

31 December 2018

*To the Independent Board Committee,
the Connected Transaction Independent Board Committee and
the Shareholders of Differ Group Holding Company Limited*

Dear Sirs and Madams,

**(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**

INTRODUCTION

We refer to our appointment as the independent financial adviser of the Company (the “**Independent Financial Adviser**”) to advise the Independent Board Committee, the Connected Transaction Independent Board Committee and the Independent Shareholders in respect of the Agreement, the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver (the “**Transactions**”), particulars of which are set out in the section headed “Letter from the Board” (the “**Letter**”) contained in the circular of the Company to the Shareholders dated 31 December 2018 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalized terms used in this letter shall have the same meanings as ascribed to them under the section headed “Definition” in this Circular.

Reference are made to (i) the announcement of the Company dated 7 November 2018 in relation to, among others, the Acquisition, the Specific Mandate and the Whitewash Waiver, given the Acquisition constitutes a major and connected transaction of the Company under the Listing Rules at that time; and (ii) 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 Acquisition

On 7 November 2018 (after trading hours), the Purchaser, a 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 Consideration shall be satisfied by way of allotment and issue of the Consideration Shares.

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the financial statements of the Group.

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 the 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 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, 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 exceeds HK\$10,000,000, the Acquisition constitutes a non-exempt connected transaction 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 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.

An application to the Executive for the Whitewash Waiver will be made by the Vendor pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval of the Independent Shareholders in respect of the Agreement, the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver at the EGM where voting on the relevant resolution shall be taken by poll.

INDEPENDENT BOARD COMMITTEE

Pursuant to the Listing Rules and the Takeovers Code, the Independent Board Committee, comprising of all the non-executive Directors (including independent non-executive Directors), namely Mr. Chan Sing Nun, Mr. Lam Kit Lam and Mr. Zeng Haisheng, Mr. Cai Jiafeng and Mr. Wu Qinghan, and the Connected Transaction Independent Board Committee comprising of all the independent non-executive Directors, namely Mr. Chan Sing Nun, Mr. Lam Kit Lam and Mr. Zeng Haisheng, has been established in accordance with Rule 2.8 of the Takeovers Code to advise the Independent Shareholders on the Agreement, the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver. None of the members of the Independent Board Committee and the Connected Transaction Independent Board Committee has any material interest in the Acquisition.

In our capacity as the Independent Financial Adviser to the Independent Board Committee, the Connected Transaction Independent Board Committee and the Independent Shareholders for the purpose of the Listings Rules, our role is to give an independent opinion to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Agreement 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, being fair and reasonable so far as the Independent Shareholders are concerned.

OUR INDEPENDENCE

We, Euto Capital Partners Limited (“**Euto Capital**”), have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Mr. Manfred Shiu (“**Mr. Shiu**”) is the person signing off the opinion letter from Euto Capital contained in the Circular. Mr. Shiu has been a responsible officer of Type 6 (advising on corporate finance) regulated activities under SFO since 2009 and has participated in and completed various independent financial advisory transactions in Hong Kong. As at the Latest Practicable Date, we confirmed that there is no relationship or interest between Euto Capital and the Company or any other parties that could be reasonably be regarded as hindrance to Euto Capital’s independence as defined under Rule 13.80 of Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee, the Connected Transaction Independent Board Committee and the Shareholders in respect of the Transactions. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates, and accordingly, are eligible to give independent advice and recommendations. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Board Committee, the Connected Transaction Independent Board Committee and Independent Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. We confirmed that there is no existence of or change in any circumstances that would affect our independence. During the past two years, we have been appointed as the independent financial adviser to the Company regarding (i) the major and connected transaction in relation to the acquisition of all issued share capital of Differ Cultural Tourism Development Company Limited from the Vendor and continuing connected transactions in relation to the provisions of financial assistance, of which the respective circular was dated 23 December 2017 and (ii) the disclosable and connected transaction in relation to the acquisition of 6.25% equity interest in Zhongnan Chengzhang (Tianjin Shi) Equity Investment Fund Partnership Limited (Limited Partnership) from Fujian Differ Venture Capital Company Limited* (福建省鼎豐創業投資有限公司), which is owned as to 99% by Ms. Cai Danni, the

daughter of Mr. Cai Danni, and as to 1% by Mr. Wu Zhipei, the cousin of Mr. Ng Chi Chung, of which the respective circular was dated 30 November 2016. Apart from normal professional fees for our services to the Company in connection with the previous appointments as mentioned above, as well as this engagement as the Independent Financial Adviser in respect of the Acquisition and the transaction contemplated thereunder, no other arrangement exists whereby we will receive any fees and/or benefits from the Group or any other parties that could reasonably be regarded as relevant to our independence. We confirmed that there is no relationships or interests between us and the Company, Directors, the Concert Group or their respective substantial shareholders and/or respective associates, or any party acting, or presumed to be acting, in concert with any of the above, or any company controlled by any of them. Accordingly, we consider that the aforementioned previous appointments would not affect our independence, and that we comply with Rule 2.6 of the Takeovers Code and Rule 13.84 of the Listing Rules and are eligible to give independent advice in respect of the Agreement, the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver to the Independent Board Committee, the Connected Transaction Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Agreement and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries (the “**Management**”). We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true and that all expectations and intentions of the Directors and the Management, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors and the Management. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed.

This circular includes particulars given in compliance with Rule 9.1 of the Takeovers Code for the purpose of giving information relating to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than those relating to the Concert Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Vendor) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading. The Vendor accepts full responsibility for the accuracy of the information contained in this circular (other than those relating to the Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading. Therefore, we have no reason to believe that

any material information has been omitted or withheld, or doubt the truth or accuracy of the information provided in this circular. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Target Group, the Vendor or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in this circular were true at the time they were made and at the date of the release of this circular and will continue to be true up to the Latest Practicable Date, and that the Independent Shareholders will be informed as soon as reasonably possible if we are aware of any material change to such representations and/or any change to our view/opinion. We have also assumed that the information we have relied on as set out in this letter will be valid up to the time of the EGM and we are not aware any of the information we have relied on as set out in this letter will change or become invalid in the foreseeable future.

We consider that we have been provided with, and we have reviewed sufficient information to reach an informed view, to justify relying on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors and the Management. We have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Transactions, as referred to in Rule 13.80 of the Listing Rules (including the notes thereof) in formulating our opinion and recommendation.

This letter is issued for the information for the Independent Board Committee, the Connected Transaction Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of the Agreement and the transactions contemplated thereunder, the Specific Mandate and the Whitewash Waiver, 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 purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASON CONSIDERED

In arriving at our opinion to the Independent Board Committee, the Connected Transaction Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

I. Background of 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.

(i) Information of the Company and the Group

The Company is a company incorporated in the Cayman Islands with limited liability on 4 December 2012 and the issued Shares of which have been listed on the Main board of the Stock Exchange. The Company is an investment holding company and the holding company of the Group.

(a) Principal business of the Group

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) financing guarantee services; (ii) express loan services; (iii) financial services; (iv) finance lease services; and (v) asset management business.

(b) Financial performance of the Group

Set out below is the financial information of the Group as extracted from the annual report of the Company for the year ended 31 December 2017 (the “2017 Annual Report”) and the interim report of the Company for the six months period ended 30 June 2018 (the “2018 Interim Report”)

Table 1: Summary of the audited consolidated financial performance of the Group

	For the year ended 31 December		For the six months ended 30 June		
	2016 RMB'000 (Audited)	2017 RMB'000 (Audited)	2017 RMB'000 (Unaudited) (Restated)	2018 RMB'000 (Unaudited)	
Income from financial related services					
Interest income from:					
– Pawn loans	7,669	–	–	–	
– Entrusted loans	73,710	54,162	21,036	33,144	
– Money lending	26,597	31,558	13,401	10,867	
Income from financial consultancy services	40,367	28,374	28,539	2,810	
Income from supply chain agency services	2,266	5,402	3,242	655	
Income from guarantee services	9,646	8,888	3,018	9,365	
Income from finance lease services	41,404	52,831	30,839	20,503	
Sub-total of income from financial related services	(A)	201,659	181,215	100,075	77,344
Income from assets management business					
Income from disposals/executions of distressed financial assets	32,233	20,233	20,233	3,911	
Sales of properties	–	–	–	346,775	
Rental income	–	–	–	1,691	
Income from disposals of other assets	20,000	5,205	–	–	
Finance income	40,976	44,726	22,935	–	
Income from provision of asset management solutions	–	39,139	–	–	
Dividend income	–	8,750	8,750	–	
Sub-total of income from assets management business	(B)	93,209	118,053	51,918	352,377
Total revenue	(A) + (B)	294,868	299,268	151,993	429,721
Profit before income tax for the year/period		193,032	216,029	121,765	205,598
Profit for the year/period		142,393	170,842	98,592	143,321

For the year ended 31 December 2017

As set out in the above table 1, the audited consolidated total revenue of the Group for the year ended 31 December 2017 was increased by approximately RMB4.4 million or 1.5% to approximately RMB299.3 million, as compared with approximately RMB294.9 million for the year ended 31 December 2016. Such increase was attributable to the net effect of the following reasons:

- **Assets management services**

As further disclosed in the 2017 Annual Report, the Group's income from assets management business was increased by approximately 26.7% from approximately RMB93.2 million for the year ended 31 December 2016 to approximately RMB118.1 million for the year ended 31 December 2017. Although the Group has not disposed any property during the year ended 31 December 2017 as compared with four properties being disposed for the corresponding period in 2016, the increase of the income was mainly due to the fact that (i) more obligors of non-performing loans have settled the debts according to the terms as set out in the relevant contracts and the Group has recorded finance income of approximately RMB44.7 million; (ii) the Group recorded income from disposal/executions of distressed financial assets and other assets of approximately RMB25.4 million; and (iii) the Group received dividend income of approximately RMB8.8 million from its equity investments.

Besides, the Group also provides asset management solutions to certain clients in the PRC and recorded service income of approximately RMB39.1 million during the year ended 31 December 2017. The Group provided corporate finance and business reorganisations advice to clients. In addition, the Group also assisted with the clients to restructure and market their underlying assets in the most appropriate manner to maximize the selling value. The asset management service incomes are based on the pre-agreed percentage of the selling prices of the underlying assets of clients.

- **Financial related services**

As disclosed in the 2017 Annual Report, the Group's income from financial related services business was decreased by 10.1% from approximately RMB201.7 million for the year ended 31 December 2016 to RMB181.2 million for the year ended 31 December 2017. The decrease of the income was mainly due to (i) the decrease in the financial consultancy service income of the Group from approximately RMB40.4 million for the year ended 31 December 2016 to RMB28.4 million for the year ended 31 December 2017, which was mainly attributable to the decrease of the number of the customers which lead to decrease of our income from financial consultancy services; (ii) the decrease in the Group's entrusted loan service income by approximately 26.5% from approximately RMB73.7 million for the year ended 31 December 2016 to approximately RMB54.2 million for the year ended 31 December 2017, which was due to the decrease of the number of customers and average interest rate charge; and (iii) the decrease in the Group's guarantee service income by approximately 7.9% from approximately RMB9.6 million for the year ended 31 December 2016 to approximately RMB8.9 million for the year ended 31 December 2017, which was mainly due to the decrease in the number of guarantee service under a prudent approach to approve the application of the guarantee services from potential customers during the year.

As further set out in the table 1, the Group's profit for the year was approximately RMB170.8 million for the year ended 31 December 2017, representing an increase of approximately RMB28.4 million, or 20.0%, from approximately RMB142.4 million for the year ended 31 December 2016. Such increase in profit for the year was mainly attributable to (i) an increase in the total revenue as described above; (ii) an increase in other income from approximately RMB3.4 million for the year ended 31 December 2016 to approximately RMB37.4 million for the year ended 31 December 2017, which was mainly due to the fact that the Group has received large amount of settlements from certain obligors of non-performing loans which the relevant loan receivables have been impaired in previous years; and (iii) the decrease in other expenses from approximately RMB47.4 million for the year ended 31 December 2016 to approximately RMB43.5 million for the year ended 31 December 2017, which was mainly attributable to decrease of impairment loss on finance lease, loan and account receivables of approximately RMB6.4 million and partly offset by the slightly increase of the operating expenses.

For the 6 months ended 30 June 2018

As further disclosed in the 2018 Interim Report, the consolidated financial information for the 6 months ended 30 June 2017 has been restated as a result of applying the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" ("AG5") issued by Hong Kong Institute of Certified Public Accountants, as if the major transaction and connection transaction in relation to the acquisition of the entire issued share capital of Differ Cultural Tourism Development Company Limited ("**Differ Cultural**") was completed on 23 January 2018. The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows have been prepared as if Differ Cultural and its subsidiaries ("**Differ Cultural Group**") had been the subsidiaries of the Group throughout the six months ended 30 June 2017 and 2018, or since their respective dates of incorporation/establishment where this is a shorter period. The consolidated statements of financial position of the Group as at 1 January 2017 and 31 December 2017 have been restated to include the assets and liabilities of the companies now comprising the Group.

As set out in the above table 1, the audited consolidated total revenue of the Group was increased from approximately RMB152.0 million for the six months ended 30 June 2017 to approximately RMB429.7 million for the six months ended 30 June 2018, representing an increase of approximately RMB277.7 million or 182.7%. Such increase was attributable to the net effect of the following reasons:

- Assets management services

As set out in the table 1 above, the Group's income from assets management business was increased by approximately 578.7% from approximately RMB51.9 million for the six months ended 30 June 2017 to RMB352.4 million for six months ended 30 June 2018. Such increase was mainly due to the inclusion of the financial information of Differ Cultural Group as mentioned above.

As mentioned above, the acquisition of Differ Cultural Group was completed on 23 January 2018. Differ Cultural Group manages two major residential and commercial property projects, being Differ Sky Realm (鼎豐天境) and Chu Zhou Fu Cheng (處州府城), all of which were located in Lishui, the PRC. Both projects are scheduled to be completed in phases between 2018 and 2021. Differ Sky Realm is a residential development comprises mostly properties for residential purposes and minor areas for commercial use on the ground floor. The said development covers a total site area of approximately

99,728 sq. m and a total gross floor area of approximately 377,169 sq. m upon completion. The Phase 1 of Differ Sky Realm was completed and delivered to the purchasers in the second quarter of 2018. The Phase 1 of Differ Sky Realm covers a total gross floor area of approximately 75,256 sq. m., of which approximately 94% of the saleable area was sold as at 30 June 2018. The revenue for the Phase 1 of Differ Sky Realm for the six months ended 30 June 2018 was approximately RMB346.8 million.

- Financial related services

As set out in the above table 1, the Group's income from financial related services business was decreased by approximately 22.7% from approximately RMB100.1 million for the six months ended 30 June 2017 to RMB77.3 million for the six months ended 30 June 2018. The decrease of the income was mainly due to (i) a decrease in the Group's finance lease services income by approximately 33.5% from approximately RMB30.8 million for the six months ended 30 June 2017 to approximately RMB20.5 million for the six months ended 30 June 2018, which was mainly due to decrease of contribution of the finance lease income from Hong Kong during the six months ended 30 June 2018; and (ii) the decrease in financial consultancy service income from approximately RMB28.5 million for the six months ended 30 June 2017 to approximately RMB2.8 million for the six months ended 30 June 2018 which was mainly due to the decrease of the number of the customers.

As further set out in the table 1, the Group's profit for the period was approximately RMB143.3 million for the six months ended 30 June 2018, representing an increase of approximately RMB44.7 million, or 45.4%, from approximately RMB98.6 million for the six months ended 30 June 2017. Such increase in profit for the period was mainly attributable to an increase in the total revenue as a result of the inclusion of the financial information of Differ Cultural Group as described above.

Table 2: Summary of the audited consolidated financial position of the Group

	As at 31 December	As at 30 June	
	2016	2017	
	<i>RMB'000</i>	<i>RMB'000</i>	
	(Unaudited)	(Unaudited)	
	<i>(Restated)</i>	<i>(Restated)</i>	
	<i>(Restated)</i>	<i>(Restated)</i>	
Non-current assets	643,230	900,379	1,199,621
Current assets	1,695,560	2,406,300	2,150,556
Total assets	2,338,790	3,306,679	3,350,177
Current liabilities	839,145	1,406,437	1,299,521
Non-current liabilities	278,265	528,647	575,462
Total liabilities	1,117,410	1,935,084	1,874,983
Net current assets	856,415	999,863	851,035
Total equity	1,221,380	1,371,595	1,475,194

As at 30 June 2018

- Non-current assets and current assets

As set out in the table 2 above, as at 30 June 2018, non-current assets and current assets of the Group are amounted to approximately RMB1,199,621,000 and RMB2,150,556,000 respectively. Set out below is the breakdown of the non-current assets and current assets of the Group as at 31 December 2017 and 30 June 2018.

Table 3: Breakdown of the consolidated total assets of the Group

	As at	
	31 December	30 June
	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
	<i>(Restated)</i>	
Non-current assets		
Property, plant and equipment	19,847	19,347
Prepaid land lease	6,105	–
Investment properties	321,000	536,800
Interests in associates	20,499	27,162
Restricted bank deposits	10,000	–
Finance lease, loan and account receivables	275,120	310,524
Prepayments, deposits and other receivables	83,038	83,630
Goodwill	33,400	33,400
Financial assets at fair value through profit or loss	–	72,758
Financial assets at fair value through other comprehensive income	–	116,000
Available-for-sales financial assets	131,370	–
	<u>900,379</u>	<u>1,199,621</u>
Current assets		
Financial assets at fair value through profit or loss	–	46,999
Properties held for development	41,403	–
Properties under development	627,860	635,101
Finance lease, loan and account receivables	1,101,485	926,342
Tax prepaid	16,396	–
Prepayments, deposits and other receivables	540,890	375,085
Restricted bank deposits	17,729	11,218
Cash and bank balances	60,537	155,811
	<u>2,406,300</u>	<u>2,150,556</u>
Total assets	3,306,679	3,350,177

As set out in the above table, the non-current assets of the Group was increased from approximately RMB900.4 million as at 31 December 2017 to approximately RMB1,199.6 million as at 30 June 2018, representing an increase of approximately RMB299.2 million or 33.2%. The increase in non-current assets of the Group was mainly due to (i) an increase in the amount of investment properties from approximately RMB321 million as at 31 December 2017 to approximately RMB536.8 million as at 30 June 2018, representing an increase of approximately 67.2% which was mainly due to acquisition of certain investment properties during the period and a fair value gains on of approximately RMB62.6 million for the six months ended 30 June 2018; and (ii) an increase in the amount of financial assets at fair value through other comprehensive income to approximately RMB116 million as at 30 June 2018; and (iii) an increase in the amount of financial assets at fair value through profit or loss to approximately RMB72.8 million as at 30 June 2018.

Further set out in the above table, the current assets of the Group was decreased from approximately RMB2,406.3 as at 31 December 2017 to approximately RMB2,150.6 million as at 30 June 2018, representing a decrease of approximately RMB255.7 million or 10.6%. Such a decrease was mainly due to (i) a decrease in the amount of prepayments, deposits and other receivables from approximately RMB540.9 million to approximately RMB375.1 million, representing a decrease of approximately 30.7%; and (ii) a decrease in the amount of finance lease, loan and account receivables from approximately RMB275.1 million to approximately RMB310.5 million which was primarily due to a decrease in the Group's finance lease services income during the period.

- Non-current liabilities and current liabilities

As set out in the table 2 above, as at 30 June 2018, current liabilities and non-current liabilities of the Group are amounted to approximately RMB1,299,521,000 and RMB575,462,000 respectively. Set out below is the breakdown of the current liabilities and non-current liabilities of the Group as at 31 December 2017 and 30 June 2018.

Table 4: Breakdown of the consolidated total liabilities of the Group

	As at	
	31 December 2017	30 June 2018
	<i>RMB'000</i> (Unaudited) (Restated)	<i>RMB'000</i> (Unaudited)
Current liabilities		
Trade payables	141,710	228,104
Accruals, other payables, deposits received and deferred income	92,184	127,635
Contract liabilities	912,085	869,666
Provision for taxation	37,932	16,741
Bank and other borrowings	180,801	57,375
Corporate bonds	41,725	—
	1,406,437	1,299,521
Non-current liabilities		
Deposits received and deferred income	31,025	82,158
Bank and other borrowings	61,950	33,263
Corporate bonds	225,199	232,388
Promissory note	120,000	—
Guaranteed notes	—	121,524
Deferred tax liabilities	90,473	106,129
	528,647	575,462
Total liabilities	1,935,084	1,874,983

As set out in the above table, the current liabilities of the Group was decreased by approximately RMB106.9 million or 7.6% from approximately RMB1,406.4 million as at 31 December 2017 to approximately RMB1,299.5 million as at 30 June 2018. The decrease in current liabilities of the Group was mainly due to the decrease in the amount of bank and other borrowings from approximately RMB180.8 million as at 31 December 2017 to approximately RMB57.4 million as at 30 June 2018 due to the repayment of borrowings during the period.

As further set out in the above table, the non-current liabilities of the Group was increased by approximately RMB46.8 million or 8.9% from approximately RMB528.6 million as at 31 December 2017 to approximately RMB575.5 million as at 30 June 2018. Such increase was mainly due to the increase in the amount of deposits received and deferred income and guaranteed notes recognized from approximately RMB31.0 million to approximately RMB82.2 million during the period.

As at 30 June 2018, the Group had total cash and bank balances and current restricted bank deposits of approximately RMB167.0 million (31 December 2017 (restated): approximately RMB78.3 million). The gearing ratio, calculated as percentage of total borrowings to the total assets of the Group was approximately 13.3% as at 30 June 2018 (31 December 2017 (restated): approximately 19.0%). The current ratio is 1.65 times as at 30 June 2018 (31 December 2017 (restated): 1.71 times). The Group did not use any financial instruments for hedging purpose.

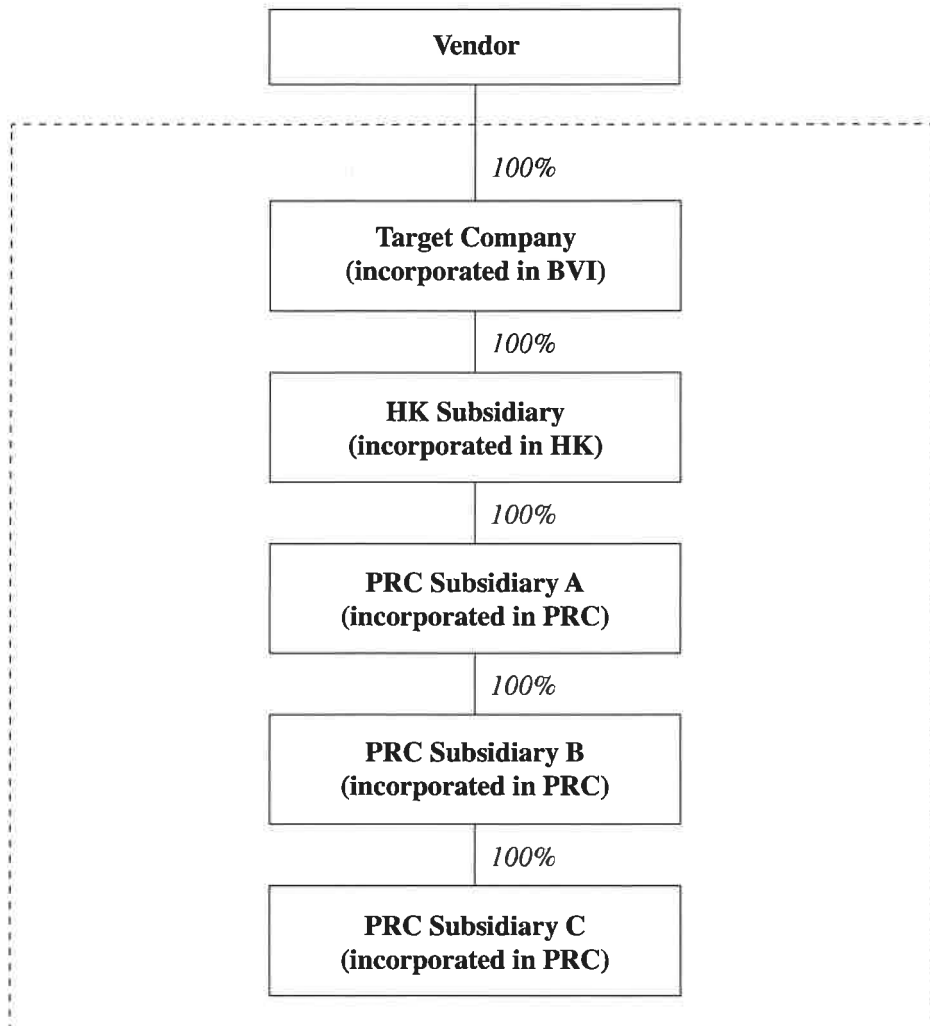
(ii) Information of the Vendor

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.

(iii) Information of the Target Group

(a) Shareholding Structure of the Target Group

Set out below is the diagram illustrates the shareholding structure of the Target Group as at the Latest Practicable Date:



(b) Principal business of the Target Group

Set out below are the primary information including the date of incorporation, place of incorporation, the shareholding structure and the principal activities of each of the companies under the Target Group.

- Target Company

The Target Company is a company incorporated in the BVI with limited liability on 22 July 2011 and its principal business of the Target Company is investment holding. As at the Latest Practicable Date, the Target Company is directly wholly-owned by the Vendor.

- The HK Subsidiary

The HK Subsidiary is a company incorporated in Hong Kong with limited liability on 15 October 2018 and its principal business of the HK Subsidiary is investment holding. As at the Latest Practicable Date, the HK Subsidiary is directly wholly-owned by the Target Company.

- PRC Subsidiary A

PRC Subsidiary A is a company established in the PRC with limited liability on 16 October 2018 and its principal business of PRC Subsidiary A is investment holding. As at the Latest Practicable Date, PRC Subsidiary A is directly wholly-owned by the HK Subsidiary.

- PRC Subsidiary B

PRC Subsidiary B is a company established in the PRC with limited liability on 21 November 2013 and its principal business of PRC Subsidiary B is tour development and management. As at the Latest Practicable Date, PRC Subsidiary B is directly wholly-owned by the PRC Subsidiary A.

- PRC Subsidiary C

PRC Subsidiary C is a company established in the PRC with limited liability on 16 January 2015 and its principal business of PRC Subsidiary C is property development and operation. As at the Latest Practicable Date, PRC Subsidiary C is directly wholly-owned by the PRC Subsidiary B.

(c) Financial information of the Target Group

As advised by the Vendor, the HK Subsidiary and the PRC Subsidiary A have 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.

Set out below are the key consolidated financial information of the Target Group (excluding the HK Subsidiary and the PRC Subsidiary A) as extracted from its audited consolidated management accounts for each of the two financial years ended 31 December 2016 and 2017 and for the nine months ended 30 September 2018.

Table 5: Summary of the audited consolidated financial performance of the Target Group

	Year ended 31 December			Nine months ended 30 September	
	2015	2016	2017	2017	2018
	RMB'000 (Audited)	RMB'000 (Audited)	RMB'000 (Audited)	RMB'000 (Audited)	RMB'000 (Audited)
Revenue	—	—	—	—	—
Profit/(loss) for the year/period	5,639	(1,341)	(1,508)	(1,316)	(731)

During the three financial years ended 31 December 2017 and for the 9 months ended 30 September 2018, the Target Group has yet to record any revenue since the Target Group is still as at the stage of development since its date of establishment.

For the year ended 31 December 2016

For the financial year ended 31 December 2016, the loss after taxation of the Target Group was amounted approximately RMB1,341,000, representing a decrease of approximately RMB6,980,000 when compare to the corresponding year. The significant decrease in net profit from approximately RMB5,639,000 for the year ended 31 December 2015 to a net loss of approximately RMB1,341,000 for the year ended 31 December 2016 was mainly attributable to gain on bargain purchase arising from acquisition of subsidiaries of approximately RMB18,082,000 for the year 2015, which partly offset by the effect of the loss on (i) disposal of a subsidiary of approximately RMB5,836,000 and (ii) finance costs of approximately RMB3,250,000 incurred in the same year.

For the year ended 31 December 2017

For the financial year ended 31 December 2017, the loss after taxation of the Target Group was amounted to approximately RMB1,508,000, representing a decrease of approximately 12.45% or RMB167,000 when compare to the corresponding year. It was mainly due to the increase in administrative and other expenses from approximately RMB1,350,000 for the year 2016 to approximately RMB1,471,000 for the year 2017.

For the nine months ended 30 September 2018

For the 9 months periods ended 30 September 2018, the loss after taxation of the Target Group was amounted approximately RMB731,000, representing a decrease of approximately 44.45% or RMB585,000 when compare to the corresponding year. The decrease in net loss from approximately RMB1,316,000 for the nine months period ended 30 September 2017 to RMB731,000 for the nine months period ended 30 September 2018 was mainly due to the decrease of administrative and other expenses of approximately RMB528,000.

Table 6: Summary of the audited consolidated statement of financial performance of the Target Group

	As at 31 December			As at 30
	2015	2016	2017	September
	RMB'000	RMB'000	RMB'000	2018
	(Audited)	(Audited)	(Audited)	(Audited)
Non-current assets	30	16	6	–
Current assets	<u>1,042,417</u>	<u>1,363,389</u>	<u>1,348,663</u>	<u>1,391,416</u>
Total assets	1,042,447	1,363,405	1,348,669	1,391,416
Non-current liabilities	450,988	689,237	636,535	588,079
Current liabilities	<u>468,464</u>	<u>552,515</u>	<u>591,988</u>	<u>683,923</u>
Total liabilities	919,452	1,241,752	1,228,523	1,272,002
Net assets	122,995	121,653	120,146	119,414

As at 30 September 2018

As at 30 September 2018, the total assets of the Target Group was amounted to approximately RMB1,391,416,000 and recorded an increase of approximately RMB42,747,000 or 3.17% when compare to the total asset value of the year ended 31 December 2018. The total assets of the Target Group as at 30 September 2018 comprised only the current assets.

The increase in total assets of the Target Group as at 30 September 2018 when compare to the total asset value of the year ended 31 December 2017 was mainly attributable to the increase of property under development of approximately RMB40,694,000 from approximately RMB1,346,004,000 to RMB1,386,698,000.

Regarding the total liabilities of the Target Group as at 30 September 2018, it was amounted to approximately RMB1,272,002,000, representing an increase by approximately RMB43,479,000 or 3.54% when compared to that as at 31 December 2017. It is noted that such increase was mainly due to the increase in current liabilities as a result of the increase in the amount due to related companies from approximately RMB4,238,000 to approximately RMB334,872,000; and partly offset by the effect of decrease of accruals and other payables of approximately RMB314,852,000.

(c) Expertise of the management of the Target Group

As stated in the Letter, 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, we concur with the Directors' view that the expertise and experience of Mr. Gong would be very beneficial to the project.

(d) Outsourcing of construction work

As further stated in the Letter, 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 outsourced contractor.

The construction of existing property projects has been outsourced to the qualified contractors.

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; (7) project progress; (8) settlement of funds; (9) 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 the Company's 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.

Our view

In light of the above, we have reviewed the construction agreements entered into between the Company and the qualified contractors in respect of the Group's existing property projects, we noted that the construction of the existing property projects has been outsourced to several different qualified contractors which indicated the Group's ability in soliciting new contractors in carrying out the construction in the past. Hence, we are of the view that the Group was able to secure new contractors and did not have any significant reliance on one single contractors. Together with the internal controls as mentioned above, including the details of the outsourcing companies engaged by the Company and available in the market and the selection criteria, we considered that the outsourcing of construction work does not indicate any material inefficiency in the whole construction process.

(e) Business model of the Target Group

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 management of Group has had 3 years' experience in managing 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.

(f) Guarantee Service Agreement

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. The terms are as follows:

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 Jingning Differ for all loss, liabilities and expenses which may be suffered or incurred by Jingning Differ.

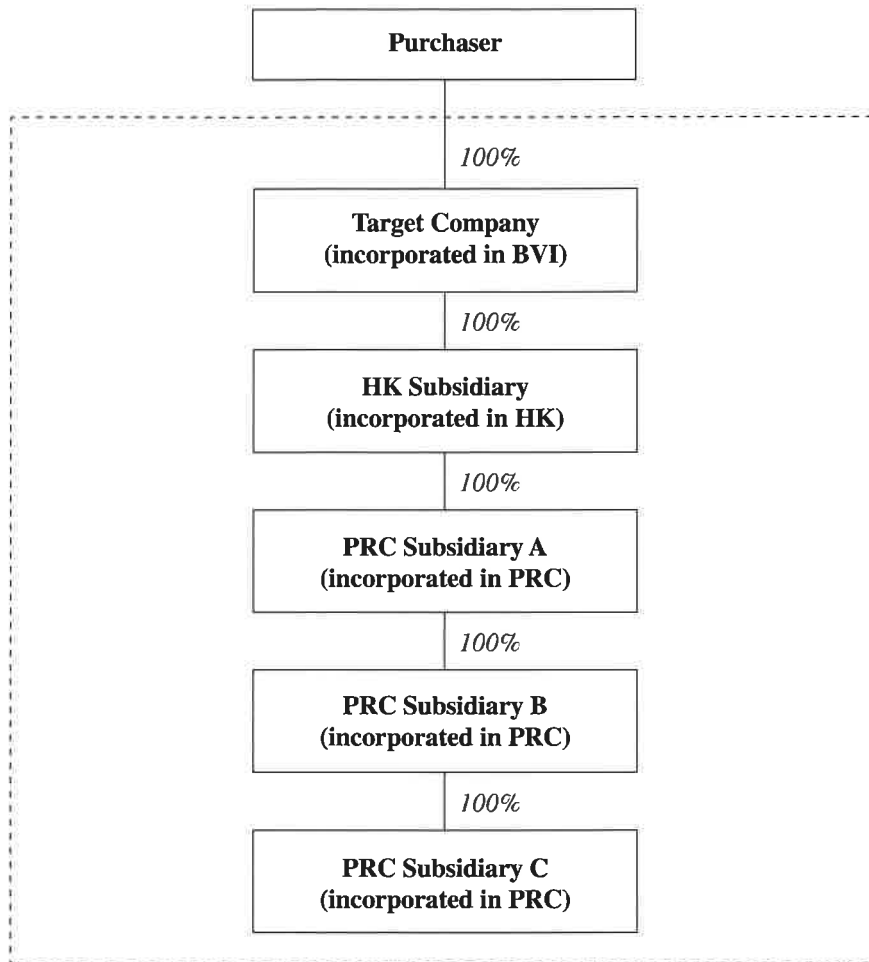
As at the Latest Practicable Date, the said Guarantee Service Agreement is a transaction for provisions of financial assistance and amount to non-exempt continuing connected transactions of the Company and are subject to reporting, annual review, announcement, circular and independent shareholders' approval 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 Jingning 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.

Given PRC Subsidiary B and Jingning Differ will become fellow subsidiaries of the Company upon completion of the Acquisition and are no longer connected parties and the terms of such Guarantee Service Agreement has been approved by the Shareholders on 12 January 2018, we consider that the transaction contemplated under the Guarantee Service Agreement is fair and reasonable and is in the interest of the Company as a whole.

II. Transaction structure of the Acquisition

The diagram below shows the shareholding structure of the Target Group immediately upon Completion.



III. Reasons for and benefits of entering into the Agreement

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) financing guarantee services; (ii) express loan services; (iii) financial services; (iv) finance lease services; and (v) asset management business.

As disclosed in the interim report of the Company for 2018, the Group consider 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 high-percentage 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 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 (鼎豐天境), 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 constructors.

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 properties under development (the “**Properties**”) held by the Target Group 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.

(i) Information about the Land

As stated in the Letter, 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. Upon completion of its construction, Phoenix Ancient Town (鳳凰古鎮) will comprise a total planned gross floor area of approximately 311,585.3 sq. m.

According to the information provided by the Target Group, the Land is located at Lot B1-04, Waishe Zone, Hongxing Neighbour, Jingning Town, Lishui City, Zhejiang Province, the PRC. The locality is a newly developed area where public facilities such as community center and public park are still under development as at the Latest Practicable Date.

Phoenix Ancient Town occupies two parcels of land with a total site area of approximately 173,933.62 sq.m. The subject property was under construction as at the Latest Practicable Date and it had scheduled to complete in March 2019. As advised by the Target Group, upon completion of the aforesaid construction, the subject property will comprise a total planned gross floor area of approximately 311,585.30 sq. m. The classification, usage, details of the property are as below:

Usage	Planned Gross Floor Area (sq. m.)
Retail	190,979.10
Basement (inclusive of car parking spaces)	<u>120,606.20</u>
Total	<u><u>311,585.30</u></u>

(ii) Factors in assessing the Acquisition

We have discussed with the management of the Company and understand that during the year 2018, the Company has been actively looking for ways to further diversify its geographical presence by expanding into other locations with suitable demand. As such, the Company paid effort to explore acquisitions of similar target companies or properties including the Acquisition before entering into the Agreement, including potential acquisition of the Properties in the Land, in order to deliver value to the Company and its Shareholders as a whole.

We have interviewed the Directors and reviewed the internal control procedures relating to the Company's effort, including but not limited to (i) planning; (ii) conducting market research; (iii) conducting comprehensive screen of the property market; and (iv) identifying potential target based on the criteria set out below. Based on the results of the above internal control procedures, we have considered, amongst other,

- (i) the Management has considered the potential growing trend in the development of Lishui's commercial properties after examining the relevant property market and the Group's intention to deepen penetration in the same region given the Group have had a presence in Lishui already (i.e. the same location of the properties held by Differ Cultural Group), the Group has chosen Lishui as a target location to further enlarge its investment footprints;
- (ii) in order to originate acquisition target in Lishui, the Management has (1) conducted research on potential land or property development projects published by the government authorities for any public auctions or tenders and (2) identified the suitable target for the Group based on the criteria set out below. However, apart from the Target Group, there is no other alternative acquisition target in Lishui with similar theme of commercial cultural tourism development as compare to that of the Group; and
- (iii) the Management has further analyzed the Target Group based on the criteria relating to the investment return and based on the results as further described in the paragraph below, the Management considered that the Target Group could meet the Group's investment expectation and is in the interest of the Company and Shareholders as a whole. Having considered the above mentioned, we are of the view that the reasons for the Management of not choosing other alternatives target is justifiable.

Whilst identifying the suitable target for the Company before entering into the Agreement, the Company has selected the target based on (i) the reasons for the Group's expansion, (ii) site selection, (iii) breakeven period and (iv) investment payback period together with the assumptions, etc.

In light of the above, we understand that the Land was held by the Vendor through the Target Group and such Land was located next to the properties held by Differ Cultural in the city of Lishui, Zhejiang Province. We have also reviewed the business plan of the Target Group in respect of (i) the estimated timing for completion of the Land constructions, (ii) the estimated timing for sale of Properties, and (iii) the estimated investment return of the Properties for the next three years commencing from January 2019, it is estimated that the Target Group will commence to generate income from sales of properties from second half of 2019 and the investment payback period is estimated to be approximately three years. Having considered (i) the overall property market in Zhejiang and Lishui as analyzed in the paragraph below and (ii) the estimated return as generated by the Target Group under the reviewed business plan, we consider that the Acquisition will be able to enhance the value of the Group and generate stable income from sales of properties to the Company.

In assessing the Acquisition and forming the view that the terms of the Acquisition are in the interests of the Company and its Shareholders as a whole, we have taken into consideration of the following factors:

(a) 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 urbanisation 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/>).

Set out below is table showing the relevant data relating to the property market in the PRC for the periods indicated under a statistics entitled "Investment Completed by Enterprise for Real Estate Development by Use" published by National Bureau of Statistics of China:

	2013	2014	2015	2016	2017
	<i>RMB billion</i>	<i>RMB billion</i>	<i>RMB billion</i>	<i>RMB billion</i>	<i>RMB billion</i>
Total real estate investment	8,601	9,504	9,598	10,258	10,980
Investment in residential properties	5,895	6,435	6,460	6,870	7,515
Investment in office properties	465	564	621	653	676
Investment in real properties	1,195	1,435	1,461	1,584	1,564

As noted from the statistics above, there is a growing trend in total real estate investment for the 5 years from 2013 to 2017 and in light of such growing trend, we consider that the growing economy of the PRC had, to a certain extent, driven the investment activities in real estates in the PRC.

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, we are 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.

(b) Overview of the real estate development in Zhejiang

As mentioned above, the Land is located in the city of Lishui, Zhejiang Province, the PRC. Lishui is a prefecture-level city in the southwest of Zhejiang province, the PRC. It borders Quzhou, Jinhua and Taizhou to the north, Wenzhou to the southeast, and the province of Fujian to the southwest. Lishui is under the jurisdiction of Nanjing and has a physical land size of 1,067 square kilometers with population of less than a half million.

As one of the prefecture level Province, Zhejiang witnessing strong market demands for commercial properties. In order to assess the growth potential of commercial properties in Zhejiang in the coming years, we have conducted research from public domains in relation to the real estate development in Zhejiang region as mentioned below.

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/>), we note that the total investment in commercial properties in Zhejiang Province has been increased from approximately RMB58.50 billion in 2012 to approximately RMB94.21 billion in 2017, representing a CAGR of approximately 10.0%. In view of the above growing trend, we concluded that 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, we have also conducted a research and checked to 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/lis/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). According to the above research, we note that the average monthly pricing of the commercial properties in Lishui for the 10 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.

After considering the above research results, we conclude that 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 the completion of Acquisition.

(c) Capital appreciation of the properties under the Land

According to the Valuation Report (as defined below) we noticed that the property value has recorded a market value of approximately RMB1,899,000,000 as at 30 September 2018. Based on the said valuation results, we note that a revaluation surplus was recognized on the Properties (as defined below) of approximately RMB512,302,000, which is calculated by the valuation of the market value of the Properties of RMB1,899,000,000 prepared by the Valuer minus the carrying amount of the Properties of approximately RMB1,386,698,000 as extracted from the audited financial statements of the Target Group as at 30 September 2018. Given that the Properties is located in Lishui, which is the location with good development potentials as concluded in sub-section "(b) Overview of the real estate development in Zhejiang" above, we consider that the market value of the Properties would remain stable.

(d) The business strategy of the Group

Reference is made to 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 the 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 ("**Differ Cultural**") as disclosed in the Company's announcement dated 21 November 2017.

As disclosed in the 2018 interim report of the Company dated 3 September 2018, we noted that after the acquisition of Differ Cultural and its subsidiaries which was completed in January 2018, the Group is looking for the other value assets in the PRC continuously. We have further discussed with the Management and understand that during the year 2018, the Group has been actively looking for ways to further diversify its geographical presence by expanding into other locations with sustainable demand. Having considered that (i) the Land is located in the city of Lishui, which is located in the same location as compared to the properties held by Differ Cultural, and (ii) the reasons and benefits of entering to the Agreement as described above, we concur with the Director's view that the Acquisition represents a strategic geographical expansion of the Group and is in line with the Group's business strategy.

Conclusion

Having considered that (i) the Acquisition represents a strategic expansion of the Group in line with the Group's general business strategy; (ii) the overall growth of the PRC's economy and property market being supported by the growing trend as discussed in note (a) above; (iii) the growth potential in the development of commercial properties in Lishui have demonstrated the favourable prospect of the district as discussed in note (b) above; and (iv) the steady state of the market value of the Properties driven by the positive property market as described in "(b) Overview of the real estate development in Zhejiang"; we consider that the entering into of the Agreement is in the interest of the Company and the Shareholders as a whole.

IV. Risk factors of the Agreement and the Target Group's business

We have discussed with the Management and noted that the Management has implemented corresponding mitigation measures as described below and does not expect the Acquisition and/or development of the Land to result in a material change to the overall risk profile of the Company. However, such business activities of the Target Group may involve the followings:

- (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.

The PRC property market is affected by many factors, including changes in the PRC's social, political, economic and legal environment, changes in the PRC government's fiscal and monetary policy, the lack of a mature and active secondary market for residential and commercial properties, etc. Any fall in property sales or property prices in the PRC, particularly in regions where the Target Group has property developments, could have a material negative impact upon the Target Group.

Although the Management 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 Management will take all reasonable steps, by setting up a risk management committee 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 control the risk faced by the Target Group, and will potentially diversify the risk through formation of strategic alliance.

We consider that by establishing a risk management committee, the members of such committee could (i) advise the management of the Target Group's risk appetite, profile and tolerance; (ii) identify and deal with financial, operational, legal, regulatory, technology, reputational, information security risks, and strategic risks faced by the Target Group; (iii) review the Target Group's risk policies, risk reports and breaches of risk tolerances and policies; and (iv) ensure appropriate arrangements are in place to control and mitigate the risks effectively, hence, we are of the view that the market and operational risk faced by the Target Group could be controlled and minimized under an effective manner.

(ii) Unable to successfully complete the construction on time

The construction of the property development project (i.e. Phoenix Ancient Town*) 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; (d) labor disputes; and (e) 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.

We have discussed with the management of the Target Group and considered that the time risk can be addressed 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.

(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. There is also 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.

To mitigate such risks, the Management 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 Management 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.

Our view

We have reviewed the internal control policies and procedures as implemented by the management of the Target Group including (i) the correspondence documents of the management of the Target Group regarding the discussion on the progress of construction of the Properties; (ii) the progress report in respect of the construction; (iii) the selection criteria contracts as mentioned in sub-section headed “(d) *Outsourcing of construction work*”; (iv) the business plan and cash flow budget in relation to the timing of construction and sales of Properties; and (v) the correspondence conducted between the management of the Target Group and the project parties, we considered that the internal control procedures are in place to mitigate the risk factors as stated above.

V. Principal terms of the Agreement

On 7 November 2018 (after trading hours), the Purchaser, an indirect wholly-owned subsidiary of the Company, and the Vendor entered into the Agreement. The principal terms of the Agreement are as follows:

(i) Assets to be acquired

Pursuant to the Agreement, 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.

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 use and on which a property development project named Phoenix Ancient Town* (鳳凰古鎮) is currently under construction. Upon Completion, Phoenix Ancient Town will comprise a total planned gross floor area of approximately 311,585.3 sq. m..

(ii) Consideration

Pursuant to the terms of 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.

(a) Basis of the Consideration

As stated in the Letter, 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

- 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
- 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;
- 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. For the basis in agreeing the original acquisition cost is fair and reasonable, please refer to the paragraph below.

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 (the "**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 Holding) acquired the remaining 48% and 1% shares respectively of PRC Subsidiary B from an Independent Third Party (“**the 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 Holding) 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 (洪美觀).

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.

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* (戶籍) 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 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, 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.

Our view

In light of the 49% shares of the PRC Subsidiary B as acquired by Dragon Holdings and the Independent Third Party (on trust for Dragon Holdings) at the consideration of RMB49,000,000, we have enquired the Vendor based on the above and we have considered based on the reasons below for the Party B to sell its shares in PRC Subsidiary B at such a low cost:

- i) apart from the paid-up capital, the Party B has not contributed any amount for the operation of the PRC Subsidiary B;
- ii) the Party B is only a passive investor and operator. The involvement of major operating and financial decision is minimal;
- iii) under the current PRC law, Dragon Holdings has a pre-emptive right on the Party B's sale of its interest in the PRC Subsidiary B, therefore the Party B will have difficulty to sell its interest to other person unless agreed by Dragon Holdings;
- iv) the PRC Subsidiary B was mainly financed by the fund contributed by Dragon Holdings and bank loans. As disclosed in the Letter, there was an outstanding loan granted by Dragon Holdings ("**the Dragon's Loan**"); 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 the Party B was limited;
- v) 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;
- vi) 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, we are of the view that after negotiation the 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.

In addition, we are advised by the Company that the Party B did not contemplate to sell the 49% of the PRC Subsidiary B directly to the Company for the following reasons:

- i) 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. Comparatively, for the current Acquisition, Consideration Shares are offered as Consideration for the Sale Shares, which provides greater flexibility to the financial status of the Company. Although the Company had cash, this was primarily earmarked 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 the gearing ratio of the Company might increase. The payment of interest might affect the Company's earning capacity;

- ii) the Company preferred to acquire the PRC Subsidiary B through an overseas 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; and
- iii) 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.

Furthermore, although the Consideration for the Acquisition is greater than the consideration, paid by the Vendor, for 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 average closing price of the Share.

After considered the above mentioned factors, we considered that (i) 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, which is much lower than the market value of PRC Subsidiary B; and (ii) the Company is now able to offer Consideration Shares as Consideration for the Sale Shares instead of payment of cash to the Vendor for acquisition of the Target Group which consist of the PRC Subsidiary B; we concur with the Director's view that the Acquisition is in the interests of the Company and its shareholders as a whole as the Company can benefit from increased cashflow which would provide greater flexibility to its financial status.

In all, having considered the factors mentioned above, we considered that (i) the original cost of RMB100,001,300 was determined based on the registered share capital of the PRC Subsidiary B merely for reorganisation purpose; (ii) such original cost did not take into account the operating expenses and construction costs of PRC Subsidiary B which was borne by Dragon Holdings in the past, and (iii) the market value of the Target Group has been increased during the period from second half of 2015 to 2018, we considered that despite the valuation of the Target Group is substantially higher as compared to the land acquisition cost, the basis of the original acquisition cost of RMB100,001,300 and the Consideration which is determined based on the Adjusted NAV of the Target Group is fair and reasonable.

(b) Evaluation of the basis of the Consideration

In assessing the fairness and reasonableness of the basis of the Consideration, we note that the Consideration was determined with reference to the Adjusted NAV, details of the calculation, please refer to page 74 of the sub-section headed "(a) Basis of the Consideration".

Having made enquiry with respect to the Directors on the above basis of the Consideration, we understand that the Management has further taken into account the financial position of the Target Group for the period ended 30 September 2018 in determining the Consideration. We understand from the Directors that by referencing the Adjusted NAV as the basis of determining the Consideration, the book value of the assets and liabilities of the Target Group are analysed, adjusted and appraised individually by the Board.

For details of the summary of the assets and liabilities of the Target Group as at 30 September 2018, please refer to the sub-section headed "Financial information of the Target Group" on page 57 in this letter.

In evaluating the basis of Consideration, we have considered the above factors and other methodologies. However, we considered that:

- the amount of the Properties of (i.e. approximately RMB1,386,698,000) as stated in the financial position of the Target Group as at 30 September 2018 are the principal assets of the Target Group which accounted for approximately 99.7% of the total asset (i.e. approximately RMB1,391,416,000) of the Target Group as at 30 September 2018;
- the Adjusted NAV has taken into account the revaluation surplus arising on the Properties of approximately RMB512,302,000 which is calculated by the valuation of the market value of the Properties of RMB1,899,000,000 as at 30 September 2018 (the “**Valuation**”) prepared by the Valuer minus the carrying amount of the Properties of approximately RMB1,386,698,000 as extracted the audited financial statements of the Target Group as at 30 September 2018.

We have considered the future cash flow approach, however, we considered that this is not appropriate because (i) the Target Group’s project is at its construction stage; (ii) the Target Group is with short operating history; and (iii) the basis and assumptions under the future cash flow approach involved uncertainties, after considered the above factors, we are of the view that the Adjusted NAV is an appropriate reference in determining the Consideration. Details of the methodologies of assessing the fair market value of the aforementioned assets and liabilities are set out below.

1. The Properties

As mentioned in the aforesaid, we are given to understand that the Adjusted NAV has taken into account the fair market value of the Properties, being an aggregate amount of approximately RMB1,386,698,000, representing 99.7% of the total audited net asset value of the Target Group, being the core assets of the Target Group.

Review on the Valuation Report (as defined below)

In assessing the fairness and reasonableness of the Valuation, we have discussed with the Management to understand the principal basis in determining the Consideration and obtained a copy of the valuation report in respect of the Valuation (the “**Valuation Report**”). The Valuation Report was prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the “**Valuer**”). We have reviewed the Valuation Report and discussed with the Valuer regarding the methodologies adopted for and the basis and assumptions used in arriving at the market value of the Properties. In the course of our discussion with the Valuer, we noted that site inspection of the Properties was carried out by the Valuer in September 2018 for inspection of the exterior of the properties and further noticed by the Valuer, we noted in the course of the aforesaid inspection, the Valuer did not notice any serious defects.

Review on the valuation methodology and assumptions

The Valuation was prepared by the Valuer using the direct comparison approach by making reference to comparable sales transactions as available in the market and have also taken into account the costs that will be expended to complete the developments to reflect the quality of the completed developments.

We have reviewed and enquired into the Valuer regarding the methodology of, and basis and assumptions adopted for, the Valuation. The Valuer explained that they have adopted the direct comparison method which consist of comparisons based on prices realized or current asking prices of comparables properties. During our discussion with the Valuer, we understand how the Valuation was being derived and how the comparable properties of similar size, character and location were weighed against their respective advantage and drawbacks.

We have discussed with the Valuer on the valuation methodology applied, and reviewed the comparables provided by the Valuer, we note that the Valuer has identified and analyzed various relevant sales evidences in the locality, which have similar characteristics as the subject property, such as nature, use, site area, layout and accessibility of the property. The selected comparables are retail units, and some newly completed or to-be-completed buildings located close to the subject property, which have transacted in 2018. The unit price of the comparables ranges from RMB10,000 to RMB15,000 per sq.m. basis for commercial use. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparables and the property to arrive at an assumed unit rate for the property. After reviewing the comparables by checking to the information of such comparables including but not limited to location, land use term, plot ratio and site area, we concur with the Valuer's view that the basis being adopted are appropriate, fair and reasonable. As further confirmed by the Valuer, it has been provided with a legal opinion on the title to the properties issued by the Groups which mainly contains, inter alia, the following information:

- PRC Subsidiary B is legally and validly in possession of the land use rights of the Properties. PRC Subsidiary B has the rights to occupy, use, lease, transfer, mortgage or otherwise dispose of the land use rights of the property. Pursuant to a Mortgage Contract, portions of the land use rights and the building ownership rights of Phoenix Ancient Town are subject to a mortgage in favour of a third party. Upon consent from the mortgagee to transfer, lease, re-mortgage or otherwise dispose of the land use rights of the mortgaged portion of the Properties;
- PRC Subsidiary B has obtained all requisite construction work approvals in respect of the actual development progress; and
- PRC Subsidiary B has the rights to legally pre-sell the portions of the Properties.

In view of the above, while we have taken reasonable steps to review on the Valuation, we have not used other valuation methodology to assess the value of the properties.

Information of the Valuer

For our due diligence purpose, we have reviewed and enquired into (i) the terms of engagement of the Valuer (ii) the Valuer's qualification and experience in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Valuer for conducting the Valuation. From the engagement letter and other relevant information provided by the Valuer and based on our interview with it, we are satisfied with the terms of engagement of the Valuer as well as its qualification and experience for preparation of the Valuation Report.

Result of the assessment in relation to the Valuation

During our discussion with the Valuer, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for or the information used in the Valuation. Nevertheless, Shareholders should note that the valuation of assets or properties usually involves assumptions which is the same underlying assumptions of the Valuation as stated in the Appendix V Valuation Report include:

- i) the seller sells the property interest in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest;
- ii) the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value;
- iii) the areas shown on the title documents relating to the property and official site plans handed to the Valuer are correct; and
- iv) the aspects relating to the suitability of the ground conditions and services for any development thereon are satisfactory.

For details of the above assumptions relating to the Valuation, please refer to Appendix V – Valuation Report of this Circular.

2. The amount due to Dragon Holdings

Consideration for the equity interest of the PRC Subsidiary B

Apart from the Properties, we note that as part of the Consideration, there is an amount due to Dragon Holdings of approximately RMB100,001,300 by the PRC Subsidiary A and details of such amount is stated in the section headed "*Potential connected financial assistance upon Completion*" in the Letter.

As stated in the Letter, 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.

Since (i) it is intended that the Former Consideration will continue to be 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, we are of the view that the value of such liabilities, which are agreed at dollar-to-dollar basis, is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

Outstanding loan granted by Dragon Holdings

Besides, we noted that there is an amount owed by the PRC Subsidiary D to Dragon Holdings of approximately RMB334,872,000 (equivalent to approximately HK\$380.5 million) as at 30 September 2018 ("**Dragon's Loan**"), which is the former shareholder of the PRC Subsidiary B.

As informed by the Vendor, the 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 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, we consider that the value of such liabilities, which are recorded in the consolidated financial statements under dollar-to-dollar basis, is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

3. Other assets and liabilities

We note from the Directors that apart from the abovementioned, other assets and liabilities (including but not limited to property, plant and equipment, deposits, prepayments and other receivables, tax prepaid, cash and bank balances and other liabilities) have been agreed and not adjusted by both the Purchaser and the Vendor. Given that the value of the abovementioned assets and liabilities are recorded in the management accounts under dollar-to-dollar basis and are not subject to market change and depreciation, we consider adopting the book values of such assets and liabilities is reasonable.

(iii) Evaluation of the Consideration Shares

The Consideration Shares to be allotted and issued represent (i) approximately 19.38% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 16.23% of the issued share capital of the Company as enlarged by the allotment and issuance 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, save as the issue of the Consideration Shares).

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

- a premium of approximately 11.11% to the closing price of approximately HK\$0.495 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- 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;
- 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;
- 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; and
- 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 29 December 2017.

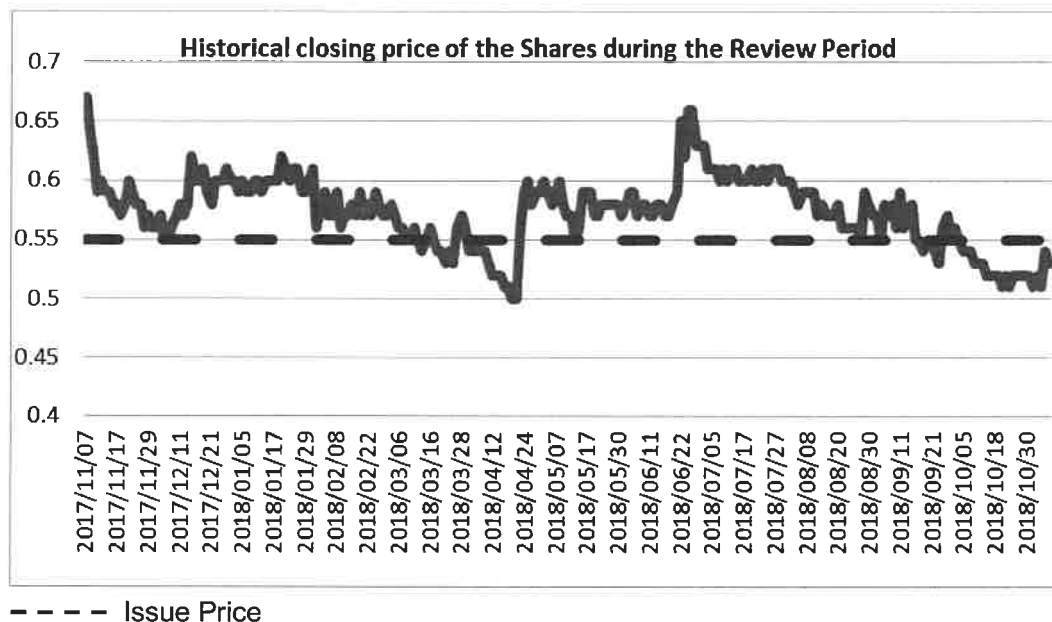
The Issue Price was determined after arm's length negotiation between the Purchaser and the Vendor, with reference to the prevailing market price of the Shares. The Directors (excluding the independent non-executive Directors who will give their opinion after considering the advice from Euto) consider 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.

(a) *Evaluation on the basis of the Issue Price*

In assessing the fairness and reasonableness of the basis of the Issue Price, we have primarily taken into account (i) the historical Share price performance; and (ii) the market comparables in respect of recent issuance of consideration shares.

Review on the Share price performance

The following chart illustrates the movement of the closing prices of the Shares during the period commencing from 7 November 2017, being the 12 months prior to the date of the Agreement, up to and including the Latest Practicable Date (the “**Review Period**”).



As illustrated by the chart above, during the Review Period, the closing Share price fluctuated from the lowest of HK\$0.50 per Share to the highest of HK\$0.67 per Share, with an average closing Share price of approximately HK\$0.57 per Share. The Issue Price of HK\$0.55 represents (i) a discount of approximately 17.9% to the highest closing Share price; (ii) a premium of approximately 10.0% to the lowest closing Share price; and (iii) a discount of approximately 3.5% to the average closing Share price.

As shown in the chart above, the Share price closed between HK\$0.55 per Shares and HK\$0.62 during the period from 10 November 2017 to 27 December 2017. During the period, the Company has released the announcement in relating to the major and connected transaction in relation to the acquisition of all issued share capital of Differ Cultural Tourism Development Company Limited and continuing connected transaction in relation to the provisions of financial assistance (the “**Differ Acquisition**”) on 21 November 2017, and after the release of such announcement, the Share price went up slightly to HK\$0.62 per Share on 14 December 2017. The Company later issued the circular relating to the Differ Acquisition on 27 December 2017. The Share price remain stable subsequently and lies between the range from HK\$0.54 to HK\$0.62 during the period from 28 December 2017 to 21 March 2018, the day of the positive profit alert announcement for the year ended 31 December 2017 was published. The Company later issued the 2017 annual results announcement on 28 March 2018. The Share price decreased gradually subsequently and reached HK\$0.50 on 20 April 2018, the day the 2017 annual report of the Company was released.

The Share price was on an ascending trend increasing from HK\$0.50 on 20 April 2018 to HK\$0.58 on 20 June 2018. The Company entered into a placing and subscription agreement in relation to a placing to the placee(s) procured by the placing agent for, or failing which the placing agent will itself purchase the Shares beneficially owned by the vendor and the subscription of new Shares by the Vendor and release the relevant announcement on 21 June 2018. Subsequent to the release of the aforesaid announcement, the Share price increased to a maximum of HK\$0.66 on 27 June 2018.

On 27 July 2018, the Company released an announcement in relation to the entering into of a sale and purchase agreement relating to the acquisition of the entire issued share capital of Karhoe Company Limited. The Share price decreased gradually from HK\$0.6 on 28 July 2018, the day after release of such announcement, to HK\$0.50 on 28 August 2018.

On 14 September 2018, the Company entered in a placing agreement for the placing of bonds and released the announcement on the same date. The Share price dropped to HK\$0.55 on 17 September 2018, the next Business Day after the release of the announcement. After a few days on 18 September 2018, the Company released another announcement relating to the acquisition of 30% equity interest in Jingning Differ Real Estate Limited* (景寧鼎豐置業有限公司) and 30% equity interest in Lishui Fu Feng Cultural Tours Limited* (麗水市富豐文化旅遊有限公司). The Share price further decreased gradually for a period of time and reached a minimum of HK\$0.51 on 22 October 2018.

To conclude, we are of the view that the change in Share price during the Review Period reflects the change in the fundamentals of the Company and therefore, the Share price during such period serve a fair and meaningful indicator for assessing the issue price of the Consideration Shares. On this basis, we consider the issue of the Consideration Shares by the Company is fair and reasonable to the Independent Shareholders.

In order to assess the fairness and reasonableness of the Issue Price as compared to the recent closing price of the Shares (being the closing price prior to the date of agreement and the last 5 days prior to the date of the Agreement), we have further, based on the information available from the Stock Exchange's website, identified the Comparables (as defined below) for further analysis. Please refer to the sub-section headed "*Comparison with the recent transactions*" for details of the analysis. For our view on the dilution effect to minority shareholders upon issue of Consideration Shares under the Acquisition, please refer to the section headed "*VI. Effect on the shareholding structure of the Company*".

Review on the trading volume of the Shares

Set out below is the table showing the (i) monthly total trading volume of the Shares; (ii) the number of trading days; (iii) the average daily trading volume of the Shares; (iv) the total issue Shares at the end of each month; and (v) the percentage of the average daily trading volume of the Shares to the total issued Shares at the end of each month during the Review Period:

Month	Monthly trading volume of the Shares (A)	No. of trading days (B)	Average daily trading volume of the Shares (C) = (A)/(B)	Total issued Shares at the end of each month (D)	Percentage of average daily trading volume to total number of the Shares to the total issued Shares (C)/(D) Approx. (%) (Note)
2017					
November	209,792,600	22	9,536,027	4,236,009,880	0.23
December	137,916,120	19	7,258,743	4,236,009,880	0.17
2018					
January	140,542,000	22	6,388,273	4,320,009,880	0.15
February	131,230,000	18	7,290,556	4,320,009,880	0.17
March	120,870,000	21	5,755,714	4,320,009,880	0.13
April	87,478,000	19	4,604,105	4,320,009,880	0.11
May	413,934,000	21	19,711,143	4,320,009,880	0.46
June	984,428,000	20	49,221,400	4,930,387,880	1.00
July	314,476,000	21	14,975,048	4,930,387,880	0.30
August	153,434,000	23	6,671,043	4,980,387,880	0.13
September	141,106,666	19	7,426,667	5,330,387,880	0.14
October	147,908,000	21	7,043,238	5,330,387,880	0.13
November	305,814,859	22	13,900,675	5,330,387,880	0.26
December (up to and including Latest Practicable Date)	35,626,000	18	1,979,222	(5,330,387,880)	0.04

Source: website of the Stock Exchange (www.hkex.com.hk)

Note: The calculation is based on the average daily trading volume of the Shares divided by the total issued Shares at the end of each month or at the Latest Practicable Date as applicable.

Based on the above table, the monthly trading volume of the Shares during the Review Period has not been consistent, ranged from the lowest of 87,478,000 to the highest of 984,428,000, representing approximately 0.13% and 1.00% of the total issued Shares respectively. It is noted that the number of Shares traded daily decreased significantly after the publication of the 2017 annual results announcement of the Company on 28 March 2018 and increased significantly after publication of the announcement relating to the entering into of a placing and subscription agreement by the Company on 21 June 2018. Besides, we also noted that subsequent to the release of the announcement in relation to the entering into of a sale and purchase agreement relating to the acquisition of the entire issued share capital of Karhoe Company Limited on 27 July 2018, the daily trading volume of the Shares decreased gradually from an average daily trading volume of approximately 14,273,714 during July 2018 to an average daily trading volume of approximately 6,671,043 during August 2018. Save for the aforementioned released announcements, we are not aware of any reasons for such fluctuations during the Review Period and believed that it was the result of the market response to the relevant published announcements of the Company. Hence, we consider the trading of Shares did not appear to be active during the Review Period. Given the low liquidity of the Shares during the Review Period, we consider that it may be difficult for the Group to obtain favorable terms on other ways of equity financing such as rights issue or open offer for the Acquisition.

We have further discussed with the Board regarding whether the Company has considered alternative methods of financing and we are given to understand that the Directors exercised due and careful consideration in the selection of financing method in order to maximise the benefit to the Shareholders.

We note that the Board has considered other alternative settlement method such as the issuance of other types of debt securities. However, taking into account the finance costs as well as the impact on the gearing ratio of the Company, the Board considers that the issuance of other debt securities shall involve financial institutions which (i) may require the Group to make guarantees and/or pledge assets of the Group; and (ii) will likely charge a higher comprehensive financing cost (approximately 6% to 7%) if such pledge-free loan facilities are to be provided by such financial institutions. The capital structure of the Company may also need to be altered substantially to meet the granting criteria, including but not limited to, limitations on debt level and leverage, minimum requirements on equity level and interest coverage etc.. Moreover, given the Company's current debt level and no market response is noted on the placing of bonds by the Company as stated in the announcement of the Company dated 14 September 2018, it is considered that any further financing aid from external parties would: (i) demand an interest rate that shall rise steeply as the Company's financial need grows; (ii) impose further financial burden of interest expenditure on the Company's cash flows; (iii) continue to raise the Company's gearing ratio, which might hinder the Company's other financing and/or operating plans; and (iv) impose covenants by which the Company's debt financing ability would be limited. As such, we are of the view that borrowings from financial institutions are of limited accessibility and the elimination of such settlement method is justifiable.

Notwithstanding the above, the Board has also considered other possible fund-raising methods, such as placing or subscription of new Shares to raise funds from Independent Third Party(ies) for settlement. Given the funding needs for the settlement of the Consideration is RMB499,972,000 (equivalent to approximately HK\$568,150,000), raising the relevant funds through placing or subscription of new Shares will involve the need to seek shareholders' approval for a specific mandate, given the number of Shares to be allotted and issued will exceed the limit under the remaining general mandate granted to the Directors on 20 April 2018 (assuming the placing or subscription price, as the case may be, is equal to the Issue Price of the Consideration Shares under the Acquisition).

As the Consideration is substantial, the Board, have the following reservations on using the fund-raising methods of placing and subscription of new Shares:

- (i) due to the substantial amount of Shares required to be allotted and issued in order to settle the Consideration, the potential investor(s) will require a substantial placing discount to the trading price of the Shares, and the Directors anticipate such discount to be more than 20%; and
- (ii) the Directors found it difficult to secure placing agents and subscribers in light of the sizable amount of securities involved in the placing or subscription (as the case may be).

As regard to the alternative fund raising methods of placing or subscription, we have considered (i) the comparatively thin trading volume of the Shares and its low liquidity as described in the sub-section headed "*Review on the trading volume of the Shares*"; (ii) the costly placing commission which is generally 1%-3% to the placing amount; (iii) comparatively longer time required for placement or subscription; (iv) difficulty in securing placing agent in light of the sizeable amount of securities; (v) the Company's substantial funding need for settlement of the Consideration; and (vi) that the price of the Share has not been trending strongly as described in the sub-section headed "*Review on Share price performance*", we consider that a discount to attract potential investors would be required by the placing agent and the outcome would remain substantially uncertain. In that case, it is highly probable that the Company might not be able to achieve its financing goal. As such, we concur with the Board's view that a placement and subscription is of high uncertainty and such funding method may not be in the interests of the Company and its Shareholders as a whole.

In view of the above, when comparing the various fund-raising methods described above with the issue of the Consideration Shares, the Directors are of the view that the placement and subscription of new Shares may not be the best option in the context of the Acquisition and therefore not in the interest of the Shareholders of the Company as a whole

Given that equity financing under the issuance of Consideration Shares (i) does not incur interest obligations on the Group as compared with bank financing; (ii) allows the Group to raise funds to settle the Consideration in a relatively short period of time, we consider that the issuance of Consideration Shares for settlement of the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Comparison with recent transactions

- (a) Methodologies of analysis relating to the determination of the Issue Price

In assessing the fairness and reasonableness of the terms of the issue of Consideration Shares, we have considered the following factors of the Company:

- (i) prior to the completion of the acquisition of Differ Cultural Group in January 2018, the Group is principally engaged in the provision of financial related and asset management business;
- (ii) following the completion of the acquisition of the Differ Cultural Group, the Group commenced the property development business to be an extension of the Company's original asset management business;
- (iii) the principal activity of the Target Group is property development and operation and the basis of determination of the Consideration is supported by the Valuation as analyzed under the sub-section headed "*(b) Evaluation of the basis of the Consideration*" of this letter above; and
- (iv) the Consideration of the Acquisition is to be satisfied by the allotment and issuance of Consideration Shares.

After considered the above factors, we are of the view that the determination of the Consideration is fair and reasonable as concluded under the sub-section headed “(b) *Evaluation of the basis of the Consideration*” of this letter and further considered to adopt the following methodologies in order to assess the fairness and reasonableness on the basis of determination of the terms (i.e. Issue Price) of Consideration Shares:

- (i) comparison against comparable companies by adopting price-to-earnings ratio (“**PE Ratio**”) and price-to-book ratio (“**PB Ratio**”);
- (ii) comparison against comparable transactions by comparing the followings with the Property Related Comparables (as defined below):
 - the premium/(discount) of the issue price over/(to) the closing price of the last trading day prior to the date of the relevant agreement;
 - the premium/(discount) of the issue price over/(to) the closing price of the last 5 trading days prior to the date of the relevant agreement; and
 - the premium/(discount) of the issue price over/(to) the net asset value per share.

(b) Criteria for identifying and selecting the Property Related Comparables

In order to carry out the above analysis, we have based on the information available from the Stock Exchange’s website, identified an exhaustive list of 6 transactions announced by 5 companies listed on the Stock Exchange since November 2017 and including the date of the Agreement, being the last 12 months commencing from the date of announcement of the Issue Price (the “**Property Related Comparables**”). For the purpose of our selection of the comparables, the basis of our selection of the Property Related Comparables is as follows: (i) the transaction involved acquisition of property related assets/businesses; (ii) the acquisition is fully or partly settled by the issue of consideration shares as consideration; and (iii) the market capitalisation of over HK\$500 million. In order to have a fair and representative sample size in assessing the fairness and reasonableness of the Consideration, we have also taken into account the principal business of the Target Group, i.e. property investment and therefore a 50% threshold on revenue proportion of the relevant businesses generated by the Property Related Comparable has been selected for analysis. Since there is no change of control in the Company upon completion of the Acquisition, hence, no criteria on the transactions involved an application for whitewash waiver are selected.

Based on above criteria, we considered that the Property Related Comparables provide a relevant benchmark for the purpose of assessing the Consideration. We consider the Property Related Comparables an exhaustive list of relevant comparable companies based on the said criteria above and the selection of comparable companies within an approximate 12-month period to be sufficient and appropriate for our analysis as it has covered the prevailing market conditions and sentiments in the Hong Kong stock market at the time which the terms of the Consideration Shares were determined.

(c) Analysis conducted to assess the fairness and reasonableness of the Issue Price

I. Comparison of the Issue Price against comparable companies

As discussed above, we have considered to adopt two commonly adopted methodologies, namely PE Ratio and P/B Ratio based on the latest audited financial information, in assessing the fairness and reasonableness of the Issue Price of the Consideration Shares.

In order to assess the Issue Price through the methodologies of PE Ratio and PB Ratio, we identified comparable companies based on the criteria of (i) having property related business in function in the latest full financial year based on the latest annual report as at the Last Trading Day; and (ii) deriving at least 50% of total revenue from property related business in the latest full financial year based on the latest annual report as at the Last Trading Day, and selected 6 comparable transactions from 5 market comparable companies listed on the Stock Exchange, which is an exhaustive list of comparable companies we were able to identify from the Stock Exchange's website satisfying the above selection criteria.

Set out below is the table setting out the (i) market capitalization; (ii) PE Ratio; and (iii) PB Ratio, of the Property Related Comparables as at the Last Trading Day based on the latest audited financial information.

No.	Stock code	Name of Company (Note 4)	Market Capitalization (Note 1) HK\$ million	PE Ratio (Note 2)	PB Ratio (Note 3)
1	108	GR Properties Limited	2,489.66	50.54	2.25
2	2768	Jiayuan International Group Limited (Note 5)	36,623.66	25.10	4.76
3	910	China Sandi Holdings Limited	1,984.21	12.69	0.51
4	1172	Magnus Concordia Group Ltd	648.92	44.16	1.02
5	996	Carnival Group International Holdings Limited	3,423.57	8.67	0.35
			Maximum	50.54	4.76
			Minimum	8.67	0.35
			Mean	28.23	1.78
			Median	25.10	1.02
The Company					
-	Based on the closing price as at the Last Trading Day		2,878.41	15.81	2.11
-	Based on the Issue Price		2,931.71	16.10	2.14

Source: the website of the Stock Exchange

Notes:

- The market capitalisations of the Property Related Comparables are calculated by multiplying the share price as at the Last Trading Day and the number of issued shares of the respective companies according to the latest monthly return as at the Last Trading Day.
- The PE Ratio of the Property Related Comparables are calculated by dividing their market capitalisations by the net profit attributable to the equity holders of the respective companies according to their latest audited financial reports as at the Last Trading Day. The PE Ratio is not applicable to Property Related Comparables incurred loss for the previous financial year.
- The PB Ratio of the Property Related Comparables are calculated by dividing their market capitalisations by the net assets value attributable to the equity holders of the respective companies according to their latest audited financial reports as at the Last Trading Day.
- The Property Related Comparables include a total of 6 comparable transactions announced by 5 market comparable companies listed on the Stock Exchange during the period from November 2017 to the Last Trading Day.
- Under the 6 Property Related Comparables, two transactions were conducted by Jiayuan International Group Limited (Stock code: 2768), hence, there is only 5 market comparable companies demonstrated in the table above.

Results of the above analysis

As shown in the above table, the PE Ratio of the Property Related Comparables range from approximately 8.67 times to 50.54 times, with a mean and median of approximately 28.23 and 25.10 times respectively. Further, the PB Ratios of the Property Related Comparables range from approximately 0.35 times to 4.76 times, with a mean and median of approximately 1.78 and 1.02 times respectively.

Based on the results, we note that

- (i) the PE Ratio and PB Ratio of the Company based on the Issue Price falls within the range of the Property Related Comparables;
- (ii) the PE Ratio and PB Ratio of the Company based on the closing price as at the Last Trading Day falls within the range of the Property Related Comparables;
- (iii) the PE Ratio of the Company based on (1) the closing price as at the Last Trading Day and (2) the Issue price falls below the corresponding mean and median of the Property Related Comparables;
- (iv) the PB Ratio of the Company based on (1) the closing price as at the Last Trading Day and (2) the Issue Price are above the mean of the Property Related Comparables; and
- (v) the PB Ratio of the Company based on (1) the closing price as at the Last Trading Day and (2) the Issue Price are above the median of the Property Related Comparables.

Our view

According to the calculation of the PE Ratio, the PE Ratio is calculated by the company's market capitalization divided by its earnings, expressed as a number or as a multiple of earnings. The earnings used for calculation of the PE Ratio can be either the net profit amount most recently reported by the company or the future earnings of the company for a full-year fiscal period. Based on this, we have considered to calculate the PE Ratio of the Company based on (1) the audited net profit attributable to the equity holders for the year ended 31 December 2017 as calculated above ("**2017 PE**") and (2) the net attributable to the equity holders for the year ending 31 December 2018 ("**2018 PE**"). However, we concluded that the PE Ratio analysis is not appropriate because:

- (i) as regard to the 2017 PE – as discussed in the sub-section headed "*(a) Methodologies of analysis relating to the determination of the Issue Price*", the acquisition of Differ Cultural Group was completed by the Company on 23 January 2018. Hence, the financial performance of the Group as at 31 December 2017, being the latest audited financial information of the Group, has not yet reflected the financial effects brought into by the property development business. Given the business nature of the Group is financial related and asset management business prior to the completion of Differ Cultural Group acquisition, no identical comparison in terms of business operations could be conducted between the Property Related Comparables and the Company based on the latest audited financial information, we therefore consider that the 2017 PE is not indicative on assessment of fairness and reasonableness of the Issue Price;

- (ii) as regard to the 2018 PE – we considered that the Group’s net profit for the year ending 31 December 2018, which was calculated based on the latest published interim results of the Company for 6 months ended 30 June 2018, involved basis and assumptions with estimation uncertainties which may create anomalous results and distort the analysis, therefore we are of the view that the 2018 PE is not an applicable reference in calculating the PE Ratio for further analysis; and
- (iii) given the nature of the property development business is capital intensive and the stage of the properties development projects, including the timing for development, completion of construction and sales of properties, affects the companies’ earnings in a variety of ways. Thus, the longer the payback period, the longer the time a company takes to recognize the earnings generated by the properties development projects which results in a different earnings multiple. Since each Property Related Comparables may invest in different property related projects under different development cycle, we consider that no direct comparison could be conducted between the Company and the Property Related Comparables.

In view of the above, we consider that the PE Ratio analysis is not appropriate in assessing the fairness and reasonableness of the determination of Issue Price.

As regard to the PB ratio, even though the financial position of the Group as at 31 December 2017, being the latest audited financial information of the Group, has not yet reflected the financial effects brought into by the property development business as described above and is considered to be not indicative on assessment of fairness and reasonableness of the Issue Price, we considered that calculating the PB Ratio based on the latest published financial statements is appropriate because

- (i) the unaudited net asset value of the Group as at 30 June 2018 of the Company, being the last published financial information of the Group, has already reflected the assets and liabilities brought into by the Differ Cultural Group; and
- (ii) the unaudited net asset value as at 30 June 2018 of the Company involved no basis and assumption or estimation in determining the financial information for further calculation,

therefore, we considered to revise the analysis of the PB ratio from based on latest audited financial information to based on the latest published financial information of the Property Related Comparables and the Company for assessing the fairness and reasonableness of the Issue Price of the Consideration Shares.

Set out below is the table setting out the PB Ratio, of the Property Related Comparables as at the Last Trading Day after revision based on the latest published financial information.

No.	Stock code	Name of Company	PB Ratio (Note 1)
1	108	GR Properties Limited	1.96
2	2768	Jiayuan International Group Limited	4.16
3	910	China Sandi Holdings Limited	0.51
4	1172	Magnus Concordia Group Ltd	1.04
5	996	Carnival Group International Holdings Limited	0.33
		Maximum	4.16
		Minimum	0.33
		Mean	1.60
		Median	1.04
		The Company	
		– Based on the closing price as at the Last Trading Day	1.70
		– Based on the Issue Price	1.74

Source: the website of the Stock Exchange

Notes:

1. The PB Ratio of the Property Related Comparables are calculated by dividing their market capitalisations by the net assets value attributable to the equity holders of the respective companies according to their latest published financial reports as at the Last Trading Day.

As shown in the above table, the PB Ratio of the Property Related Comparables ranged from approximately 0.33 to 4.16, with a mean and median of approximately 1.60 and 1.04 respectively.

As further noted in the above table, we note that the PB Ratio of the Company based on (i) the closing price as at the Last Trading Day; and (ii) the Issue Price falls within the range of the Property Related Comparables; and lies above the mean and median of the PB Ratio of the Property Related Comparables. Having considered the above, we are of the view that the Issue Price of the Consideration Shares to be allotted and issued to the Vendor, which was determined based on the Share price as at the Last Trading Day, is fair and reasonable in comparison to the existing trading price levels among the Property Related Comparables.

II. Comparison of the Issue Price against comparable transactions

As discussed previously, we have further considered to conduct comparison against comparable transactions by comparing the followings with the Property Related Comparables:

- the premium/(discount) of the issue price over/(to) the closing price of the last trading day prior to the date of the relevant agreement;
- the premium/(discount) of the issue price over/(to) the closing price of the last 5 trading days prior to the date of the relevant agreement; and
- the premium/(discount) of the issue price over/(to) the net asset value per share.

We have considered the above methodologies and concluded that the methodologies are appropriate because:

- (i) the Share price as at the Last Trading Day has already reflected the fundamentals of the Company as analysed in the section headed "*Review on the Share price performance*", including the market reactions to the expansion of property development business brought into by the Group since January 2018;
- (ii) the selection criteria of the Property Related Comparables include (1) the transaction involved acquisition of property related assets/businesses; and (2) companies deriving at least 50% of total revenue from property related business in the latest full financial year, therefore identical comparison could be conducted in terms of business operations as compared to the Acquisition; and
- (iii) the transactions contemplated under the Property Related Comparables and Acquisition involved consideration shares for settlement of consideration and the determination of the relevant issue price was derived based on the prevailing share price and net asset value per share of each companies to acquire the assets and/or business.

In light of the above, we considered that the above methodologies are relevant and appropriate for comparison and assessment of determination of the Issue Price.

Comparison against comparable transactions based on (i) the premium/(discount) of the issue price over/(to) the closing price of the last trading day prior to the date of the relevant agreement; and (ii) the premium/(discount) of the issue price over/(to) the closing price of the last 5 trading days prior to the date of the relevant agreement

Given both (i) the premium/(discount) of issue price over/(to) the closing price of the last trading day prior to the date of the relevant agreement; and (ii) the premium/discount of issue price over/(to) the average closing price of the last 5 trading days prior to the date of the relevant agreement are the necessary disclosure of each transactions required under the applicable Listing Rules, we consider that the aforesaid periods represent the benchmark rate and period of each Comparables to facilitate analysis of the Issue Price for comparison.

Set out below is the list of acquisition involved issue of consideration shares as announced by the Property Related Comparables during the last twelve months prior to and including the date of the Agreement.

Table 7: List of issue of consideration shares exercises as announced by the Property Related Comparables during the last twelve months prior to and including the date of the Agreement.

No.	Date of announcement	Name of Company	Stock code	Premium/(discount) of issue price over/(to) the closing price of the last trading day prior to the date of the relevant agreement	Premium/(discount) of issue price over/(to) the average closing price of the last 5 trading days prior to the date of the relevant agreement	
1.	30 May 2018	GR Properties Limited	108	2.56%	(2.44%)	
2.	5 June 2018	Jiayuan International Group Limited	2768	(3.54%)	(5.79%)	
3.	19 September 2018	Jiayuan International Group Limited	2768	(5.31%)	(4.25%)	
4.	21 September 2018	China Sandi Holdings Limited	910	(9.50%)	(9.80%)	
5.	8 October 2018	Magnus Concordia Group Ltd	1172	(7.50%)	(6.00%)	
6.	22 October 2018	Carnival Group International Holdings Limited	996	25.0%	2.46%	
				Property related transactions		
				Maximum	25.00%	2.46%
				Minimum	(9.50%)	(9.80%)
				Average	0.28%	(4.30%)

Source: the website of the Stock Exchange (www.hkex.com.hk)

As further shown in the above table, the Property Related Comparables are the transaction involved similar principal activities (i.e. property investment) as compared to the Acquisition. The issue price of the Property Related Comparables to the relevant closing price on the date of the agreement of relevant issue price ranged from a premium of approximately 25.00% to a discount of approximately 9.50%, with an average premium of approximately 0.28%. We noted that the premium of approximately 3.77% to the closing price of the Shares on the date of the Agreement under the Acquisition falls within the abovementioned range of the Property Related Comparables and represents a higher premium when compare to the average premium of approximately 0.28% of the Property Related Comparables. In addition, the issue price of the Property Related Comparables to the relevant average closing price for the five trading days immediately prior to the day of announcement of the issue price ranged from a premium of approximately 2.46% to a discount of approximately 9.8%, the premium of approximately 5.77% to the average of the last five consecutive trading days immediately prior to the date of signing of the Agreement is slightly exceed the maximum of 2.46% of the Property Related Comparables. Having considered,

- (i) the premium of the Issue Price over the closing price of the Last Trading Day (i.e. approximately 3.77%) falls within the range of the Property Related Comparables;
- (ii) the premium of the Issue Price over the closing price of the Last Trading Day (i.e. approximately 3.77%) represents a premium over the average premium of 0.28% over the closing price of the relevant last trading day of the Property Related Comparables;
- (iii) the premium of the Issue Price over the closing price of the last 5 trading days prior to the date of the Agreement (i.e. approximately 5.77%) exceeds the maximum premium of 2.46% over the closing price of the last 5 trading days prior to the date of the relevant agreement of the Property Related Comparables; and
- (iv) the premium of the Issue Price over the closing price of the last 5 trading days prior to the date of the Agreement (i.e. approximately 5.77%) represents a premium over the average discount of 4.30% to the closing price of the last 5 trading days prior to the date of the relevant agreement of the Property Related Comparables,

we are of the view that the Issue Price was set at a level of premium over the market that is beneficial to the Company and consider that the Issue Price is fair and reasonable.

Comparison against comparable transactions based on the net asset value per Share

In assessing the fairness and reasonableness of the issue price, we have further considered other alternative comparison method, such as the comparison between net asset value per share and the issue price of the relevant transactions. Set out below is the table showing the percentage of the issue price over/(to) the net asset value per share of the Property Related Comparables under the relevant transactions.

Table 8: List of the (Sorted) Property Related Comparables relating to the percentage of the issue price over/(to) the net asset value per share

No.	Date of announcement	Name of Company	Stock Code	Net asset value per share as at the latest audited financial period/year end date prior to the relevant announcement (HKD)	Issue price of the relevant transaction (HKD)	Premium/ (discount) of the issue price over/ (to) the net asset value per share
1	30 May 2018	GR Properties Limited	108	0.717	0.800	11.58%
2	8 October 2018	Magnus Concordia Group Ltd	1172	0.193	0.210	8.81%
3.	21 September 2018	China Sandi Holdings Limited	910	0.866	0.412	(52.42%)
4.	22 October 2018	Carnival Group International Holdings Limited	996	0.456	0.20	(56.14%)
5.	5 June 2018	Jiayuan International Group Limited	2768	3.468	14.18	308.88%
6.	19 September 2018	Jiayuan International Group Limited	2768	3.468	13.73	295.91%
Properties related transactions						
Maximum						308.88%
Minimum						(56.14%)
Average						86.10%

As shown in the above table, the issue price of the Property Related Comparables to the relevant net asset value per share ranged from a premium of approximately 308.88% to a discount of approximately 56.14%, with an average premium of approximately 86.10%. We note that the premium of approximately 71.88% of the Issue Price to the audited consolidated net asset value per Share attributable to equity holders of the Company (as stated in page 42 under the sub-section “Evaluation of the Consideration Shares” of the letter) falls within the abovementioned range of the Property Related Comparables and represents a lower premium as compared to the average premium of approximately 86.10% of the Property Related Comparables as listed above. We have considered,

- (i) the premium of the Issue Price over the audited consolidated net asset value per Share of the Company falls within the range of the Property Related Comparables;
- (ii) the premium of the Issue Price over the audited consolidated net asset value per Share of the Company represents a premium close to the average premium of approximately 86.10% of the Property Related Comparables; and

- (iii) the range of the issue price over the net asset value per share of the transactions conducted by Jiayuan International Group Limited are extremely wide which may create anomalous results and distort the analysis. If we exclude the relevant transactions from the Property Related Comparables, the average percentage of the issue price over the net asset value per share of the Property Related Comparables will be revised from a premium of 86.10% to a discount of 22.05%, which is substantially lower than that of the Issue Price to the audited consolidated net asset value per Share attributable to equity holders of the Company (i.e. a premium of 71.88%), represents a level of premium over the market that is beneficial to the Company.

After considered the above, we consider that the Issue Price was set at a level of premium close to the market that is beneficial to the Company and consider that the Issue Price is fair and reasonable.

Conclusion on the evaluation of the Issue Price

Given the Issue Price represents a premium to the closing prices of the Shares during the Review Period, taking into consideration that (i) the thin liquidity of the Shares during the Review Period; (ii) the premium of the Issue Price falls within the range of that of the Comparables; (iii) the Consideration which is determined based on the Adjusted NAV of the Target Group as mentioned in the section headed “Consideration” in this letter is on normal commercial terms and fair and reasonable as far as the Independent Shareholders are concerned; and (iv) as mentioned in the section headed “Resource and benefits of entering into the Agreement” of this letter, the Acquisition is in the interest of the Company and the Shareholder as a whole, we consider that the determination of the Issue Price are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

Conclusion

Based on the above analysis, we are of the same view that the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the transaction contemplated under the Agreement is in the interests of the Company and the Shareholders as a whole.

VI. 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) upon immediately 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) Upon immediately the allotment and issue of Consideration Shares and the exercise of all outstanding share options	
Expert Corporate Limited (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:

- Expert Corporate Limited 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.
- The Vendor is the spouse of Mr. Hong. The Vendor is therefore deemed to be interested in all the Shares owned by Mr. Hong.
- 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.
- 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.

The Share issue allows the Company to reduce the cash consideration required for the Acquisition. Assuming the Consideration Shares would be issued and delivered to Vendor or her nominee in full and there was no further issue of Shares between the Latest Practicable Date and the date of Completion, Independent Shareholders' holdings upon Completion would be diluted from approximately 41.92% to approximately 35.11% of total shareholdings, that is a 6.81% reduction. While the dilution of Independent Shareholders' holdings is an unattractive factor in itself, this in our view should be considered in the context of the interests being secured following Completion, among others, the Properties, which are planned by the management of the Target Group to generate income from the sales of the Properties to the Enlarged Group following completion of the construction work by the end of second quarter of 2019.

In this regard, taking into account (i) the reasons for and benefits of the Acquisition; and (ii) the terms of the Agreement being fair and reasonable, we are of the view that the said level of dilution to the shareholding interests of the public Shareholders upon the allotment and issue of the Consideration Shares is acceptable.

VII. Financial effects of the Acquisition

Upon the Completion, Target Company, HK Subsidiary, PRC Subsidiary A, PRC Subsidiary B and PRC Subsidiary C will all become indirectly wholly-owned subsidiaries of the Company.

As set out in Appendix IV to this circular is the unaudited pro forma statement of assets and liabilities of the Enlarged Group, as the Group and the Target Group are controlled by Mr. Hong together before and after the Acquisition, the Group will account for the Acquisition as a business combination under common control using the principles of merger accounting in accordance with the Accounting Guideline 5 Merger Accounting for Common Control Combinations issued by the Hong Kong Institute of Certified Public Accountants.

Under the principles of merger accounting, the consolidated financial statements incorporate the financial statement items of the Target Group in which the common control combination occurs from the date when the acquired entities or businesses first come under the control of the controlling party. The net assets of the Target Group are consolidated using the existing book values from the controlling party's perspective and no adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the common control combination.

(i) Earnings

The construction of the Properties is not expected to be completed immediately following Completion. Accordingly, the Properties would not immediately contribute turnover or profit to the Group upon Completion. As stated in the Letter, the Properties is scheduled to be completed in the year 2019. It is expected that once the construction work of the Properties has been completed, it would provide the Group with stable income in the long term.

(ii) 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 RMB4,749.8 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:

- (a) 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
- (b) 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.

However, we are advised by the Management that they considered such original acquisition cost representing a substantial discount to the market value of the Properties is not an appropriate reference for determining the Consideration, since the Vendor's original acquisition cost was determined based on the registered share capital of the Target Group which did not take into account the fair market value of the Properties and the relevant construction cost being borne by Dragon Holdings at the time when the original acquisition cost was agreed.

Despite that the Consideration of RMB499,972,000 (equivalent to approximately HK\$568,150,000) represented a premium of approximately 500% to the Vendor's original acquisition cost, after considering that (i) such original acquisition cost was determined based on registered share capital of the Target Group for reorganization purpose; and (ii) the valuation results relating to the market value of the Properties as conducted by the Valuer as at 30 September 2018, we therefore concur with the Management that the Vendor's original acquisition cost shall not be a good reference in determining the Consideration.

Accordingly, we concur with the Board's view that the Consideration is fair and reasonable in the circumstances.

VIII. The Whitewash Waiver

As at the Latest Practicable Date, 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.

An application to the Executive for the Whitewash Waiver will be made by the Vendor pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval of the Independent Shareholders in respect of the Acquisition and the Whitewash Waiver at the EGM where voting on the relevant resolution shall be taken by poll.

Based on our analysis regarding the terms of the Agreement, we consider that the Acquisition is in the interests of the Company and the Shareholders as a whole. We are of the view that for the purpose of implementing the Acquisition, the approval of the Whitewash Waiver by the Independent Shareholders at the EGM is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having taken into account the above principal factors and reasons, in particular:

For the Agreement,

- the Acquisition is in line with the Group's development to further expand its existing business;
- there is a potential growth in the PRC property market which allows the Group to enjoy a steady state of the Properties market value in the future;
- the market value of the properly interest held by PRC Subsidiary B which is determined based on the Valuation are fair and reasonable and the Consideration is justifiable given that it is determined based on the Adjusted NAV of the Target Group;
- the issue price of the Consideration Shares represents a premium, to the closing price of the Shares on the Last Trading Day and the latest published audited net asset value per Share of the Group;
- the pro forma unaudited net asset value of the Enlarged Group could be improved as per Appendix IV to this Circular,

we consider although the Acquisition is not in the ordinary and usual course of business, it is incidental to the Group's development of its ordinary and usual course of business. The terms of the Acquisition are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole.

For the Whitewash Waiver,

- no material change in existing business and management of the Group;
- the Consideration is justifiable for reasons as discussed in the sub-section headed "(b) Evaluation of the basis of the Consideration" in page 79 of this letter;
- the Acquisition will have an overall positive financial effect on the Group's earnings and financial position and is in the interests of the Company and the Independent Shareholders as a whole; and

- the Whitewash Waiver is one of the conditions precedent for Completion, failure of which the Acquisition will not proceed,

we consider that seeking of the grant of the Whitewash Waiver is fair and reasonable so far as the Company and the Independent Shareholders are concerned and the approval of the Whitewash Waiver by the Independent Shareholders is in the interests of the Company and the Independent Shareholders.

We therefore advise the Independent Board Committee and the Connected Transaction Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favor of the ordinary resolution to be proposed at the EGM to approve, among others, the entering into of the Agreement.

Yours faithfully
For and on behalf of
Euto Capital Partners Limited



Manfred Shiu
Director

- * *For identification purpose only and should not be regarded as the official English translation of the Chinese names. In the event of any inconsistency, the Chinese names prevail.*