members of the Concert Group;

(c) there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the shares of any of the members of the Concert Group (to which is a corporation) or the Company and which might be material to the Acquisition, the transactions contemplated thereunder or the Whitewash Waiver;

(d) there is no agreement or arrangement to which any members of the Concert Group is a party which related to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Acquisition, any transactions contemplated thereunder or the Whitewash Waiver (save as the conditions precedent to the Agreement); and

(e) none of the members of the Concert Group has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

The Concert Group has confirmed that as at the Latest Practicable Date, other than entering into of the Agreement, none of the members of the Concert Group have acquired or disposed of or entered into any agreement or arrangement to acquire or dispose of any voting rights in the Company within the six months prior to the Latest Practicable Date.

The Vendor has made an application to the Executive for the Whitewash Waiver. The Executive has indicated its agreement subject to approval by Independent Shareholders in accordance with Note 1 on dispensations from Rule 26 of the Takeovers Code, to waive any obligations to make a general offer which might result from the Acquisition.

ESTABLISHMENT OF INDEPENDENT BOARD COMMITTEE, CONNECTED TRANSACTION INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF THE INDEPENDENT FINANCIAL ADVISER

Pursuant to the Listing Rules and the Takeovers Code, the Independent Board Committee comprising of all the non-executive Directors and the Connected Transaction Independent Board Committee comprising of all the independent non-executive Directors have been formed to advise the Independent Shareholders on the Agreement, the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver, which none of the members of the Independent Board Committee and the Connected Transaction Independent Board Committee has any material interest therein.

With the approval of the Connected Transaction Independent Board Committee and the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code, the Company has appointed Euto as the independent financial adviser to advise the Connected Transaction Independent Board Committee, Independent Board Committee and the Independent Shareholders as to the fairness and reasonableness of the terms of the Agreement, the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver and as to voting by the Independent Shareholders.

EGM

A notice convening the EGM to be held at Units 1102-03, 11/F, Nine Queen's Road Central, Hong Kong on Friday, 18 January 2019 at 11:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

As at the Latest Practicable Date, Mr. Hong and his associate, namely Expert Corporate, are interested in aggregate of 1,968,200,000 Shares, representing approximately 36.92% of the total issued share capital of the Company. The Vendor, Mr. Hong, Expert Corporate and their respective associates are required to abstain from voting on the resolution(s) in respect of the Acquisition and the issue of the Consideration Shares at the EGM. Furthermore, save as Mr. Hong, no other Director has material interest in the Acquisition and the transactions contemplated thereunder, and as such, save as Mr. Hong, no other Director is required to abstain from voting on the Board resolution to approve the Agreement and the transactions contemplated thereunder. Mr. Hong had abstained from voting on the Board resolution approving the Agreement and the transactions contemplated thereunder.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Accordingly, the Company will procure the chairman of the EGM to demand for voting on poll in respect of the ordinary resolution to be proposed at the EGM in accordance with the memorandum of association and the articles of association of the Company and Tricor Investor Services Limited will serve as the scrutineer for the vote-taking.

The results of the EGM will be published after the conclusion of the EGM on the websites of the Stock Exchange and the Company.

INTENTIONS REGARDING THE COMPANY AND ITS EMPLOYEES

It is the intention of the Vendor that the Company will maintain its existing business after Completion. Regardless of whether the Acquisition is or is not approved by Shareholders, the Company will continue to carry on its existing businesses. Further, if the Acquisition is approved by the Shareholders, the size of asset management business (including property development business) of the Company will increase, thus its other existing business will be comparatively scaled down. The Company might consider to retain additional staff and financial resources with a view to enhance the scale, efficiency and productivity of the existing businesses of the Group. However, the Company will conduct a review on the business operation and financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. Subject to the result of the review and should suitable investment or business opportunities arise, the Company may consider diversifying the business of the Group with an objective to broaden its income source. As at the Latest Practicable Date, the Company has not yet formulate any concrete plan for diversification.

As at the Latest Practicable Date, the Vendor and its concert parties have no intention to re-deploy the fixed assets, or to discontinue the employment of the employees of the Group other than in the ordinary course of business of the Group.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 40 to 42 of the circular and the letter from the Connected Transaction Independent Board Committee set out on pages 37 to 39 of the circular. The Independent Board Committee, having taken into account of the advice from Euto, the text of which is set out on pages 43 to 104 of this circular, considers that the Acquisition and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver, are upon normal commercial terms following arm's length negotiations between the parties hereto and that the terms of the Acquisition is fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver, are in the interest of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver.

The Connected Transaction Independent Board Committee, having taken into account of the advice from Euto, the text of which is set out on pages 43 to 104 of this circular, considers that the Acquisition and the transactions contemplated thereunder and the Specific Mandate are upon normal commercial terms following arm's length negotiations between the parties hereto and that the terms of the Acquisition is fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition and the transactions contemplated thereunder and the Specific Mandate, are in the interest of the Company and the Shareholders as a whole. Accordingly, the Connected Transaction Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition and the transactions contemplated thereunder and the Specific Mandate.

Having considered the above-mentioned benefits to the Group and the advice of the Independent Financial Adviser, the Directors (including the independent non-executive Directors) consider that the terms of the Acquisition are on normal commercial terms and the issue of Consideration Shares under Specific Mandate are in the interests of the Company and the Shareholders as a whole and they are fair and reasonable to the Company. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Acquisition and the transactions contemplated thereunder and the grant of the Specific Mandate.

ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Connected Transaction Independent Board Committee set out on pages 37 to 39 of the circular; (ii) the letter from the Independent Board Committee set out on pages 40 and 42 of this circular; and (iii) the letter of advice from the Independent Financial Adviser set out on pages 43 to 104 of this circular, which contains among other matters, its advice to the Independent Board Committee and the Independent Shareholders in connection with the Acquisition and the transactions contemplated thereunder (including the grant of Specific Mandate to allot and issue of the Consideration Shares and the Whitewash Waiver) and the principal factors considered by it in arriving at its recommendation.

WARNING

The Executive may or may not grant the Whitewash Waiver. It is one of the conditions precedent in the Agreement for Completion that the Whitewash Waiver has been obtained. In the event that the Whitewash Waiver is not granted by the Executive or approved by the Independent Shareholders, the Agreement will lapse and the Acquisition will not proceed.

As the Completion is subject to the fulfilment or waiver (as the case may be) of certain conditions precedent as set out in the Agreement, the Acquisition may or may not proceed. Shareholders, Optionholders and potential investors of the Company should therefore exercise caution when dealing in the securities of the Company and are recommended to consult their professional advisers if they are in any doubt about their position and as to actions that they should take.

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

Yours faithfully,
By order of the Board
Differ Group Holding Company Limited

NG Chi Chung
Chief Executive Officer and
executive Director