THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Star Properties Group (Cayman Islands) Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.

STAR

Star Properties Group (Cayman Islands) Limited
星 星 地 產 集 團 (開 曼 群 島) 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1560)

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF AND SHAREHOLDERS' LOAN OWING BY METROPOLITAN GROUP (BVI) LIMITED

AND

(2) NOTICE OF EXTRAORDINARY GENERAL MEETING

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

國金證券(香港)有限公司
SINOLINK SECURITIES (HK) CO. LTD.

A letter from the Board is set out on pages 9 to 48 of this circular. A letter from the Independent Board Committee containing its recommendation is set out on pages 49 to 50 of this circular. A letter from Sinolink Securities (HK) Co. Ltd., the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 51 to 94 of this circular.

A notice convening the EGM of Star Properties Group (Cayman Islands) Limited to be held at 11/F, TG Place, No.10 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong on 17 April 2020 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is also enclosed.

Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case maybe). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

This circular is in English and Chinese. In case of any inconsistency, the English version shall prevail.

27 March 2020

CONTENTS

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

"Acquisition"	the acquisition of the Sale Share and the Sale Loan by the Company from the Vendor pursuant to the Acquisition Agreement
"Acquisition Agreement"	the sale and purchase agreement dated 24 January 2020 entered into between the Vendor and the Company in relation to the Acquisition
"Board"	the board of the Directors
"Business Day"	any day (excluding Saturdays, Sundays and days on which a tropical cyclone warning no.8 or above or a "black" rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks are generally open for business in Hong Kong
"BVI"	British Virgin Islands
"CB Conditions"	the terms and conditions of the Convertible Bonds
"Celinal"	means Celinal Limited, a company incorporated under the laws of the British Virgin Islands with limited liability
"Company"	Star Properties Group (Cayman Islands) Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1560)
"Completion"	completion of the Acquisition
"Completion Date"	means the date falling the 5th Business Day after all the Conditions have been fulfilled or waived, or such other date as may be agreed by the Vendor and the Company in writing
"Conditions"	the condition(s) precedent for Completion as set out in the section headed "Conditions precedent" in this circular
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholders"	means the controlling shareholders of the Company
"Consideration"	the aggregate consideration for the Acquisition

"Conversion Price"	the price at which each Conversion Share will be issued upon a conversion of all or any part of the Convertible Bonds, being HK$0.65 as adjusted from time to time in accordance with the CB Conditions
"Conversion Share(s)"	new Share(s) to be allotted and issued to the holder(s) of the Convertible Bonds upon exercise of the conversion rights attaching to the Convertible Bonds
"Convertible Bonds"	the 3% coupon perpetual convertible bonds in the aggregate principal amount of HK$378,000,000 which will be issued by the Company to the Vendor to settle part of the Consideration
"Crystal Cay"	means Crystal Cay Assets Limited, a company incorporated in the BVI, which (i) is beneficially owned by Mr. Chan as to 100% as at the date of the Acquisition Agreement; and (ii) is to be held by the Target Company as to 100% immediately upon completion of the Reorganisation
"Crystal Cay Group"	means Crystal Cay and its subsidiaries immediately upon completion of the Reorganisation
"Crystal Harbour Development"	Crystal Harbour Development Limited, a company incorporated in Hong Kong, which is (i) 100% beneficially owned by Mr. Chan as at the date of the Acquisition Agreement and as at Completion; and (ii) an inactive entity
"Deed of Assignment"	the deed of assignment to be executed by the Vendor, the Company and the Target Company on the Completion Date pursuant to which all the loans owing by the Target Company to the Vendor as at the Completion Date will be assigned by the Vendor to the Company
"Deed of Guarantee"	the deed of guarantee dated 28 February 2017 executed by Mr. Chan to guarantee the punctual payment of rent and due performance and observance by Noble Empire of all terms and conditions of the Tenancy Agreement for the term from 1 March 2017 to 29 February 2020 and renewed term (if any) under the Tenancy Agreement
"Deposit"	the deposit of HK$42,000,000, which shall be payable to Vendor under the Acquisition Agreement, details of which are set out under the section headed "Consideration and payment terms" of this circular
"Director(s)"	the director(s) of the Company

"Disposal Entities"	Vogue Town Limited, Smart Mountain Limited, Full Lake Limited, Green Glory Holdings Limited, JJ&B, Gangnam Vision and certain inactive entities (namely, Island Wealth and Crystal Harbour Development)
"EGM"	the extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder
"Existing Crystal Cay Group"	means Crystal Cay and its subsidiaries as at the date of the Acquisition Agreement
"Existing Target Group"	means (i) Crystal Cay, Metropolitan Wine Cellar, Metropolitan Storage and their respective subsidiaries as at the date of the Acquisition Agreement; and (ii) Metropolitan Apartment, Metropolitan Fine Wine, Metropolitan Workshop and Metropolitan Production
"Enlarged Group"	the Group upon Completion
"Full Lake"	Full Lake Limited, a company incorporated in Hong Kong, which is 100% beneficially owned by Mr. Chan as at the date of the Acquisition Agreement and as at Completion
"Gangnam Vision"	Gangnam Vision Co. Limited, a company incorporated in the South Korea with limited liability
"Golden Abacus"	Golden Abacus Global Limited, a company incorporated in Hong Kong, which is a subsidiary of Crystal Cay as at the date of the Acquisition Agreement and upon completion of the Reorganisation
"Green Glory"	Green Glory Holdings Limited, a company incorporated in Hong Kong, which is 100% beneficially owned by Mr. Chan as at the date of the Acquisition Agreement and as at Completion
"Group"	the Company and its subsidiaries

"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	means the independent committee of the Board comprising all of the independent non-executive Directors, established to advise the Independent Shareholders in respect of the Acquisition
"Independent Financial Adviser"	means Sinolink Securities (HK) Company Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activity under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
"Independent Shareholders"	the Shareholders other than Mr. Chan and his associates who are required to abstain from voting on the resolutions approving the Acquisition Agreement and the transactions contemplated thereunder
"Island Wealth"	Island Wealth Limited, a company incorporated in Hong Kong, which is (i) 33.33% beneficially owned by Mr. Chan as at the date of the Acquisition Agreement and as at Completion; and (ii) an inactive entity
"JJ&B"	JJ&B Company Limited, a company incorporated in South Korea
"Latest Practicable Date"	25 March 2020, being the latest practicable date to ascertain certain information contained herein before the printing of this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	means 30 June 2020 or such later date as the Vendor and the Company may agree in writing from time to time
"Metropolitan Apartment"	means Metropolitan Apartment Limited, a company incorporated in Hong Kong, which (i) is beneficially owned by Mr. Chan as to 85% as at the date of the Acquisition Agreement; and (ii) is to be held indirectly by the Target Company as to 85% immediately upon completion of the Reorganisation

"Metropolitan Fine Wine"	means Metropolitan Fine Wine Limited, a company incorporated in Hong Kong, which (i) is beneficially owned by Mr. Chan as to approximately 80.75% as at the date of the Acquisition Agreement; and (ii) is to be held indirectly by the Target Company as to approximately 80.75% immediately upon completion of the Reorganisation
Metropolitan Lifestyle (H.K.)	means Metropolitan Lifestyle (H.K.) Limited, a company incorporated in Hong Kong, which is held directly by the Vendor as to 100% as at the date of the Acquisition Agreement
Metropolitan Lifestyle Holdings (BVI)	means Metropolitan Lifestyle Holdings (BVI) Limited, a company incorporated under the laws of the British Virgin Islands with limited liability, which is held directly by the Target Company as to 100% as at the date of the Acquisition Agreement
"Metropolitan Production"	means Metropolitan Production Limited, a company incorporated in Hong Kong, which (i) is beneficially owned by Mr. Chan as to 75% as at the date of the Acquisition Agreement; (ii) is to be held indirectly by the Target Company as to 75% immediately upon completion of the Reorganisation
"Metropolitan Storage"	means Metropolitan Storage Limited, a company incorporated in Hong Kong, which (i) is beneficially owned by Mr. Chan as to approximately 78% as at the date of the Acquisition Agreement; and (ii) is to be held indirectly by the Target Company as to approximately 78% immediately upon completion of the Reorganisation
"Metropolitan Storage Group"	means Metropolitan Storage and its subsidiaries immediately upon completion of the Reorganisation
"Metropolitan Wine Cellar"	means Metropolitan Wine Cellar Limited, a company incorporated in Hong Kong, which (i) is beneficially owned by Mr. Chan as to approximately 80.75% as at the date of the Acquisition Agreement; and (ii) is to be held indirectly by the Target Company as to approximately 80.75% upon completion of the Reorganisation
"Metropolitan Wine Cellar Group"	means Metropolitan Wine Cellar and its subsidiaries

"Metropolitan Workshop"	means Metropolitan Workshop Limited, a company incorporated in Hong Kong, which (i) is beneficially owned by Mr. Chan as to 85% as at the date of the Acquisition Agreement; and (ii) is to be held indirectly by the Target Company as to 85% upon completion of the Reorganisation
"Mr. Chan"	means Mr. Chan Man Fai Joe, an executive Director and a Controlling Shareholder
"Noble Empire"	Noble Empire Investments Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of Metropolitan Wine Cellar
"Palico Development"	means Palico Development Limited, a company incorporated in Hong Kong with limited liability
"Palico Development Property"	all That Units Nos. 4 and 6 on 11th Floor of Block A, Sea View Estate, No.2 Watson Road, Hong Kong
"Parties"	means, collectively, the Vendor and the Company, and individually, a "Party"
"PRC"	the People's Republic of China, which, for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Property Investment Group"	the group of companies (of which Mr. Chan is the controlling shareholder) including (a) Full Lake, Green Glory, Smart Mountain and Vogue Town which hold individual and separate units of residential properties in Hong Kong; (b) Gangnam Vision which holds a commercial property comprising 5-storey (B1 to 4th floor) building in Gangnam district, Seoul, South Korea, which are all being held as investment properties; and (c) JJ&B which holds an apartment in the Gangnam district, Seoul, South Korea which is held as an investment property and is currently leased to an independent third party
"Reorganisation"	the reorganisation of the Existing Target Group conducted prior to Completion, comprising (i) the acquisition of all the Target Group Companies by the Target Company; and (ii) the assignment of the Sale Loan to the Target Company
"Retained Properties"	the properties held by the Property Investment Group as at the date of the Acquisition Agreement and as at Completion

"Ritzy Soar"	means Ritzy Soar Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and is an indirect wholly-owned subsidiary of the Company
"Sale Loan"	all obligations, liabilities and debts owing or incurred by the Target Group to the Vendor on or at any time prior to the Completion whether actual, contingent or deferred and irrespective of whether or not the same is due payable on Completion
"Sale Share"	one (1) ordinary share of the Target Company to be sold by the Vendor to the Company, representing all the issued and fully paid up shares of the Target Company as at the date of the Acquisition Agreement and as at Completion
"Seaview Estate Property"	the property situated at Unit No. 2 on 4th Floor of Block A, Seaview Estate, No. 2 Watson Road, Hong Kong
"Seongsu Vision"	Seongsu Vision Co. Limited, a company incorporated in the South Korea with limited liability
"SFC"	Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Smart Mountain"	Smart Mountain Limited, a company incorporated in Hong Kong, which is 100% beneficially owned by Mr. Chan as at the date of the Acquisition Agreement and as at Completion
"Specific Mandate"	the specific mandate to be sought from the Independent Shareholders at the EGM for the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers

"Target Company"	Metropolitan Group (BVI) Limited, a company incorporated in the BVI with limited liability and a direct wholly-owned subsidiary of the Vendor, which will hold the companies being the subject of the Acquisition after the completion of the Reorganisation
"Target Group"	the Target Company and its subsidiaries immediately after the completion of the Reorganisation, comprising the Crystal Cay Group, Metropolitan Apartment, Metropolitan Fine Wine, Metropolitan Wine Cellar Group, Metropolitan Storage Group, Metropolitan Workshop and Metropolitan Production, and a "Target Group Company" shall mean any of them
"Tenancy Agreement"	the tenancy agreement dated 25 April 2017 entered into by Noble Empire (as tenant) and an independent third party (as landlord) in respect of the Seaview Estate Property for a term of three years commencing from 1 March 2017 to 29 February 2020
"Transactions"	the acquisition of the Sale Share and the Sale Loan by the Company from the Vendor and any other transactions contemplated under the Acquisition Agreement, including the issue of the Convertible Bonds by the Company to satisfy part of the Consideration and the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Bonds under the Specific Mandate
"Vendor"	Metropolitan Lifestyle (BVI) Limited, a company incorporated in the BVI with limited liability and is indirectly held as to 100% by Mr. Chan as at the Latest Practicable Date
"Vogue Town"	Vogue Town Limited, a company incorporated in Hong Kong, which is 100% beneficially owned by Mr. Chan as at the date of the Acquisition Agreement and as at Completion
"Warranties"	the representations, warranties and undertakings of the Vendoras set out in the Acquisition Agreement
"West Coast International"	means West Coast International Limited, a company incorporated under the laws of Hong Kong
"%"	per cent.

Star Properties Group (Cayman Islands) Limited
星 星 地 產 集 團 (開 曼 群 島) 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1560)

Executive Directors:
Mr. Chan Man Fai Joe *(Chairman)*
Ms. Cheung Wai Shuen
Mr. Liu Hon Wai
Prof. Pong Kam Keung

Non-executive Director:
Mr. Yim Kwok Man

Independent Non-executive Directors:
Ms. Chan Wah Man Carman
Mr. Lee Chung Ming Eric
Dr. Wong Wai Kong

Registered Office:
Clifton House
75 Fort Street
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

Head Office and Principal Place of Business:
11/F, TG Place,
No. 10 Shing Yip Street,
Kwun Tong, Kowloon,
Hong Kong

27 March 2020

To the Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF AND SHAREHOLDERS' LOAN OWING BY METROPOLITAN GROUP (BVI) LIMITED

AND

(2) NOTICE OF EXTRAORDINARY GENERAL MEETING

1. INTRODUCTION

On 24 January 2020 (after trading hours of the Stock Exchange), the Company (as purchaser) and the Vendor (as vendor) entered into the Acquisition Agreement, pursuant to which the Company conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the Sale Share and Sale Loan, at an aggregate consideration of HK$420,000,000, which will be satisfied by (i) part payment in cash; and (ii) allotment and issue of the Convertible Bonds. The Conversion Shares will be allotted and issued under the Specific Mandate to be sought from the Independent Shareholders at the EGM.

2. THE ACQUISITION AGREEMENT

Date: 24 January 2020

Parties: (i) the Company (as purchaser); and
(ii) Metropolitan Lifestyle (BVI) Limited (as vendor);

Assets to be acquired

The assets to be acquired under the Acquisition Agreement comprise (i) the Sale Share; and (ii) the Sale Loan. The Sale Share represents the entire issued share capital of the Target Company as at the date of the Acquisition Agreement and Completion. The Sale Loan shall represent all obligations, liabilities and debts owing or incurred by the Target Group to the Vendor on or at any time prior to the Completion whether actual, contingent or deferred and irrespective of whether or not the same is due payable on Completion. As at 31 January 2020, the amount of the outstanding unaudited indebtedness owing by the Target Group to the Vendor was approximately HK$269,543,000.

The Deed of Assignment will be executed such that the Sale Loan will be assigned by the Vendor to the Company.

Pursuant to the Deed of Assignment, in consideration of the Company agreeing to enter into the Acquisition Agreement with the Vendor, the Vendor, as sole legal and beneficial owner of the amount of debt owing by the Target Company to the Vendor as at the Completion Date, which is unsecured, interest-free and has no fixed repayment terms ("**Debt**"), shall assign absolutely and transfer to the Company with effect from the date of the Deed of Assignment all its rights, title and benefit to and interest in the Debt, together with all claims for damages and other remedies for non-payment of the Debt, free from any and all encumbrances.

Pursuant to the terms of the Acquisition Agreement, it is one of the conditions precedent that the Reorganisation shall be completed prior to Completion. It is expected that, upon completion of the Reorganisation, the Target Group will hold the various interests in the businesses and properties (details of which are set out in the section headed "Information on the Target Group" below) which are the subject of the Acquisition. Please refer to the section headed "Information on the Target Group" below for further information on the business and financial information of the Target Group.

Consideration and payment terms

The Consideration shall be HK$420,000,000 in aggregate, which shall comprise the purchase price for the Sale Loan (representing the dollar-to-dollar equivalent of the amount of the Sale Loan) and the purchase price for the Sale Share (which shall be the aggregate Consideration less the purchase price for the Sale Loan).

Subject to the terms of the Acquisition Agreement, the Consideration shall be payable by the Company to the Vendor in the following manner:

(i) 50% of the Deposit, being HK$21,000,000, shall be paid by the Company as deposit and part payment of the Consideration upon the signing of the Acquisition Agreement;

(ii) the remaining 50% of the Deposit, being HK$21,000,000, shall be paid by the Company as deposit and part payment of the Consideration on the 14th day after the date of the Acquisition Agreement; and

(iii) the sum of HK$378,000,000, being the balance of the Consideration, shall be satisfied by the Company by way of the issue and delivery of the Convertible Bonds in the name of the Vendor on Completion.

As at the Latest Practicable Date, the Deposit has already been paid by the Company to the Vendor, details of which are as follows:

(i) HK$21,000,000, being 50% of the Deposit, was paid on 24 January 2020, being the date of the Acquisition Agreement; and

(ii) HK$21,000,000, being the remaining 50% of the Deposit, was paid on 6 February 2020, being the 14th day after the date of the Acquisition Agreement.

Basis of the Consideration

The Consideration was determined after arm's length negotiations between the Company and The Vendor on normal commercial terms with reference to, including without limitation, to (i) the market value of the property interests held by the Target Group of HK$956,000,000 as at 30 September 2019 based on the preliminary valuation conducted by an independent property valuer based on market approach adopting a direct comparison method; and (ii) the net asset value of the Target Group as at 30 September 2019.

As the purchase price for the Sale Loan represents the dollar-to-dollar equivalent of the Sale Loan, the Directors are of the view that the purchase price of the Sale Loan is fair and reasonable.

The net asset value of the Target Group as at 30 September 2019 amounted to approximately HK$234.8 million according to the accountants' report set out in Appendix II.

Since the outstanding audited indebtedness owing by the Target Group to the Vendor as at 30 September 2019 was approximately HK$216.2 million, the purchase price of the Sale Share (which shall be the aggregate Consideration less the purchase price for the Sale Loan) would be approximately HK$203.8 million, representing a discount of approximately 13.2% to the adjusted combined net asset value of the Target Group as at 30 September 2019 of approximately HK$234.8 million (after the adjustment of the market value of the property interest of the Target Group). With reference to certain companies that are currently listed on the Main Board of Stock Exchange which have conducted transactions on acquisition/disposal of properties/land and related business which constitute notifiable transactions three months immediately prior to the date of the Acquisition Agreement, it is considered that the purchase price of the Sale Share representing a discount of approximately 13.2% to the adjusted combined net asset value of the Target Group is within the range of other market comparables.

The outstanding indebtedness owing by the Target Group to the Vendor as at 31 January 2020 increased to approximately HK$269.5 million due to the short-term financing by the Vendor to the Target Group for loan restructuring, the purchase price of the Sale Share (which shall be the aggregate Consideration less the purchase price for the Sale Loan) would be approximately HK$150.5 million, representing a discount of approximately 35.9% to the adjusted combined net asset value of the Target Group as at 30 September 2019 of approximately HK$234.8 million (after the adjustment of the market value of the property interest of the Target Group). The outstanding indebtedness owing by the Target Group to the Vendor is subsequently reduced and restored to the balance as at 30 September 2019 which is amounted to approximately HK$216.2 million after the loan restructuring and before completion.

As the majority of the assets of the Target Group is investment properties, the Directors consider that it is reasonable to make reference to the property valuation and/or net asset value of the Target Group in determining the consideration for the acquisition of the Target Group, which comprises companies which are principally engaging in property investment related businesses.

Based on the above, the Directors consider that the purchase price of the Sale Share is fair and reasonable.

The cash component of the Consideration will be financed by internal resources of the Group.

Effect of amount due to equity owner of the Target Company on the liquidity of Target Group after Completion

The amount due to the equity owner of the Target Company (which amounted to HK$216.2 million as at 30 September 2019) would constitute the Sale Loan which will be assigned to the Company at Completion. As the Company has no current intention to demand for the immediate repayment of the Sale Loan after Completion, the liquidity of the Target Group will not be affected by the amount owing to the equity owner of the Target Company after Completion. The amount due to the equity owner of the Target Company increased to approximately HK$269.5 million as at 31 January 2020 and will be subsequently reduced and restored to the balance as at 30 September 2019 which is amounted to approximately HK$216.2 million after the loan restructuring and before Completion.

Conditions precedent

Completion of the Acquisition Agreement is conditional upon fulfilment or waiver (as the case may be) of the following Conditions:

(i) the Vendor's title to the Sale Share and the Sale Loan being in order and free from all encumbrances;

(ii) all the Warranties remaining true and accurate and not misleading as at Completion and no events having occurred that would result in any breach of any of the Warranties or provisions of the Acquisition Agreement by the Vendor;

(iii) the Vendor having facilitated the Company to undertake a legal, financial and business due diligence investigation in respect of the Target Group and the results of such due diligence investigation being reasonably satisfactory to the Company;

(iv) the Reorganisation having been duly completed;

(v) all necessary consents in relation to the transactions contemplated under the Acquisition Agreement, including without limitation such consents (if required) of the Stock Exchange and the SFC and any relevant governmental or regulatory authorities and other relevant third parties in Hong Kong or elsewhere which are required for the entering into, execution, delivery and performance of the Acquisition Agreement and the transactions contemplated thereunder, including but not limited to the listing of, and the permission to deal in, any Conversion Shares which may be issued to the Vendor upon conversion of the Convertible Bonds, having been obtained;

(vi) approval having been obtained from the Independent Shareholders at the EGM convened for approving the Acquisition Agreement and the transactions contemplated thereunder;

(vii) the transactions contemplated under the Acquisition Agreement not having been deemed by the Stock Exchange as a reverse takeover of the Company under the Listing Rules; and

(viii) the release of the personal guarantees given by the Controlling Shareholders in favour of the banks in relation to loans taken out by the Target Group.

In respect of paragraph (v) above, apart from listing approval, consents from bank(s) are required for the performance of the transactions contemplated under the Acquisition Agreement.

The Vendor shall use its reasonable endeavours to procure the fulfillment of the Conditions. The Company may at any time by notice in writing to the Vendor waive any of the Conditions (other than Conditions (v), (vi) and (vii)) or any part thereof on such terms as it may decide.

Therefore, the Condition of the "Reorganisation having been duly completed" as set out in paragraph (iv) above may be waived by the Company. In the unlikely event that the Reorganisation cannot be implemented in full as anticipated due to unforeseen circumstances, the Company may waive this Condition to such extent. This provides flexibility to the Company. If there are any material changes to the terms of the Transactions, the Company will comply with the relevant Listing Rules requirements.

None of the Conditions has been fulfilled or waived as at the Latest Practicable Date. As at the Latest Practicable Date, the Company has no intention to waive any of the Conditions.

If any of the Conditions are not fulfilled (or waived by the Company) on or before the Long Stop Date, the Vendor shall forthwith on the Long Stop Date repay the full amount of the Deposit without any interest to the Company, and the Acquisition Agreement shall cease and determine (save and except certain clauses specified in the Acquisition Agreement) and neither party shall have any obligations and liabilities thereunder save for any antecedent breaches of the terms thereof.

Completion

Completion shall take place on the 5th Business Day after all the Conditions have been satisfied or waived, or such other date as may be agreed by the Vendor and the Company in writing.

3. ISSUE OF THE CONVERTIBLE BONDS

The Convertible Bonds shall be issued by the Company on the date of Completion to settle part of the Consideration for the purchase of the Sale Share and the Sale Loan.

The terms of the Convertible Bonds have been negotiated on an arm's length basis and the principal terms of which are summarised below:

Issuer:	The Company
Principal amount:	HK$378,000,000
Maturity date:	The Convertible Bonds are perpetual in term and have no maturity date
Interest rate:	The Convertible Bonds bear a coupon rate of 3% per annum. The coupon shall accrue on the outstanding principal amount of the Convertible Bonds and be payable annually subject to the Company's sole discretion to defer the coupon payment for a maximum period of 10 years from the date when the relevant coupon payment fall due by giving notice to the holders of the Convertible Bonds
Conversion Price:	The initial Conversion Price is HK$0.65 per Conversion Share subject to adjustments (details of which are summarised below).
Conversion Shares:	Assuming the conversion rights attaching to the Convertible Bonds are exercised in full at the initial Conversion Price of HK$0.65 per Conversion Share, a maximum of 581,538,461 new Shares will be issued upon conversion of the Convertible Bonds (subject to adjustments), which represent (i) approximately 90.65% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 47.55% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds at the initial Conversion Price

Conversion Period:	The holders of the Convertible Bonds may convert such Convertible Bonds (in whole or in part) into Conversion Shares during the period commencing from the date of issue of the Convertible Bonds up to the date which falls on the 10th anniversary of the date of issue of the Convertible Bonds (the "**Conversion Period**") to the extent all or part of the Convertible Bonds remain outstanding. Upon expiry of the said Conversion Period, no conversion rights could be exercised and the amount outstanding under the Convertible Bonds (if any) will become an unlisted straight perpetual bond of the Company.
Conversion:	Provided that any conversion of the Convertible Bonds does not result in (i) a mandatory offer under rule 26 of the Takeovers Code on the part of the holder and/or any party(ies) acting in concert with it; and (ii) the public float of the Shares being less than 25% (or such percentage as required by the Listing Rules) of the issued Shares, the bondholder shall, subject to compliance with the procedures set out in the CB Conditions, have the right at any time during the Conversion Period to convert the whole or part of the outstanding principal amount of the Convertible Bonds registered in their name into Shares, provided further that any conversion shall be made in amounts of not less than a whole multiple of HK$1,000,000 on each conversion (or if the outstanding principal amount of the Convertible Bonds is less than HK$1,000,000 on such conversion, the whole of such outstanding principal amount of the Convertible Bonds).
Redemption:	The Company may, at any time, by serving at least ten (10) days' prior written notice on the holder of the Convertible Bonds with the total amount proposed to be redeemed specified therein, redeem the Convertible Bonds (in whole or in part) at 100% of the principal amount of such Convertible Bonds.
Adjustments to the Conversion Price:	The Conversion Price shall from time to time be adjusted upon the occurrence of certain events in relation to the Company including but not limited to the following: (i) an alteration of the number of the Shares by reason of consolidation or subdivision;

(ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund);

(iii) a capital distribution being made by the Company to the Shareholders (which includes a payment of cash dividends subject to certain conditions, details of which are set out in Appendix VI of this circular), whether on a reduction of capital or otherwise, to Shareholders (in their capacity as such) or a grant by the Company to Shareholders (in their capacity as such) of rights to acquire for cash assets of the Company or any of its subsidiaries;

(iv) an offer of new Shares for subscription by way of rights, or grant any options or warrants to subscribe for new Shares, being made by the Company to the Shareholders (in their capacity as such) at a price which is less than 80% of the then market price of the Share;

(v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total effective consideration per Share initially receivable for such securities is less than 80% of the then market price of the Shares, or such rights of conversion or exchange or subscription attached to any such securities being modified so that the said total effective consideration per Share initially receivable for such securities is less than 80% of the then market price of the Shares;

(vi) an issue being made by the Company wholly for cash of Shares (other than Shares issued on the exercise of conversion rights attaching to the Convertible Bonds or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) at a price per Share less than 80% of the then market price of the Shares; and

(vii) an issue being made by the Company of Shares for the acquisition of asset at the total effective consideration per Share which is less than 80% of the then market price of the Shares.

	Details of the adjustment mechanism to the Conversion Price is set out in Appendix VI to this Circular.
Transferability:	Subject to the prior written consent by the Company and compliance with the Listing Rules and other applicable laws and regulations, the Convertible Bonds may be transferred or assigned by the holder(s) of the Convertible Bonds in whole or in part in multiples of HK$1,000,000 to any party.
Voting rights:	The Convertible Bonds shall not carry any voting rights.
Status:	The obligations of the Company arising under the Convertible Bonds constitute general, unconditional, unsecured and unsubordinated obligation of the Company and rank *pari passu* and rateably without preference (with the exception of obligations accorded preference by mandatory provisions of applicable law) equally with all other present and future unsecured and unsubordinated obligations of the Company. The status of the holders of the Convertible Bonds ("**CB holders**") is different from the ordinary Shareholders in such respects that, *inter alia*, (i) the CB holders, by holding the Convertible Bonds, do not have any voting rights in the general meetings of the Company like the ordinary Shareholders; (ii) the CB holders are entitled to repayment under the Convertible Bond but not any dividends to be declared by the Company; (iii) the CB holders are repaid their interest payment first and if any profits remain, these are distributed to the ordinary Shareholders in accordance to the dividends policy of the Company; and (iv) if the Company shall be wound up, the CB holders or creditors will have priorities over the ordinary Shareholders in their payment and the surplus assets remaining after payment to all creditors shall be divided among the ordinary Shareholders.
Listing:	No application will be made by the Company for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange.

The initial Conversion Price of HK$0.65 per Conversion Share represents:

(i) a discount of approximately 7.14% to the closing price of HK$0.70 per Share as quoted on the Stock Exchange on the date of the Acquisition Agreement;

(ii) a discount of approximately 7.67% to the average closing price of approximately HK$0.704 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Acquisition Agreement;

(iii) a discount of approximately 7.67% to the average closing price of approximately HK$0.704 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Acquisition Agreement;

(iv) a discount of approximately 40.42% to the net asset value per Share attributable to the Shareholders of approximately HK$1.091 as at 30 June 2019;

(v) a discount of approximately 41.18% to the net asset value per Share attributable to the Shareholders of approximately HK$1.105 as at 31 December 2019; and

(vi) a premium of approximately 51.16% to the closing price of HK$0.430 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Conversion Price was determined based on arm's length negotiations between the parties with reference to the prevailing market prices of the Shares.

The Directors consider that the adjustment provisions to the Conversion Price contained in the CB Conditions of the Convertible Bonds are based on market comparable terms and are fair and reasonable.

The Conversion Price represents a discount of approximately 41.18% to the net asset value per Share attributable to the Shareholders of approximately HK$1.105 as at 31 December 2019 (excluding the disposal gain of the Rainbow Red Holdings Limited to an independent third party and the Company expected to record a gain of HK$380 million form the disposal). Also, by comparing to other property developer companies that are listed on the Main Board of the Stock Exchange which have significant properties reserves (including but not limited to investment properties and properties held for sales/development), it is noted that it is not uncommon for the share price of such companies to be at a discount to their respective net asset values. Additionally, there are also many other reasons that explain why the share price of the Company is at a discount to its net asset value, including but not limited to market news, which can also affect the share price of the Company before the impact is factored into its net assets value. The share price as quoted on the Stock Exchange has already reflected the information of the disposal of Rainbow Red Holdings Limited as the disposal was announced on 31 December 2019. The discount of the initial Conversion Price of HK$0.65 per Conversion Share to the closing price of HK$0.70 per Share on the date of the Acquisition Agreement is caused by the recent share price increase in January 2020 while the Directors also considered the average closing price per Share in December 2019, three months and six months prior to the date of the Acquisition Agreement. The Directors considered that the Conversion Price of HK$0.65 is fair and reasonable as it represents a premium of approximately 20.3%, 13.2% and 11.9% of the average trading price in December 2019 and of three months and six months prior to the date of the Acquisition Agreement respectively which is within the range with the market comparables and is in the interest of the Company and its Shareholders as a whole. According to the closing price of HK$0.43 per Share as quoted on Stock Exchange on the Latest Practicable Date, the Conversion Price is at premium of approximately 51.16%. As disclosed in the section headed "Determination of settlement method of the Consideration" in this Letter, the Board has considered other possible fundraising methods for the settlement of the Consideration, including placing or right issues, which also require a substantial placing discount and arrangement fee. Since the Convertible Bonds can be converted into Shares which can be traded by the public, the holder of the Convertible Bonds normally compare the Conversion Price with the stock price of the Shares instead of the net asset value per Share. The Board considers that the Conversion Price is fair and reasonable even if there is a discount of approximately 41.18% to the net asset value per Share attributable to the Shareholder as at 31 December 2019.

As disclosed above, according to the terms of the Convertible Bonds, the bondholder shall have the right at any time during the Conversion Period to convert the whole or part of the outstanding principal amount of the Convertible Bonds registered in their name into Shares provided that any conversion of the Convertible Bonds does not result in a mandatory offer under rule 26 of the Takeovers Code on the part of the holder and/or any party(ies) acting in concert with it. As such, the issue of the Conversion Shares is not expected to result in a change of control of the Company.

Specific Mandate

The Conversion Shares will be allotted and issued under the Specific Mandate to be approved by the Independent Shareholders at the EGM. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares. The Conversion Shares, when allotted and issued, will rank pari passu in all respects with each other and with the other Shares then in issue at the time of issue of the Conversion Shares.

4. INFORMATION ON THE TARGET GROUP

Principal businesses of the Target Group

The Target Company is an investment holding company. As at the Latest Practicable Date, the Target Group Companies are operating the following businesses under the "Metropolitan" brand with its self-owned and leased properties: (i) serviced apartment business, (ii) wine cellar and fine wine business, (iii) storage business and workshop business and (iv) production and other investment holding business.

1. Serviced apartment business

Metropolitan Apartment is principally engaged in the business of operation of serviced apartments in Hong Kong. The business of Metropolitan Apartment commenced in 2012 and all suites provided by Metropolitan Apartment are fully furnished with flexible terms by monthly renewal. The target customers of Metropolitan Apartment are short-term overseas employees, local residents and college students.

Metropolitan Apartment operates a total of 28 serviced apartments on self-owned properties for rental which are situated at No.16 & No. 18 Yiu Wa Street, Causeway Bay and 3/F, 14 Yiu Wa Street, Causeway Bay, Hong Kong.

Types of serviced apartments include (i) co-living apartments (ranging from 80 to 120 sq. ft. in size), (ii) contemporary studios (ranging from 180 to 230 sq. ft. in size), (iii) studios with terrace (ranging from 230 to 390 sq. ft. in size with a terrace of approximately 20 to 180 sq. ft. each), and (iv) family studios (which are 400 sq. ft. to 700 sq.ft. in size).

The valuation of the properties used by Metropolitan Apartment for its apartment business and held by Crystal Cay Group conducted by an independent property valuer was HK$175,000,000 as at 31 December 2019. For details of the properties used in the serviced apartment business, please refer to Property No. 4, 10 and 15 in the property valuation report set out in Appendix V of this circular.

The occupancy rate of the serviced apartments operated by Metropolitan Apartment were almost over 85% each year from 2012 to 2018. From the third quarter of 2019, due to the social unrest in Hong Kong and the outbreak of coronavirus, the occupancy rate of the serviced apartments has dropped to approximately 70% in February 2020. However, it was believed that the good reputation, high standard of hygienic conditions and quality services had helped in attracting more referrals from existing tenants. Also, the monthly leasing renewal arrangement gives the flexibility to tenants who demand for short term leasing.

Subject to Completion, in relation to future development, Metropolitan Apartment intends to explore opportunities for new apartments in any high density districts in Hong Kong such as Central, Happy Valley, Tsim Sha Tsui and Yuen Long by acquisition or joint venture. It is anticipated that Metropolitan Apartment will continue to provide comfortable living experience with a variety and flexible living arrangements for discerning customers. Also, Metropolitan Apartment intends to launch a tenant referral program to boost engagement and increase outreach.

2. *Wine cellar and fine wine businesses*

Metropolitan Wine Cellar Group is principally engaged in the business of provision of professional fine wine storage services. Metropolitan Fine Wine is principally engaged in wine trading.

Metropolitan Wine Cellar is a participating company of the Wine Storage Management Systems (WSMS) Certification Scheme of the Hong Kong Quality Assurance Agency (HKQAA). It complies with the requirements of Fine Wine Storage Management Systems Standard of HKQAA Wine Storage Management Systems Certification Scheme: 2013 applicable to provision of 24-hour wine storage rental services for fine wine. As at the Latest Practicable Date, there are a total of 232 wine lockers and 131 private cellars located in rented and self-owned properties of Metropolitan Wine Cellar Group in Seaview Estate, Tin Hau, Hong Kong, which are provided for storage of wine. Capacity of each wine locker ranges from 24 to 432 bottles or 2 to 36 cases and that of each private cellar ranges from 132 to 9,360 bottles or 11 to 780 cases.

In 2008, the zero wine duty policy has been launched, and wine and spirits business flourished in Hong Kong. Metropolitan Wine Cellar was established in 2011 in view of the contemplated need for storage of wine and it aimed to provide professional storage facilities to customers. It expanded from utilizing a rented property of approximately 10,000 sq. ft. only in 2011 to acquiring a self-owned property of approximately 3,000 sq. ft. to provide its wine storage service. In 2019, there was further expansion and an additional rented property of approximately 3,000 sq. ft. has since been used for providing wine storage facilities to customers. As at the Latest Practicable Date, the total storage area available is over 16,000 sq. ft.. Metropolitan Wine Cellar had less than 20% occupancy rate for 1 shop in 2011 when it was established, and had attained up to 95% occupancy rate for 3 shops in 2019. For the new cellar on 9/F which was opened in February 2019, the occupancy rate reached 85% within one year. This shows that there is high demand for wine storage in the market.

Metropolitan Fine Wine mainly targets local Hong Kong residents and offers products delivery. Supplementing the fine wine storage services offered by Metropolitan Wine Cellar Group, Metropolitan Fine Wine designates a transportation company to deliver the wines and provides an inland transit insurance coverage within Hong Kong, subject to a limit of HK$50,000 per bottle of wine (cost value) and HK$2,000,000 (per conveyance) insurance coverage. Its products include dessert wine, red wine, sparkling wine, white wine, rose wine, champagne and spirits such as whiskey, cognac and brandy, and are sourced from different countries including France, United Kingdom, Portugal, Australia, the United States of America, Chile, Italy and Spain. The core and main selection of its wines comprises “old world” wines, especially French wines which account for 80% of its inventory.

The growth in fine wine trading in Hong Kong is obvious since consumers in Asia are increasingly wine savvy and their demand for wine remains strong. With government support, assistance and deregulation of wine imports, the wine business has boomed in Hong Kong. It is expected that the wine trading will grow continuously in the coming five to ten years.

Recently, the outbreak of coronavirus slightly slowed down the wine cellar occupancy and fine wine trading as it influenced all other retail businesses. Wine cellar occupancy rate decreased from 95% to 93%. As for fine wine, Metropolitan Fine Wine changed its sales strategy from offline trading to online trading as customers are staying at home for safety and health reasons. Crisis creates opportunities, online trading penetrates into a bigger market not only locally but internationally. Metropolitan Wine Cellar Group has a wine cellar business to power up the wine trading business of Metropolitan Fine Wine. If customers ordering online cannot pick up the wines immediately or do not want to stock up too many bottles of wine at home, they can choose to store them temporarily at the cellar of Metropolitan Wine Cellar Group.

The valuation of the properties used by Metropolitan Wine Cellar Group and held by Crystal Cay Group conducted by an independent property valuer was HK$33,000,000 as at 31 December 2019. For details of the properties used in wine cellar and fine wine businesses, please refer to Property No. 11 in the property valuation report set out in Appendix V of this circular.

3. Storage and workshop businesses

Metropolitan Storage Group is principally engaged in the business of provision and operation of 24-hour storage service to the public in Hong Kong. Metropolitan Storage Group was established in December 2016. Its first store was in Yuen Long, within one year development, there were a total of six stores located in Yuen Long, Fo Tan, Kwai Chung and Chai Wan. Due to the increasing demands from domestic users and corporate users, Metropolitan Storage Group expanded its business from six stores to 14 stores until 2019. Both households and corporate customers are Metropolitan Storage Group's target customers. Metropolitan Workshop is principally engaged in the business of provision of 24-hour co-working spaces ranging from private rooms/shared offices, dedicated desks, hot desks, and virtual offices to memberships in multi-location, providing flexible price plans and all equipped workspace perfect for freelancers, entrepreneurs, smaller companies and corporates. The operation of the storage and workshop businesses of the Target Group are under the same management team.

Metropolitan Storage Group operates its mini-storage business in 14 branches located in Chai Wan, San Po Kong, Lai Chi Kok, Fo Tan, Yuen Long, Kwai Chung, Tsing Yi and Tai Po as at the Latest Practicable Date. It provides mini storage services with size of each mini-storage unit ranging from 8 sq.ft. to over 40 sq. ft.. Metropolitan Storage Group has a total of approximately 2,000 mini-storage units in these 14 branches. The mobility of the storage clients were limited; therefore Metropolitan Storage Group would need to fufill its obligations under the licence agreements with the clients and the term for each of such licence agreements is long. For the selection of its premises, Metropolitan Storage Group selected the landlord who offers long term lease to ensure that it can fufill its obligations under the agreements with the client. Since the beginning of 2019, the occupancy rate of Metropolitan Storage is in the upward trend. The average increasing rate is around 1.5% per month from 51.9% in January 2019 to 69.7% in December 2019. The occupancy rate is expected to reach 80% at the end of 2020.

The recent coronavirus COVID-19 outbreak had minimal impact on Metropolitan Storage in January 2020. The occupancy rate had increased by around 0.44% in January 2020. After Lunar New Year, there is a huge demand for storage space because many retails business will trend to online market.

Also the mini-storage business in Hong Kong was established over 15 years ago, and it is proven that there is a huge demand for this service. There has been stable increase in occupancy due to (i) increasing demands of storage as more people start up online business and need storage space; and (ii) that some businesses are re-structuring by streamlining manpower or using co-working space. Metropolitan Storage Group plans to expand to 5-10 new stores (which are expected to locate at the Hong Kong Island, Kowloon East and/or Kowloon West) by 2022.

The co-working spaces of Metropolitan Workshop are located at self-owned properties. It started at The Galaxy, Kwai Chung in 2015. Since then Metropolitan Workshop has set up camp in an array of convenient locations across the city including Central, Admiralty, Wan Chai, Tin Hau, and Kwai Chung, all equipped with workspaces which are desired by freelancers, entrepreneurs, smaller companies and corporates. The company has grown to provide more than 200 private work spaces and 450 work desks with 435 active members. Each of the locations has its own style so members can pick and choose the environment that best suited their needs.

Metropolitan Workshop positions itself between co-working spaces and business centers, providing a higher privacy to existing co-working spaces and cheaper option for business center tenants. The target audience is a well-mixed group of individuals from startups to satellite offices, company industries including but not limited to, marketing, finance, insurance, recruitment, fashion, IT solution, consultants and blockchain development. The company also developed an online member portal including meeting room booking, member's directory, direct messaging and a benefits section introducing members to professional services like company secretary to offering discounts from nearby restaurants. The recent coronavirus outbreak has an impact for new members to get onboard and for existing customers to renew their contracts for the months of January and February 2020. Average occupancy rate of private work desks declined from an average of 81% in 2019 to 74% and 72% in January 2020 and February 2020, respectively. Metropolitan Workshop anticipates a market recovery towards the end of February 2020, with led enquiries increased 43% month to month. There are 15 confirmed new members and contracts were signed by Metropolitan Workshop with each of them and this will be reflected in the occupancy rate in March and April 2020. Metropolitan Workshop believes that the flexibility from its co-working space could cater for customers looking to scale up or down quickly during both the market highs and lows.

In relation to future development, it is anticipated that Metropolitan Workshop will be launching new workspace in Yuen Long, which is called "The Rainbow", offering 44 new work desks in May 2020. The current market sentiment is offering new opportunities for Metropolitan Workshop to work with traditional landlords from providing design and offering office solution to providing office management services. Metropolitan Workshop anticipates to continue to increase its footprint in Hong Kong and actively seek opportunities in the overseas market.

Seongsu Vision, a Target Group Company, which is an investment holding company holding a property situated in Seongsu, Seoul, South Korea will also be acquired under the Acquisition. The property held by Seongsu Vision is currently a bare site that does not have any building erected on it. It has a site area of approximate 5,180 sq.ft.. Upon completion of the Acquisition, the Company intends to develop it into a high end prestigious commercial building with 10 floors, rooftop and 3 underground floors for workshop business. The expected new gross floor area after development is approximately 32,285 sq. ft.. As at the Latest Practicable Date, the Company has already owned two construction sites in Seongsu area, South Korea. It is believed that the acquisition of Seongsu Vision would bring synergy to the Company from construction, operation and development aspects. Together with the other two sites in Seongsu area, it is expected that the Company will be able to establish a strong brand image and the three sites would be developed and regarded as a landmark in the Seongsu area.

The valuation of the properties used by Metropolitan Workshop and held by Crystal Cay Group conducted by an independent property valuer was HK$671,300,000 as at 31 December 2019. For details of the properties used in the storage and workshop businesses, please refer to Property No. 1, 3,5, 6, 7, 12, 13 and 16 in the property valuation report set out in Appendix V of this circular.

4. Production and other investment holding business

Metropolitan Production is principally engaged in the business of provision of marketing solution and consultancy services, film or advertisement production, organization of local and overseas events and music concerts and artist management.

Metropolitan Production has organised varies famous local and oversea singer concerts in Hong Kong such as Namie Amuro — “Finally” Final Tour 2018, Mr. “Everyone Concert 10” and HOTCHA “Are U My Best Friend” 10th Anniversary Concert, Sherman Chung “R U SHER?” Live in Concert and DStage Music Concert.

Metropolitan Production provides film production as well as professional photography services to well-known organisations. It produced a short video named “PANAM98” which won “Best Cinematography” Award from 5th Microfilm Production Support Scheme (Music).

To develop and promote brand image of Star Properties, Metropolitan Production has developed Star Properties’ Facebook Fanpage as well as its Instagram for corporate communication purpose since 2017. Moreover, it has produced a series of promotional videos for stimulating sales volume of “The Rainbow”.

Metropolitan Production has developed two social media platforms, namely as “DStage” and “Memories Hong Kong”. DStage aims to provide a stage for young people to perform different types of art while Memories Hong Kong aims to promote local tourism and business through producing videos for website and Facebook as well as organising competitions and performances. Both platforms have a collaboration with Star Properties as “Memories Hong Kong” which promotes particular locations where links to Star Properties’ projects, such as “Our Memories in Yuen Long Drawing Competition”, and “DStage” supports the development of other businesses and the corporate social responsibility of Star Properties, such as “DStage Music Concert”.

In relation to future development, Metropolitan Production intends to produce TV programmes for sale to local and overseas digital channels and organise more music concerts. In addition, it intends to continue to expand DStage and Memories Hong Kong by local and overseas networking partnership in order to attract more advertisers and sponsors from different industries. Moreover, Metropolitan Production intends to prepare and develop valuable promotional plans and medium to support Star Properties' growth and development.

The Target Group put a lot of effort on market and business development in the beginning stages. The Target Group has allocated huge costs on business set up, administrative and marketing. The goal is to differentiate itself from its competitors by its classical and impressive environment. It was successful to establish the brand, which is reflected by the increase in revenue and decrease in cost of sales for the nine months ended 30 September 2019. It is expected that after the brand has become well established and merged into the Group, the market share and sales of the Target Group will continue to grow.

As at the Latest Practicable Date, apart from the properties described above, the following property interests are held by the Target Group:

(i) farmland with an area of approximate 97,052 sq.ft. situated in Yuen Long, New Territories, Hong Kong, which is held by Mark Wealthy Limited, a Target Group Company, is now leased to 2 leasees to operate the farmland as commercial/organic farm and being held as an investment property. The property lies within an area zoned "Agriculture" in Kam Tin South Outline Zoning Plan. Currently, it forms part of the land bank of the Target Group. It is anticipated that a substantial change of land use by statutory resumption or lease modification is expected to be granted in the future; and

(ii) a shop located on 1/F podium of the Admiralty Centre, Admiralty, Hong Kong, which is held by Well Sure Corporation Limited, a Target Group Company, is being held as an investment property and is currently leased to an independent third party for a monthly rent of HK$45,000 from 11 August 2019 to 10 August 2021. In consideration of impact of coronavirus outbreak to retails business, a 10% rent concession was offered to the leaser for the period from 1 March 2020 to 31 August 2020. During the rent concession period, the monthly rent shall be HK$40,500. The Company intends that the shop will continue to be held as an investment property upon completion of the Acquisition. The shop is expected to generate a stable rental income for the Company during the term of the lease.

Mark Wealthy Limited and Well Sure Corporation Limited are Target Group Companies which will be acquired under the Acquisition. The valuation of the above property interests held by Mark Wealthy Limited and Well Sure Corporation Limited conducted by an independent property valuer was HK$79,375,000 as at 31 December 2019. For details of the properties used in the production and other investment holding business, please refer to Property No. 2, 8, 9 and 14 in the property valuation report set out in Appendix V of this circular.

Reorganisation

The purpose of the Reorganisation is to procure the Target Group Companies to become members of the Target Group and streamlining the transactions whilst disposing of the Disposal Entities, being all the companies which are dormant or not engaging in the business of the Target Group.

Under this objective, the Reorganisation would involve the following steps:

Stage 1: Disposal of companies by Crystal Cay

(a) Step 1 — disposal of 33.33% of the entire issued share capital of Island Wealth by Crystal Cay, being Crystal Cay's entire equity interest in Island Wealth.

On 7 February 2020, Crystal Cay transferred all its equity interest in Island Wealth, representing approximately 33.33% of the entire issued share capital of Island Wealth to Galaxy Properties (BVI) Limited at the consideration equivalent to HK$1.00, the respective paid share capital of the transferred shares of Island Wealth.

(b) Step 2 — disposal of the entire issued share capital of Crystal Harbour Development by Crystal Cay.

Crystal Cay disposed of the entire issued share capital Crystal Harbour Development by transferring the same to Galaxy Properties (BVI) Limited at the consideration equivalent to HK$2.00, the total paid share capital of Crystal Harbour Development.

The considerations for the above disposals were at nominal value of the relevant share capital of the companies as Island Wealth and Crystal Harbour Development were inactive companies.

(c) Step 3 — *disposal of the shares of the following companies by Crystal Cay (as to (i) to (iv)) and Golden Abacus (as to (v) and (vi)):*

(i) Full Lake
(ii) Green Glory
(iii) Smart Mountain
(iv) Vogue Town
(v) Gangnam Vision
(vi) JJ&B

(1) After the Shareholders approving the Acquisition, Crystal Cay will transfer the entire issued share capital of Full Lake, Green Glory, Smart Mountain and Vogue Town to Galaxy Properties (BVI) Limited, which is beneficially owned by Mr. Chan; and

(2) After the completion of the relevant documents required for the transfer, Golden Abacus will transfer (i) all its interest in JJ&B, representing approximately 59.39% of the entire issued share capital of JJ&B, and (ii) the entire issued share capital of Gangnam Vision to Vogue City Limited which is beneficially owned by Mr. Chan,

the above (1) and (2) transfers will be at, in aggregate, a consideration of approximately HK$183 million which representing the audited net asset value of the Disposal Entities as at 30 September 2019, with the valuation of properties held by the Disposal Entities performed by independent property valuer.

Stage 2: Transfer of the subsidiaries of Metropolitan Lifestyle (H.K.) to Metropolitan Lifestyle Holdings (BVI)

(d) Step 4 — *transfer of shares of Metropolitan Production, Metropolitan Apartment, Metropolitan Wine Cellar, Metropolitan Fine Wine, Metropolitan Storage and Metropolitan Workshop from Metropolitan Lifestyle (H.K) to Metropolitan Lifestyle Holdings (BVI)*

After the Shareholders approving the Acquisition:

(1) Metropolitan Lifestyle (H.K.) will transfer all its equity interest in Metropolitan Production, representing 75% of the entire issued share capital of Metropolitan Production, to Metropolitan Lifestyle Holdings (BVI) at a consideration of HK$75, the respective paid share capital of the transferred shares of Metropolitan Production;

(2) Metropolitan Lifestyle (H.K.) will transfer all its equity interest in Metropolitan Apartment, representing 85% of the entire issued share capital of Metropolitan Apartment, to Metropolitan Lifestyle Holdings (BVI) at a consideration of HK$85, the respective paid share capital of the transferred shares of Metropolitan Apartment;

(3) Metropolitan Lifestyle (H.K.) will transfer all its equity interest in Metropolitan Wine Cellar, representing approximately 80.75% of the entire issued share capital of Metropolitan Wine Cellar, to Metropolitan Lifestyle Holdings (BVI) at a consideration of HK$8,075, the respective paid share capital of the transferred shares of Metropolitan Wine Cellar;

(4) Metropolitan Lifestyle (H.K.) will transfer all its equity interest in Metropolitan Fine Wine, representing approximately 80.75% of the entire issued share capital of Metropolitan Fine Wine, to Metropolitan Lifestyle Holdings (BVI) at a consideration of HK$8,075, the respective paid share capital of the transferred shares of Metropolitan Fine Wine;

(5) Metropolitan Lifestyle (H.K.) will transfer all its equity interest in Metropolitan Storage, representing approximately 78% of the entire issued share capital of Metropolitan Storage, to Metropolitan Lifestyle Holdings (BVI) at a consideration of HK$78, the respective paid share capital of the transferred shares of Metropolitan Storage; and

(6) Metropolitan Lifestyle (H.K.) will transfer all its equity interest in Metropolitan Workshop, representing 85% of the entire issued share capital of Metropolitan Workshop, to Metropolitan Lifestyle Holdings (BVI) at a consideration of HK$85, the respective paid share capital of the transferred shares of Metropolitan Workshop.

The shares of the above companies will be transferred at a consideration of the nominal value of the relevant share capital of the companies as the transfers are part of the internal reorganisation between the subsidiaries of the Vendor.

Stage 3: Acquisition of Crystal Cay by the Target Company

(e) Step 5 — The Target Company acquires the entire issued share capital of Crystal Cay

(1) After the above steps and before the Completion, the Target Company will acquire the entire issued share capital of Crystal Cay from Galaxy Properties (BVI) Limited at a consideration of US$2, the respective paid share capital of the transferred shares of Crystal Cay.

The shares of Crystal Cay will be transferred at a consideration of nominal value of the relevant share capital of Crystal Cay as such transfer is part of the internal organisation between the subsidiaries within the same group.

Stage 4: Acquisition of the Target Company by the Company

(f) Step 6 — *The Target Group Companies assign loans to the Target Company*

(1) Immediately before the Completion, the Target Group Companies assign all the loans owing by the Target Group Companies to the Vendor as at the Completion Date to the Target Company.

(g) Step 7 — *The Company acquires the Sale Share and the Sale Loan*

(1) Upon Completion, the Company acquires the Sale Share and the Sale Loan pursuant to Acquisition Agreement.

The Disposal Entities are engaged in the holding of the Retained Properties and inactive entities. Details of the properties held by the Disposal Entities as at the Latest Practicable Date (i.e. the Retained Properties) are as follows:

1. Full Lake, which is 100% beneficially owned by Mr. Chan, holds an individual unit of a residential property in Hong Kong for personal investment;

2. Smart Mountain, which is 100% beneficially owned by Mr. Chan, holds an individual unit of a residential property in Hong Kong for personal investment;

3. Green Glory, which is 100% beneficially owned by Mr. Chan, holds an individual unit of a residential property in Hong Kong which is currently retained for personal use;

4. Vogue Town, which is 100% beneficially owned by Mr. Chan, holds an individual unit and several car parking spaces of a residential property in Hong Kong which are currently retained for personal use;

5. Gangnam Vision, which is 100% beneficially owned by Mr. Chan, holds a commercial property comprising 5 storeys (B1 to 4th floor) building in Gangnam district, Seoul, South Korea, which are all being held as personal investment; and

6. JJ&B, which is 59.39% beneficially owned by Mr. Chan, holds an apartment in Gangnam district, Seoul, South Korea which is held as an investment property for personal investment.

Prior to the Completion, the Group is principally engaged in property development and property investment for sale, rental or capital appreciation, provision of property management services and provision of finance. Apart from property developments in Hong Kong, the Group owns two industrial property sites in Seongdong District, Seoul, South Korea which are currently held for redevelopment purpose. Upon the completion of the property redevelopment work, the Group intends to sell all the buildings in the industrial property sites to generate revenue.

On the other hand, the Retained Properties are held for Mr. Chan's personal investment or personal use and there is no current plan of re-developing the Retained Properties.

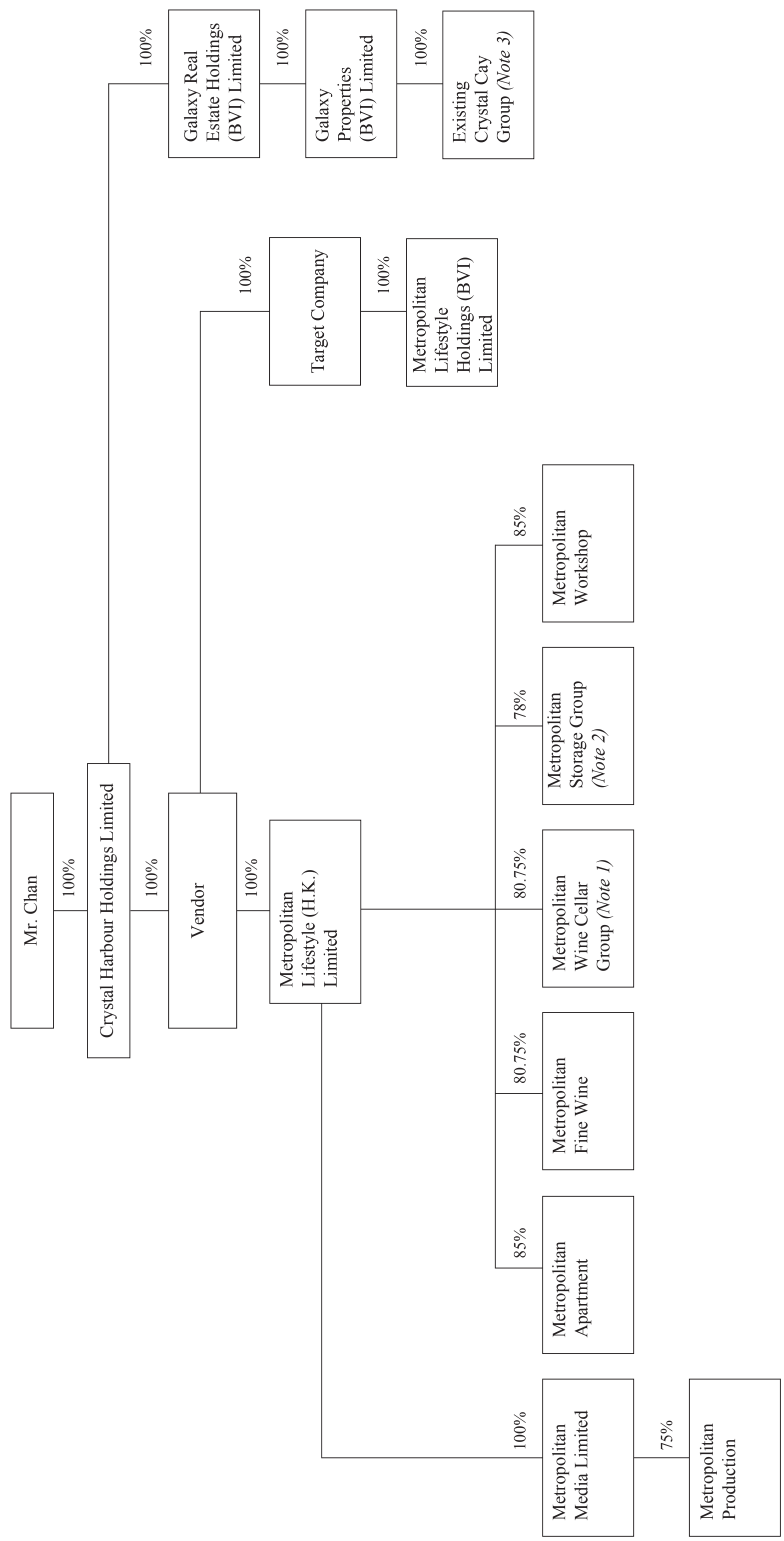
Taking into account the circumstances where (i) the Retained Properties in Hong Kong are mainly residential units while the Group mainly holds commercial or industrial units or entire development sites; (ii) the Retained Properties in South Korea are commercial storey or apartment while the Group mainly holds industrial sites for redevelopment purposes; and (iii) the Retained Properties are intended for personal investment or personal use while the Group holds properties for development purpose, the Directors are of the view that the Retained Properties neither form part of the Group's core business nor are in line with the Group's business strategies and there will be no competition between the business of the Group and the holding and/or leasing of the Retained Properties by the Vendor.

Based on the above, the Directors considered that the Disposal Entities do not enhance any synergy Between the Group's property development business and the businesses of the Target Group.

The assets and liabilities of the Disposal Entities as at 30 September 2019 are classified as held for sale and separately presented in the consolidated statement of financial position in the accountants' report set out in Appendix II to this circular.

Set out below is the shareholding structure of (i) the Target Group Companies as at the date of execution of the Acquisition Agreement; (ii) the Target Group upon completion of the Reorganisation and immediately before Completion; and (iii) the Target Group immediately after Completion:

(i) as at the date of execution of the Acquisition Agreement



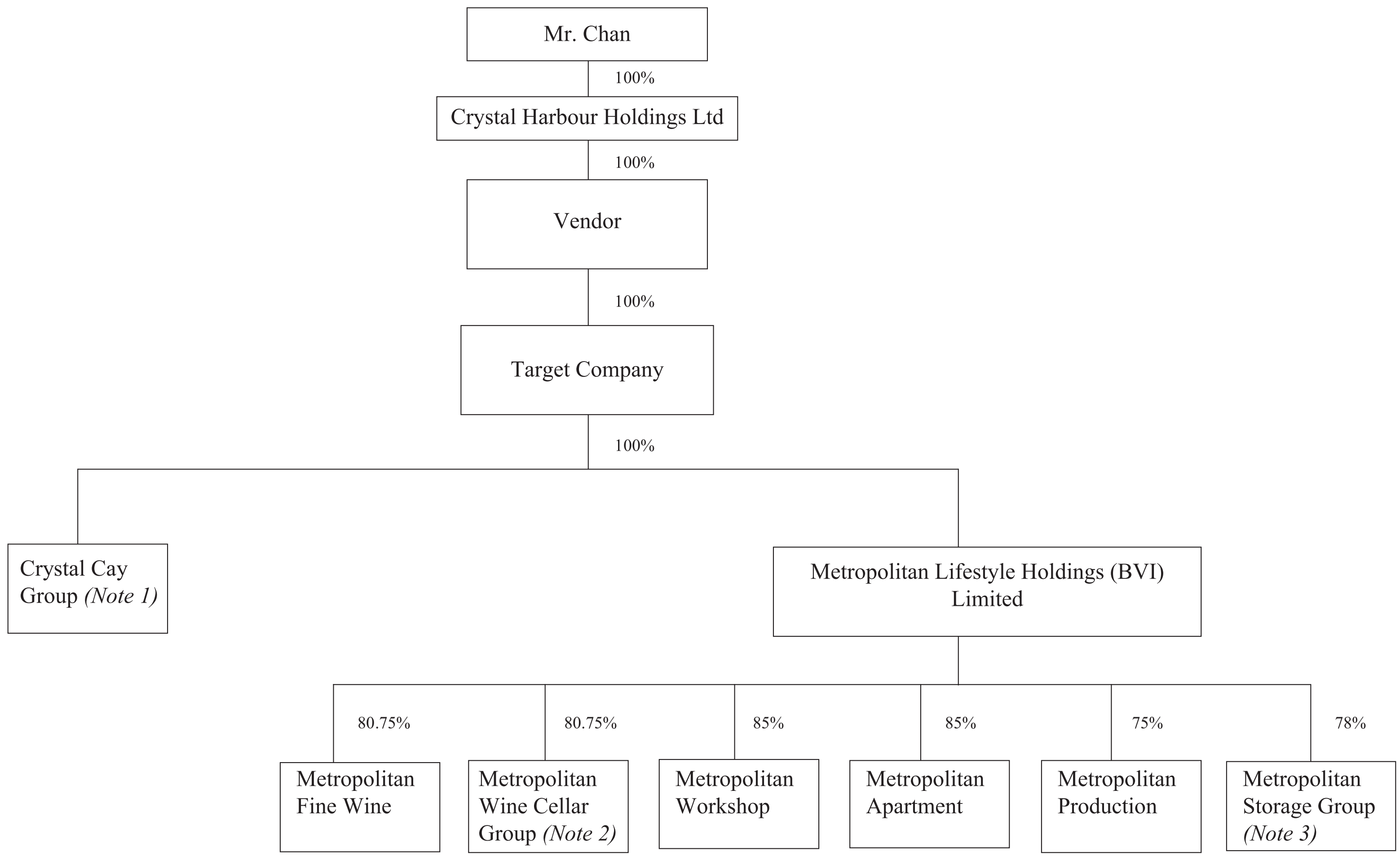
Notes:

(1) Metropolitan Wine Cellar Group refers to Metropolitan Wine Cellar Limited and its subsidiaries, including Noble Empire Investments Limited, and Seaview Empire Investments Limited.

(2) Metropolitan Storage Group refers to Metropolitan Storage Limited and its subsidiaries, including Charm Luck (Hong Kong) Limited, Cheer Luck International Industrial Limited, CW Luck Limited, East Luck Properties Limited, Faithful Luck (H.K.) Limited, FTIII Luck Limited, Kowloon Luck Limited, LCKI Luck Limited, Metro Luck Development Limited, Metro Storage Limited, Nice Luck Enterprise Limited, NT Luck Limited, NTII Luck Limited, Rainbow Luck Limited, and Rich Luck Enterprise Limited.

(3) Existing Crystal Cay Group refers to Crystal Cay Assets Limited and its subsidiaries, including Advalue Group Limited, Creative Sky Limited, Crystal Harbour Development Limited, Eternal Great Development Limited, Far Orient International Limited, Full Lake Limited, Gangnam Vision Co. Limited, Golden Abacus Global Limited, Golden Green Corporation Limited, Grand Silver (Hong Kong) Limited, Great Dawn Holdings Limited, Green Glory Holdings Limited, Island Wealth Limited, JJ&B Company Limited, Magical Time Global Limited, Manhattan Corporation Limited, Maritime Century Holdings Limited, Mark Wealthy Limited, Numeric City Limited, Rainbow Value Investments Limited, Seongsu Vision Co Limited, Smart Mountain Limited, Sunny Generation Limited, Well Sure Corporation Limited, Wise City Holdings Limited, and Vogue Town Limited.

(ii) upon completion of the Reorganisation and immediately before Completion



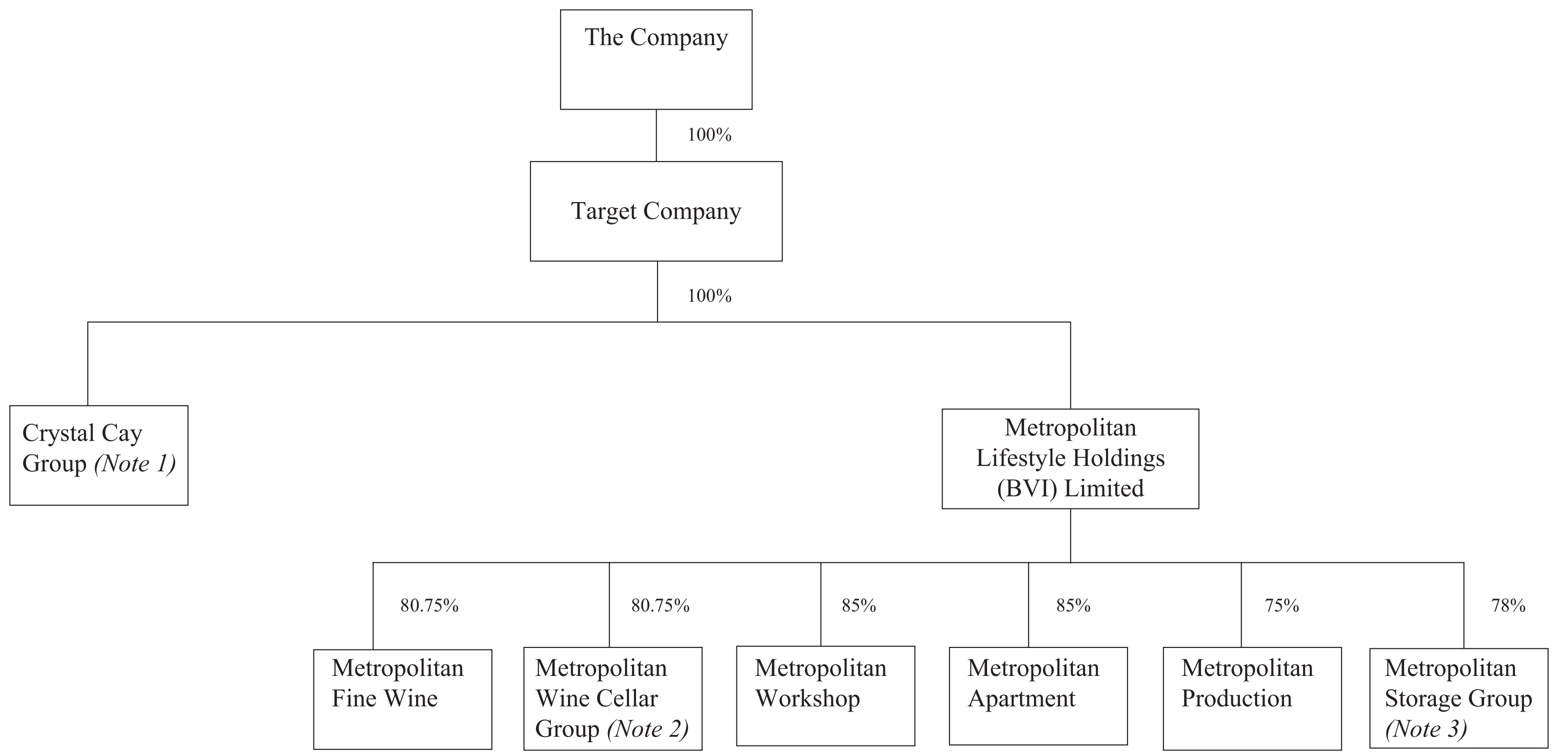
Notes:

(1) Crystal Cay Group refers to Crystal Cay Assets Limited and its subsidiaries, including Advalue Group Limited, Creative Sky Limited, Eternal Great Development Limited, Far Orient International Limited, Golden Abacus Global Limited, Golden Green Corporation Limited, Grand Silver (Hong Kong) Limited, Great Dawn Holdings Limited, Magical Time Global Limited, Manhattan Corporation Limited, Maritime Century Holdings Limited, Mark Wealthy Limited, Numeric City Limited, Rainbow Value Investments Limited, Seongsu Vision Co Limited, Sunny Generation Limited, Well Sure Corporation Limited, and Wise City Holdings Limited.

(2) Metropolitan Wine Cellar Group refers to Metropolitan Wine Cellar Limited and its subsidiaries, including Noble Empire Investments Limited, and Seaview Empire Investments Limited.

(3) Metropolitan Storage Group refers to Metropolitan Storage Limited and its subsidiaries, including Charm Luck (Hong Kong) Limited, Cheer Luck International Industrial Limited, CW Luck Limited, East Luck Properties Limited, Faithful Luck (H.K.) Limited, FTIII Luck Limited, Kowloon Luck Limited, LCKI Luck Limited, Metro Luck Development Limited, Metro Storage Limited, Nice Luck Enterprise Limited, NT Luck Limited, NTII Luck Limited, Rainbow Luck Limited, and Rich Luck Enterprise Limited.

(iii) immediately after Completion



Notes:

(1) Crystal Cay Group refers to Crystal Cay Assets Limited and its subsidiaries, including Advalue Group Limited, Creative Sky Limited, Eternal Great Development Limited, Far Orient International Limited, Golden Abacus Global Limited, Golden Green Corporation Limited, Grand Silver (Hong Kong) Limited, Great Dawn Holdings Limited, Magical Time Global Limited, Manhattan Corporation Limited, Maritime Century Holdings Limited, Mark Wealthy Limited, Numeric City Limited, Rainbow Value Investments Limited, Seongsu Vision Co Limited, Sunny Generation Limited, Well Sure Corporation Limited, and Wise City Holdings Limited.

(2) Metropolitan Wine Cellar Group refers to Metropolitan Wine Cellar Limited and its subsidiaries, including Noble Empire Investments Limited, and Seaview Empire Investments Limited.

(3) Metropolitan Storage Group refers to Metropolitan Storage Limited and its subsidiaries, including Charm Luck (Hong Kong) Limited, Cheer Luck International Industrial Limited, CW Luck Limited, East Luck Properties Limited, Faithful Luck (H.K.) Limited, FTIII Luck Limited, Kowloon Luck Limited, LCKI Luck Limited, Metro Luck Development Limited, Metro Storage Limited, Nice Luck Enterprise Limited, NT Luck Limited, NTII Luck Limited, Rainbow Luck Limited, and Rich Luck Enterprise Limited.

Financial Information of the Target Group

Set out below is the audited financial information of the Target Group (i) for the financial years ended 31 December 2017 and 2018; and (ii) for the nine months ended 30 September 2019 (assuming that the members of the Target Group have been consolidated throughout the relevant periods):

	Target Group		
	For the year ended 31 December		**For the 9 months ended 30 September**
	2017	**2018**	**2019**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Profit before taxation and extraordinary items	48,314	23,951	20,450
Profit after taxation and extraordinary items	43,656	17,539	14,400

According to the audited financial information of the Target Group, the net asset value of the Target Group as of 30 September 2019 was approximately HK$234,804,000. The original acquisition cost of the Target Group Companies, in aggregate, was approximately HK$618,000,000.

The profit for the year of the Target Group decreased significantly from approximately HK$43.7 million in FY2017 to approximately HKD17.5 million in FY2018 which was mainly due to a decrease in net valuation gain on investment properties of approximately HK$14.4 million, increase in cost of sales of approximately HK$4.8 million, and increases in administrative and other operating expenses and finance cost of approximately HK$11.2 million and approximately HK$7.6 million, respectively, netting off an increase in revenue of approximately HK$10.2 million from expansion of workshop and storage business.

The disposal of the Disposal Entities will be at a consideration, in aggregate, of the audited net asset value of the Disposal Entities as at 30 September 2019, with the valuation of properties held by the Disposal Entities performed by independent property valuer and the consideration will be settled by netting off the amount due to the equity owner. Hence, no gain/loss from the disposal and no change in the net assets value is to be recorded by the Target Group. In addition, the Disposal Entities recorded a net loss of approximately HK$1.5 million for the nine months ended 30 September 2019. The disposal of the Disposal Entities should have positive financial impact to the Target Group in the future.

All information relating to the Target Group, including information relating to the financial information of the Target Group and the businesses of the Target Group, as disclosed in this circular has been provided by the Vendor. The financial information of the Target Group as set out above is extracted from the audited financial statements of the Target Group. Please refer to the accountants' report on the Target Group as set out in Appendix II of this circular for details.

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

5. FUTURE FULLY EXEMPT CONTINUING CONNECTED TRANSACTION

Prior to the entering into of the Acquisition Agreement, Mr. Chan, who is an executive Director and hence connected person of the Company, has executed the Deed of Guarantee to guarantee the punctual payment of rent and due performance and observance by Noble Empire (a wholly-owned subsidiary of Metropolitan Wine Cellar and a Target Group Company) of all terms and conditions of the Tenancy Agreement for the term from 1 March 2017 to 29 February 2020 and renewed term (if any) under the Tenancy Agreement.

The transactions contemplated under the Deed of Guarantee will constitute financial assistance received from a connected person upon Completion. Pursuant to Rule 14A.90 of the Listing Rules, financial assistance received by the Group from Mr. Chan under the Deed of Guarantee is fully exempt as it is conducted on normal commercial terms and it is not secured by any assets of the Group. The Company is therefore exempt from the reporting, announcement and independent shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, an offer letter was sent by the attorney of the owner of the Seaview Estate Property to Noble Empire in relation to the renewal of the tenancy, which was accepted by Noble Empire (the "**Letter**"). According to the Letter, the landlord shall have an option before the signing of the formal tenancy agreement to determine the agreement set out in the Letter by giving notice to Noble Empire, whereupon such agreement in the Letter shall be cancelled and Noble Empire shall have no claim against the landlord whatsoever, whether for specific performance or otherwise. Further, pursuant to the Letter, all directors of Noble Empire shall sign personal guarantee for securing the due performance of paying monthly rent, management fee, government rates and all out-goings during the term of the tenancy. Subsequently, Noble Empire has received the formal tenancy agreement and deed of guarantee from the landlord on 23 March 2020 and Noble Empire is expected to execute and send back the signed formal tenancy agreement and deed of guarantee to the landlord by the end of March 2020.

6. CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon Completion but prior to the exercise of conversion rights under the Convertible Bonds and the allotment and issue of the Convention Shares and (iii) immediately after the allotment and issue of the Conversion Shares upon the exercise of the conversion rights under the Convertible Bonds in full (assuming that the Conversion Price is HK$0.65 per Conversion Share and there is no issue or repurchase of Shares from the Latest Practicable Date other than the Conversion Shares):

	As at the Latest Practicable Date		Upon Completion but prior to the exercise of conversion rights under the Convertible Bonds and the allotment and issue of the Conversion Shares		Immediately after the allotment and issue of the Conversion Shares upon the exercise of the conversion rights under the Convertible Bonds in full (for illustration purpose only as the conversion of the Convertible Bonds is subject to the restrictions that the conversion does not result in (i) a mandatory general offer under the Takeovers Code; and (ii) the public float of the Shares being less than 25% (or such percentage as required by the Listing Rules) of the issued Shares)	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
Mr. Chan	2,500,000	0.39	2,500,000	0.39	2,500,000	0.20
Star Properties Holdings (BVI) Limited *(Note 1)*	432,140,800	67.36	432,140,800	67.36	432,140,800	35.33
Vendor	–	–	–	–	581,538,461	47.55
Ms. Cheung Wai Shuen *(Note 3)*	300,000	0.05	300,000	0.05	300,000	0.02
Ms. Chan Wah Man Carman *(Note 4)*	156,000	0.02	156,000	0.02	156,000	0.01
Mr. Lam Kin Kok	1,418,000	0.22	1,418,000	0.22	1,120,000	0.09
Eagle Trend (BVI) Limited *(Note 2)*	38,259,200	5.96	38,259,200	5.96	38,259,200	3.13
Public Shareholders	166,724,000	25.99	166,724,000	25.99	166,724,000	13.63
Total	641,498,000	100	641,498,000	100	1,223,036,461	100

Notes:

(1) Star Properties Holdings (BVI) Limited is an investment holding company incorporated in the BVI with limited liability and is wholly-owned by Mr. Chan. By virtue of the SFO, Mr. Chan is deemed to be interested in all shares in which Star Properties Holdings (BVI) Limited is interested.

(2) Eagle Trend (BVI) Limited is an investment holding company incorporated in the BVI with limited liability and is wholly-owned by Mr. Lam Kin Kok. By virtue of the SFO, Mr. Lam Kin Kok is deemed to be interested in all shares in which Eagle Trend (BVI) Limited is interested.

(3) Ms. Cheung Wai Shuen is an executive Director.

(4) Ms. Chan Wah Man Carman is an independent non-executive Director.

As shown in the table above, the shareholding of the existing public Shareholders will decrease from approximately 25.99% to approximately 13.63% immediately after the allotment and issue of the Conversion Shares upon the exercise of the conversion rights under the Convertible Bonds in full, representing a dilution by approximately 12.36%. Although the shareholding interest of the existing public Shareholders will be diluted, having taking into account, among others, (i) the welcoming prospects of the businesses of the Target Group in Hong Kong, attributable to, among others, the future trend of the global property, the strong management team of the Target Group, value of the brand name "Metropolitan" and the opportunities of redevelopment available to the Target Group; (ii) the reasons for and benefits of the Acquisition, details of which are set out under the section headed "7. Reasons for and benefits of the Acquisition" in this letter; (iii) the fairness and reasonableness of the Consideration; (iv) the fairness and reasonableness of the terms of the Convertible Bonds; and (v) the positive financial impact to the Group due to the stable revenue from lease income to be generated from the Target Group and the decrease in gearing ratio of the Group from approximately 363.9% to 312.2% on a pro forma basis as per the information from Appendix IV, the Directors are of the opinion that the issue of the Convertible Bonds is fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

7. REASONS FOR AND BENEFITS OF THE ACQUISITION

In assessing the fairness and reasonableness of the Acquisition, the Board has considered the following:

(i) Strong synergy between the Group's property development business and the businesses of the Target Group

The Target Group will undergo the Reorganisation whereby the Target Company will acquire the operating entities which operate the business of provision of stylish living space including apartments, workshops, storages and wine cellar. An integrated approach has been developing in the global property sector in recent years whereby living spaces are integrated with different life-style facilities such as wine cellar, flexible storage space and co-working space. The Directors believe that the provision of this type of living space with life-style element will become the future trend of the global property market, including the property market in Hong Kong. There is also synergy to the Group by operating the life-style business in our developing projects such as Kwun Tong Site Project, Yuen Long Site Project, Tack Lee Project, etc. which may in turn increase the value of different developed properties in the future.

(ii) Enhancement of the Group's portfolio of investment properties with regular income

The Company is principally engaged in property development and property investment for sale, rental or capital appreciation, provision of property management services and provision of finance. As at 30 June 2019, the Group's portfolio of investment properties comprised car parking spaces located in Hong Kong with a total carrying value of approximately HK$8.1 million. Revenue amounting to approximately HK$212,000 was generated from property investment segment for the six months ended 30 June 2019.

The Board considers that the acquisition of an established brand, namely, the "Metropolitan" brand, together with its underlying investment properties will allow the Group to strengthen and enhance the value of its asset base, and at the same time generating stable and regular income for the Group. During the Reporting Period, the revenue from lease income generated from the Target Group in FY2016, FY2017, FY2018 and the nine months ended 30 September 2019 were approximately HK$15.9 million, HK$25.6 million, HK$31.0 million and HK$31.7 million, respectively, representing strong growth of lease income by more than 20% per year since FY2016. In addition, according to the independent property valuer, the rental income to be generated and the value of the investment properties are expected to be enhanced by the provision of value added services operated under the lifestyle-related businesses such as co-working space and flexible storage space, as compared to leasing out the whole properties directly to independent third parties. As at 30 September 2019, the Target Group's portfolio of investment properties located in Hong Kong and Korea is with a total carrying value of approximately HK$956.6 million. Revenue from lease income amounting to approximately HK$31.7 million was generated from the Target Group's portfolio of investment properties for the nine months ended 30 September 2019.

Having considered the above-mentioned benefits to the Group, the Directors consider that the use of the brand "Metropolitan" is a long term plan of the Group's development. Metropolitan Group put a great effort and resources in developing its brand and reputation. It is successful to establish the brand, which is reflected by the increase in revenue and decrease in cost of sales for the nine months ended 30 September 2019. The Director considers that the Acquisition is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

(iii) Opportunities of future redevelopment

Opportunities for redevelopment are available in respect of some of the properties owned by the Target Group, which may enhance the portfolio for properties development. After Completion, the Company intends to hold the acquired properties for rental purpose, and the Group has no development plan thereof as at the Latest Practicable Date.

In light of the Board's belief and the potential in the business of the Target Group, the Board is of the view that the Acquisition is a suitable opportunity for the Group to broaden its range of investments to increase its revenue sources and/or enhance its profitability and it will tap into services which are to complementary the Group's property development business.

Experienced management team

The Group's experienced management team are highly responsive to market conditions, closely monitoring the market conditions and sometimes having to adjust the rental and license fee in response to the change of market. Also, the Group's property management team and construction services team closely monitor the property management and maintenance of the Group's properties.

Mr. Chan Man Fai Joe, being the Chairman of the Group and an executive Director, is also the founder of Target Group. Mr. Chan has over 20 years of experience in property investment and strategic development experience. He is responsible for overseeing the corporate management, strategic planning and the corporate development of the Target Group since incorporation.

Upon Completion, Mr. Chan will supervise the management team, including property management, construction, finance and sales and marketing team of the Group to overview the corporate management, strategic planning and operation of the Target Group.

On the other hand, the Group will enter into respective service contracts with existing business managers of the Target Group, namely, Ms. Siu Lui, Mr. Yu Jump Ming Bobby, Mr. Chan Chi Wai Ivan, Ms. Li Miu Kam Gina and Ms. Suen Po Ying. Set out below is the brief biography of each of the business managers:

Ms. Siu Lui is the existing business manager of Metropolitan Apartment. She joined Metropolitan Lifestyle (H.K.) on 27 March 2018 and is responsible for overseeing the business of Metropolitan Apartment. She is under permanent employment with Metropolitan Lifestyle (H.K.). Upon Completion, her employment with Metropolitan Lifestyle (H.K.) will be terminated and she will enter into a service agreement with one of the members of the Enlarged Group. Ms. Siu has 20 years' relevant working experience in the hospitality industry, such as being the hostess of Shanghai Hotel, Lobster Bar and the hostess of Mandarin Hotel, Lobby Lounge. Before joining Metropolitan Lifestyle (H.K.), Ms. Siu was a guest relations officer of the front office in Mandarin Oriental Hotel.

Ms. Li Miu Kam Gina is the existing sales & marketing director of Metropolitan Wine Cellar Group and holds 5% of issued share capital of Metropolitan Wine Cellar and Metropolitan Fine Wine. She joined Metropolitan Lifestyle (H.K.) on 5 December 2017 and is responsible for overseeing the business of Metropolitan Wine Cellar Group. She is under permanent employment with Metropolitan Lifestyle (H.K.). Upon Completion, her employment with Metropolitan Lifestyle (H.K.) will be terminated and she will enter into a service agreement with one of the members of the Enlarged Group. Ms. Li has over 9 years' experience in the wine industry. She is a veteran at Metropolitan Wine Cellar Group since the early establishment of Metropolitan Wine Cellar in 2012. Being passionate about wine, she traveled to Australia for one year to experience the local food and drinks there in 2015. Further, in order to broaden her horizon in the wine world, she took a Master degree in Wine Business in Dijon, where the capital of Burgundy for one and half year, to learn directly from Wine Master, Chateaux Owner and winemakers. She has been a buyer and has expertly arranged wine tasting and dinner events with chateaux ambassadors.

Mr. Chan Chi Wai Ivan is the existing director of, and holds 10% of issued share capital of, Metropolitan Storage. He joined Metropolitan Lifestyle (H.K.) on 1 August 2019 and is responsible for overseeing the business of Metropolitan Storage. He is under permanent employment with Metropolitan Lifestyle (H.K.). Upon Completion, his employment with Metropolitan Lifestyle (H.K.) will be terminated and he will enter into a service agreement with one of the members of the Enlarged Group. Mr. Chan has over 15 years' experience in the franchise and business development field, with duties covering a board range of areas including new business set-up and steering business growth strategy, with particular focus on mini-storage management and development. He has overseen over 80 brands across different sectors and successfully assisted the brands to establish their franchise business in Hong Kong and Taiwan.

Mr. Yu Jump Ming Bobby is the existing general management director of, and holds 5% of issued share capital of, Metropolitan Workshop. He joined Metropolitan Lifestyle (H.K.) on 27 September 2010 and is responsible for overseeing the business of Metropolitan Workshop. He is under permanent employment with Metropolitan Lifestyle (H.K.). Upon Completion, his employment with Metropolitan Lifestyle (H.K.) will be terminated and he will enter into a service agreement with one of the members of the Enlarged Group. Mr. Yu has overseen and managed the co-working space business since 2014. He has assisted to expand the workshop business of the Target Group from one single location to six locations with over 500 active members within 6 years. He has involved in brand building, customer relationship management, marketing and system development. Prior to that, he worked as financial analyst in hedge funds and private equity funds. His wide exposure enriched him to be able to think strategically and execute plans proactively.

Miss Suen Po Ying, is the existing director of, and holds 25% of issued share capital of, Metropolitan Production. She joined Metropolitan Production on 31 October 2016 and isresponsible for marketing and media communication of Metropolitan Production. Miss Suen has over 13 years' experience in marketing and project management, particularly focusingon event management and media relations. She has led and managed over 1,000 local andinternational projects including music concerts, press conferences, international conferences,overseas trainings, exhibitions, seminars, ceremonies, annual dinners, competitions andfilming since 2006.

With a view to overseeing the overall management, strategic planning, execution and development of the business, the Directors take the view that the expertise and experience of Mr. Chan would be beneficial to the Group's business development by increasing the scale of its existing principal business activities.

Impact of social events and COVID-19 on the Target Group

The recent social event and the outbreak COVID-19 has affected the local business and endangered the health of Hong K ong citizens. Nevertheless, apart from the slight decrease in the occupancy rate of the serviced apartment business, workshop business and wine cellar business, the Target Group has neither experienced any material impact of business operations nor financial performance. On the other hand, for the storage business, the demand of storage space has increased significantly for products such as face masks and hygiene products after Lunar New Year. As for fine wine, it has already changed its sales strategy from offline trading to online trading and this epidemic creates opportunities to the online trading of fine wine in Hong Kong and globally.

To prevent any widespread of COVID-19 in its properties and office, the Target Group has established an epidemic prevention and control working group to undertake various precautionary measures such as (i) enhancing the hygienic level of its properties and office by cleaning and sanitising areas including offices and properties regularly; (ii) performing compulsory daily temperature checks of all its employees before work; (iii) minimising in-person meetings to the extent possible; and (iv) requesting its employees to wear masks at all times during work and report promptly whenever they feel unwell.

As at the Latest Practicable Date, no employees of the Target Group has been infected with the coronavirus COVID-19 and that the coronavirus COVID-19 has so far not had a material impact on the Target Group's operations, based on the current information available to the Target Group and assuming that the outbreak of COVID-19 will not be prolonged significantly. Having considered the adequate precautionary measures taken pertaining to the virus, and the ability of the business of the Target Group to adapt to Hong Kong's recent social unrest and widespread epidemic, the Directors are of view that the Acquisition is fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

Determination of settlement method of the Consideration

Issue of Convertible Bonds

The Board has considered the following factors and concluded that satisfying the Consideration substantially by the issuance of Convertible Bonds is in the interests of the Company and its Shareholders as a whole:

(i) the Group's principal business activities include, amongst other things, property development and investments, which are capital intensive activities. The Board considers that through the issuance of the Convertible Bonds, the Group will be able to maintain relatively more flexibility in applying its cash resources where needed in order to cater for its business needs;

(ii) the issuance of Convertible Bonds will not have any immediate dilution effect until the relevant holders convert the Convertible Bonds into Shares; and

(iii) following issuance of the Convertible Bonds, the Company will bear a coupon rate of 3% per annum. This represents significant advantage over other means of financing e.g. bank borrowings where the relevant finance cost is much higher.

Other alternative settlement methods considered

The Board has considered alternative settlement methods such as issuance of other types of debt securities. Assuming the annual interest rate of the debt securities is 10% (with reference to past bank borrowing with only corporate guarantee by the Company), the finance cost will be at HK$37.8 million per annum, while the finance cost of the Convertible Bonds with 3% coupon rate will be HK$11.3 million per annum, which is much lower than using debt securities. Also, if the Consideration is settled by debt securities, the borrowing will increase by HK$378 million and hence the gearing ratio will increase accordingly. On the other hand, if the Consideration is settled by Convertible Bonds, once the Convertible Bonds are converted in full, the debt component of the Convertible Bonds will be derecognised and the Conversion Shares issued upon the conversion of the Convertible Bond will be recognised in equity, which implies that there will be an increase in the equity and the gearing ratio will decrease accordingly (for illustrative purpose only). Taking into account the relatively higher finance costs as well as the impact on the gearing ratio of the Company, the Board considers that the issuance of other debt securities may (1) depend on the extent of borrowing, result in possible breach of financial covenants of the Group's existing borrowings regarding the gearing ratio; (2) have an adverse financial impact on the Group's financial position and affect its future fundraising ability; and (3) reduce the Group's liquidity due to the payment of interests and repayment of such debt securities, and will in turn hinder its business development options and therefore the potential return and interest of the Company and its Shareholders.

Notwithstanding the above, the Board has considered other possible fundraising methods for settlement of the balance of the Consideration (ie. HK$378,000,000), such as placing or subscription of new Shares by independent third parties and right issues to raise funds.

Raising the requisite funds through placing or subscription of new Shares will involve specific mandate requiring Shareholders' approval, given the number of Shares exceeds the limit under the general mandate granted to the Directors on 12 April 2019 (assuming that the placing or subscription price is equal to the Conversion Price of the Convertible Bonds under the Acquisition).

The Directors, after approaching several securities firms, found that it is difficult to secure placing agents and subscribers in light of the sizable amount of securities involved in the placing or subscription. Also, due to the substantial amount of the Shares required to be issued in order to settle the balance of the Consideration of HK$378,000,000, the potential investors normally require a substantial placing discount to the trading price of the Shares as advised by the placing agents.

The Directors have not adopted rights issue to settle the balance of the Consideration due to the low trading volume and liquidity of the Shares of the Company. During the 12 months prior to the date of the Acquisition Agreement, and up to and including the Latest Practicable Date, the monthly average trading volume to the total issued shares of the Company were under 0.5%. The Directors consider that it may be difficult for the Group to obtain favorable terms on rights issue for the Acquisition, which is not beneficial to the shareholders of the Company as a whole. Also, after approaching few securities firms, the Directors were of the view that it is difficult to find the independent third parties who are willing to be underwriter without any favourable terms, which is not beneficial to the Shareholders. Without underwriter taking up its full entitlement for the right issues, the substantial shareholder cannot apply to take up its full entitlement for the rights issue if it is not fully underwritten due to the public float issue. Hence, the rights issue may not be able to proceed.

In view of above, when comparing the various fund raising methods including settlement by debt securities or other equity fund raising method such as issue of new Shares and right issues with the issue of the Convertible Bonds to settle the balance of the Consideration, the Directors are of the view that issue of debt securities, placement and right issue may not be the best option in the context of the Acquisition and therefore are not in the interest of the Company and the Shareholders as a whole.

After taking into account of all possible settlement methods, the Board considered that settling the Consideration by way of issuance of Convertible Bonds is in the interests of the Company and its Shareholders as a whole. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save and except for Mr. Chan who was materially interested in the Transactions and therefore had abstained from voting on the Board resolutions approving the Acquisition Agreement and the transactions contemplated thereunder, none of the other Directors had a material interest in the Transactions.

8. FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and thus the assets, liabilities and the financial results of the Target Group will be consolidated into those of the Group. For details of the unaudited pro forma financial information of the Enlarged Group, please refer to Appendix IV to this circular.

Assets and liabilities

Based on the unaudited pro forma financial information as set out in Appendix IV to this circular, assuming that Completion had taken place on 31 December 2019, the total assets of the Group would have increased from approximately HK$3,489.8 million to approximately HK$4,595.6 million on a pro forma basis, the total liabilities of the Group would have increased from approximately HK$2,780.6 million to approximately HK$3,579.8 million on a pro forma basis, and the net assets of the Group would have increased from approximately HK$709.1 million to approximately HK$1,015.9 million on a pro forma basis.

Earnings

Based on the unaudited pro forma financial information as set out in Appendix IV to this circular, assuming that Completion had taken place on 31 December 2019, the net profit attributable to shareholders of the Group for the year ended 31 December 2018 would have increased from approximately HK$191.8 million to approximately HK$209.4 million on a pro forma basis.

9. INFORMATION OF THE GROUP

The Group is principally engaged in property development and property investment for sale, rental or capital appreciation, provision of property management services and provision of finance.

10. INFORMATION OF THE VENDOR

The Vendor is an investment holding company and is indirectly held as to 100% by Mr. Chan as at the Latest Practicable Date.

11. DELINEATION BETWEEN THE ENLARGED GROUP AND PROPERTY INVESTMENT GROUP

As at the Latest Practicable Date, Mr. Chan is controlling shareholder of certain companies which hold (a) individual and separate units of residential properties in Hong Kong; (b) a commercial property comprising five storey (B1 to 4th floor) building in Gangnam district, Seoul, South Korea, which are all being held as investment properties; and (c) an apartment in Gangnam district, Seoul, South Korea which is held as an investment property and is currently leased to an independent third party. For details of the Retained Properties, please refer to the section headed "Reorganisation" above.

Prior to Completion, the Group is principally engaged in property development and owns two other industrial property sites in Seongdong District, Seoul, South Korea, which are currently held for redevelopment purpose. The Retained Properties were not injected into the Group as our Directors are of the view that such properties neither form part of the Group's core business nor are in line with the Group's business strategies. For details, please refer to the section headed "Reorganisation" above.

12. LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios (as defined under Chapter 14 of the Listing Rules) in respect of the Transactions are more than 25% but less than 100%, the Transactions constitute a major transaction for the Company and are therefore subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Vendor is indirectly held as to 100% by Mr. Chan, who is a Director and controlling shareholder of the Company. As such, the Vendor is an associate of Mr. Chan and thus connected person of the Company. Therefore, the Transactions also constitute a connected transaction of the Company under Chapter 14A of the Listing Rules and are subject to the approval of the Independent Shareholders at the EGM.)

13. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee, comprising all the independent non-executive Directors, namely Ms. Chan Wah Man Carman, Mr. Lee Chung Ming Eric and Dr. Wong Wai Kong, has been established to consider the terms of the Acquisition Agreement and the transactions contemplated thereunder, and to advise the Independent Shareholders as to whether the terms of the Acquisition Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Sinolink Securities (HK) Company Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

14. EGM

The EGM will be held by the Company at 11/F, TG Place, No.10 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong on 17 April 2020 at 10:00 a.m. to consider and, if thought fit, approve the Acquisition Agreement and the transactions contemplated thereunder. A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular.

As at the Latest Practicable Date, Mr. Chan and his associates are interested in, in aggregate, 434,640,800 Shares, representing approximately 67.75% of the total issued share capital of the Company. Mr. Chan and his associates are required to abstain from voting on the relevant resolution to approve the Acquisition Agreement and the transactions contemplated thereunder at the EGM.

Save as disclosed above, to the best knowledge, information and belief of the Directors, having made all reasonable enquiries, no other Shareholder has any material interest in the Acquisition, and therefore no other Shareholder is required to abstain from voting on the relevant resolution approving the Acquisition Agreement and transactions contemplated thereunder at the EGM.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholders; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it/he has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its/his Shares to a third party, either generally or on a case-by-case basis.

All resolutions to be proposed at the EGM will be voted on by poll. A form of proxy for the EGM is enclosed with this circular. Whether or not you intend to be present at the EGM, you are advised to read the notice and to complete the form of proxy and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time fixed for the EGM. The completion of a form of proxy will not preclude you from attending and voting at the EGM in person and any adjourned meeting thereof should you so wish, and in such event, the form of proxy shall be deemed to be revoked.

15. RECOMMENDATIONS

The Board (including the independent non-executive Directors whose views have been set out in this circular after taking into consideration the advice of the Independent Financial Adviser) considers that (although the Acquisition is not in the ordinary and usual course of business of the Company) the terms of the Acquisition Agreement are on normal commercial terms and fair and reasonable, and the entering into of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the resolution for approving the Acquisition Agreement and the transactions contemplated thereunder to be proposed at the EGM.

16. ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee, the letter from the Independent Financial Adviser and the additional information as set out in the appendices to this circular.

WARNING

As Completion is subject to fulfilment or waiver (as the case may be) of the conditions precedent to the Acquisition Agreement, the Acquisition may or may not proceed. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares.

Yours faithfully,
By Order of the Board
Star Properties Group (Cayman Islands) Limited
Chan Man Fai Joe
Chairman

Star Properties Group (Cayman Islands) Limited
星 星 地 產 集 團 (開 曼 群 島) 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1560)

27 March 2020

To the Independent Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF AND SHAREHOLDERS' LOAN OWING BY METROPOLITAN GROUP (BVI) LIMITED

AND

(2) NOTICE OF EXTRAORDINARY GENERAL MEETING

We refer to the circular dated 27 March 2020 issued by the Company, of which this letter forms part (the "**Circular**"). Unless otherwise specified, capitalised terms defined in the Circular shall have the same meanings when used herein.

The Independent Board Committee has been formed to advise you in relation to the Acquisition, details of which are set out in the section headed "Letter from the Board" contained in the Circular. Sinolink Securities (HK) Company Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. The text of the letter from the Independent Financial Adviser containing its recommendations and the principal factors it has taken into account in arriving at its recommendations are set out on pages 51 to 94 of the Circular.

Having considered the terms and conditions of the Acquisition Agreement, as well as the advice and recommendations of the Independent Financial Adviser set out in its letter, we consider that (although the Acquisition is not in the ordinary and usual course of business of the Company) the terms of the Acquisition Agreement are on normal commercial terms and fair and reasonable, and the entering into of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole.

On the basis above, we recommend the Independent Shareholders to vote in favour of the resolution approving the Acquisition Agreement and the transactions contemplated thereunder at the EGM.

Yours faithfully,
for and on behalf of
the Independent Board Committee of
Star Properties Group (Cayman Islands) Limited

Chan Wah Man Carman	**Lee Chung Ming Eric**	**Wong Wai Kong**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of a letter of advice from Sinolink Securities (HK) Company Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, setting out their opinion in respect of the Acquisition for the purpose of inclusion in the circular.

國金證券(香港)有限公司
SINOLINK SECURITIES (HK) CO. LTD.

Units 2503, 2505-06, 25/F, Low Block,
Grand Millennium Plaza,
181 Queen's Road Central,
Hong Kong

27 March 2020

To the Independent Board Committee and the Independent Shareholders of
Star Properties Group (Cayman Islands) Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF AND SHAREHOLDERS' LOAN OWING BY METROPOLITAN GROUP (BVI) LIMITED

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition contemplated under the Acquisition Agreement, details of which are set out in the Letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 27 March 2020 (the "**Circular**"), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

On 24 January 2020 (after trading hours of the Stock Exchange), the Company (as purchaser) and the Vendor (as vendor) entered into the Acquisition Agreement, pursuant to which the Company conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the Sale Share and the Sale Loan, at an aggregate consideration of HK$420,000,000, which will be satisfied by (i) part payment in cash; and (ii) allotment of issue of the Convertible Bonds. The Conversion Shares will be allotted and issued under the specific mandate to be sought from the Independent Shareholders at the EGM.

As one or more of the applicable percentage ratios (as defined under Chapter 14 of the Listing Rules) in respect of the Acquisition are more than 25% but less than 100%, the Acquisition constitutes a major acquisition for the Company and is therefore subject to reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Vendor is indirectly held as to 100% by Mr. Chan, who is a Director and controlling shareholder of the Company. As such, the Vendor is an associate of Mr. Chan and thus a connected person of the Company. Therefore, the Transactions also constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

The EGM will be convened and held for the purpose of considering and, if thought fit, approve the Acquisition Agreement and the transactions completed thereunder. Given the ultimate beneficial owner of Metropolitan Lifestyle (BVI) Limited, being the Vendor of the Sale Shares and Sale Loan is Mr. Chan, a Director and one of the controlling shareholders of the Company, Mr. Chan will be required to abstain from voting on the proposed resolutions at the EGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Dr. Wong Wai Kong, Mr. Lee Chung Ming Eric and Ms. Chan Wah Man Carman, being all the independent non-executive Directors has been formed to give recommendation to the Independent Shareholders in relation to the transactions contemplated under of the Acquisition Agreement. We, Sinolink Securities (HK) Company Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this respect, in particular as to whether (i) the terms of the Acquisition Agreement are fair and reasonable as far as the Independent Shareholders are concerned, (ii) the Acquisition is on normal commercial terms (although the Acquisition is not in the ordinary and usual course of the business of the Group) as well as whether the Acquisition is in the interests of the Company and Shareholder as a whole.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any equity interests in any member of the group of the Company, nor have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the group of the Company, nor have any interest in any asset of the any member of the group of the Company. Save for acting as an independent financial adviser in the appointment, we have not acted as a financial adviser or an independent financial adviser to the Company and its associates in the past two years from the date hereof. Apart from normal advisory fee and expenses payable to us in connection with this appointment, no arrangement exists whereby we shall receive any other fees or benefits from the Company. Accordingly, we consider that the aforementioned previous appointment would not affect our independence, and that we are independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our view and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, amongst other things:

(i) the Company's annual report for the years ended 31 December 2017 and 2018 (the "**Annual Reports**") and the announcement of final results for the year ended 31 December 2019 (the "**2019 Results Announcement**");

(ii) the Acquisition Agreement;

(iii) the accountants' report of the Target Group;

(iv) the valuation report dated 31 December 2019 prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the "**Independent Valuer**");

(v) other information as set out in the Circular.

We have also discussed the valuation methodologies, bases and assumptions adopted for the valuation of the Properties with the Independent Valuer. We have also conducted site visits on the properties to be held by the Target Group.

We have relied on the information, opinions and representations contained or referred to in the Circular and provided to us by the Company, the Directors and the management of the Company (the "**Management**"), which the Directors consider to be complete, accurate and relevant. We have assumed that all the information, opinions and representations contained or referred to in the Circular were true, accurate and complete at the time they were made and continue to be true and accurate as at the date of the Circular. We have also assumed that all the statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry. We have no reason to doubt that any relevant information has been withheld, nor are we aware of any fact or circumstance, which would render the information provided and representations and opinions made to us by the Company, the Directors and the Management untrue, inaccurate or misleading.

We consider that we have reviewed sufficient information to enable us to reach an informed view. The Directors have confirmed that no material facts or representations have been withheld or omitted from the information provided and referred to in the Circular. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the Management, nor have we conducted an independent investigation into the business and affairs, financial condition and future prospects of the Company, Vendor or their respective subsidiaries or associated companies. Our opinion is necessarily based on the financial, economic, market and other conditions in the effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that we have no obligation to update this opinion to take into account the subsequent development (including any material change in market and economic conditions) or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

A. THE ACQUISITION

1. Background of the Acquisition

On 24 January 2020 (after trading hours of the Stock Exchange), the Company (as purchaser) and the Vendor (as vendor) entered into the Acquisition Agreement, pursuant to which the Company conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the Sale Shares and Sale Loan, at an aggregate consideration of HK$420,000,000, which will be satisfied by (i) part payment in cash; and (ii) allotment of issue of the Convertible Bonds.

In formulating our opinion in respect of the Acquisition and the transactions contemplated thereunder, we have taken into account the following principal factors and reasons:

2. Information of the Group

The Company is principally engaged in property development and property investment for sale, rental or capital appreciation, provision of property management services and provision of finance.

The table below sets out a summary of the audited consolidated financial information of the Group for the three years ended 31 December 2017, 2018 and 2019, as extracted from the Annual Reports of the Company and 2019 Results Announcement respectively:

Summarised financial results of the Group

	For the year ended 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)
Revenue			
Sales of properties and provision of property management services	729,215	668,212	112,473
Rental income from leasing of investment properties	2,029	735	474
Interest income from provision of finance	1,146	2,720	7,032
Total Revenue	732,390	671,667	119,979
Profit before tax	122,261	241,576	12,241
Profit for the period	95,814	191,827	5,297

For the year ended 31 December 2018

According to the Group's annual report for the year ended 31 December 2018 ("**2018 Annual Report**"), the Group's revenue is derived from (i) sales of properties and provision of property management services; (ii) rental income from leasing of investment properties; and (iii) interest income from provision of finance. We note that the Group's revenue for the year ended 31 December 2018 had a decrease of approximately 8.3% to approximately HK$671.7 million as compared to approximately HK$732.4 million for the year ended 31 December 2017, which was mainly due to revenue recognition for the completion and delivery of only first phase sold units from property development project "The Rainbow" to the buyers during the year from the property development segment.

We note that the profit after tax of the Company had increased by approximately 100.2% to HK$191.8 million for the year ended 31 December 2018 as compared to the year ended 31 December 2017, which was mainly due to the profit recognition of "The Rainbow" and the Company was benefited from the Revitalisation Measures, a special waiver was granted by the Lands Department to change the land use from industrial to commercial and thus, the profit margin of "The Rainbow" increased.

For the year ended 31 December 2019

According to the Group's 2019 Results Announcement, the revenue of the Group for the year ended 31 December 2019 was approximately HK$120.0 million, which was mainly derived from property development and provision of finance in the amount of approximately HK$112.5 million and HK$7.0 million, respectively, and representing an decrease of approximately HK$551.7 million as compared to the year ended 31 December 2018. We noted that the reasons for such decrease were due to (i) completion and delivery of 2 motorcycle car parking spaces amounted to approximately HK$0.8 million in the year ended 31 December 2019 as compared to 8 car parking spaces amounted to approximately HK$10.5 million for the year ended 31 December 2018 in The Galaxy; (ii) completion and delivery of 4 parking spaces and 2 workshop units amounted to approximately HK$24.3 million for the year ended 31 December 2019 as compared to 12 car parking spaces amounted to approximately HK$14.1 million for the year ended 31 December 2018 in The Star; and (iii) completion and delivery of 7 units amounted to approximately HK$86.1 million in the year ended 31 December 2019 as compared to 108 units amounted to approximately HK$653.1 million for the year ended 31 December 2018 in The Rainbow. The Group also recorded an increase of revenue in the provision of finance segment from approximately HK$2.7 million for the year ended 31 December 2018 to HK$7.0 million for the year ended 31 December 2019. It is mainly attributable to provide credit facilities for the completed projects due to the increase of completed projects, namely The Star and The Rainbow.

As at 31 December 2019, the Group had three completed projects, namely, (a) The Galaxy; (b) The Star and (c) The Rainbow; and six projects under development, namely, (d) the CWK Project; (e) Yuen Long site; (f) Kwun Tong site; (g) Tack Lee Project; (h) Seongsu Project and (i) Sausage Project. The Group has entered into a sales and purchase agreement on 31 December 2019 to sell the entire issued share capital and shareholder's loan of the holding company of CWK Project to an independent third party at the consideration of HK$980.0 million. The CWK project will no longer be one of the development projects of the Group upon completion of the disposal. Please refer to the announcements dated 31 December 2019 and 28 February 2020 published by the Company on the website of the Stock Exchange for details.

Summarised financial position of the Group

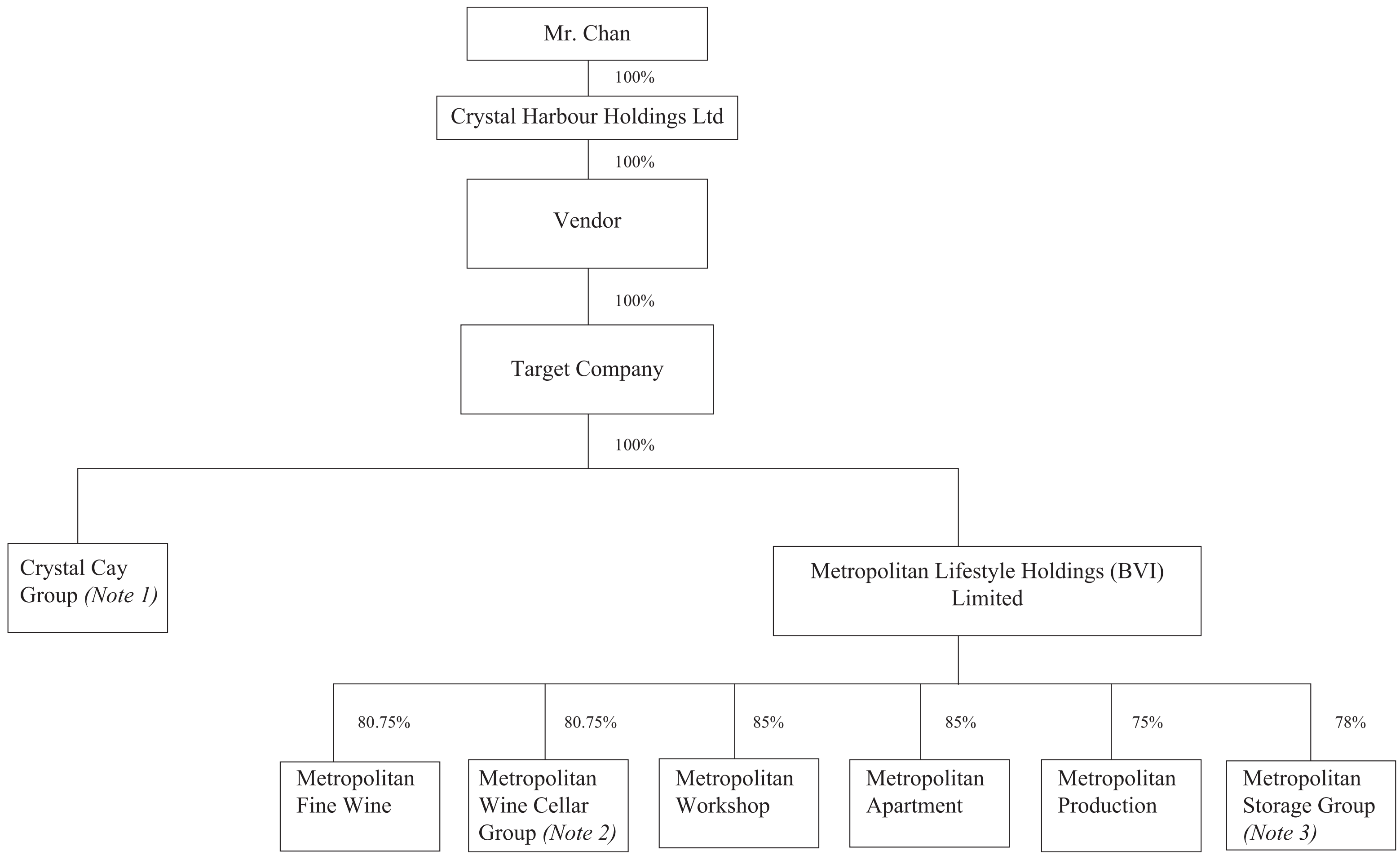
	As at 31 December		
	2017	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)
Non-current assets	86,418	219,617	225,036
Current assets	2,377,089	3,103,673	3,264,727
Current liabilities	1,821,292	2,530,372	2,780,467
Non-current liabilities	249	305	177
Net assets	641,966	792,613	709,119

As at 31 December 2019, the non-current assets of the Group amounted to approximately HK$225.0 million, of which approximately HK$164.8 million were loan receivables, approximately HK$52.0 million were investment properties and approximately HK$6.1 million were financial assets at fair value through profit or loss. The current assets of the Group amounted to approximately HK$3,264.7 million as at 31 December 2019, representing an increase of 5.2% as compared to 31 December 2018. The increase in current assets was mainly due to the increase in property for sale and as well as the new development project as disclosed in the 2019 Results Announcement. The current assets as at 31 December 2019 mainly consisted of properties held for sale of approximately HK$3,153.1 million; bank balances and cash of approximately HK$62.3 million; trade and other receivables of approximately HK$32.6 million; and stakeholder's accounts of approximately HK$6.1 million. As at 31 December 2019, the current liabilities of the Group amounted to approximately HK$2,780.5 million, which represented an increase of approximately 9.9% as compared to approximately HK$2,530.4 million as at 31 December 2018. The increase of current liabilities was mainly due to the increase of borrowing, trade and other payables and amount due to a director during the year ended 31 December 2019. The current liabilities as at 31 December 2019 mainly consisted of borrowing of approximately HK$2,580.2 million; trade and other payables of approximately HK$104.3 million and tax liabilities of approximately HK$56.7 million. The non-current liabilities as at 31 December 2019 only consisted deferred tax liabilities in the amount of approximately HK$0.2 million. The Group had net assets in the amount of approximately HK$709.1 million as at 31 December 2019, representing a decrease of approximately 10.5% as compared to approximately HK$792.6 million as at 31 December 2018. The decrease in net assets was mainly due to the decrease of loan receivable, stakeholder's accounts and bank balances and cash.

3. Information on the Target Group

3.1 Background of the Target Group

The Target Company is an investment holding company incorporated in the British Virgin Islands with limited liabilities. Pursuant to the Acquisition Agreement, it is one of the conditions precedent that the Reorganisation shall be completed prior to Completion. It is expected that, upon completion of the Reorganisation, the Target Group will hold the various interest in the businesses and properties which are the subject of the Acquisition, including the business activities under the "Metropolitan" brand with its self-owned and leased properties, including (i) serviced apartment business; (ii) wine cellar and fine wine business; (iii) storage and workshop business; and (iv) production and other investment holding business. The shareholding structure of the Target Group immediately before the Completion is proposed to be set out as follow:



Notes:

(1) Crystal Cay Group refers to Crystal Cay Assets Limited and its subsidiaries, including Advalue Group Limited, Creative Sky Limited, Eternal Great Development Limited, Far Orient International Limited, Golden Abacus Global Limited, Golden Green Corporation Limited, Grand Silver (Hong Kong) Limited, Great Dawn Holdings Limited, Magical Time Global Limited, Manhattan Corporation Limited, Maritime Century Holdings Limited, Mark Wealthy Limited, Numeric City Limited, Rainbow Value Investments Limited, Seongsu Vision Co Limited, Sunny Generation Limited, Well Sure Corporation Limited, and Wise City Holdings Limited.

(2) Metropolitan Wine Cellar Group refers to Metropolitan Wine Cellar Limited and its subsidiaries, including Noble Empire Investments Limited, and Seaview Empire Investments Limited.

(3) Metropolitan Storage Group refers to Metropolitan Storage Limited and its subsidiaries, including Charm Luck (Hong Kong) Limited, Cheer Luck International Industrial Limited, CW Luck Limited, East Luck Properties Limited, Faithful Luck (H.K.) Limited, FTIII Luck Limited, Kowloon Luck Limited, LCKI Luck Limited, Metro Luck Development Limited, Metro Storage Limited, Nice Luck Enterprise Limited, NT Luck Limited, NTII Luck Limited, Rainbow Luck Limited, and Rich Luck Enterprise Limited.

Serviced apartment business

Metropolitan Apartment principally engages the operation of serviced apartments in Hong Kong. It currently operates 28 serviced apartments on self-owned properties for rental which are situated at No. 16 & No. 18 Yiu Wa Street, Causeway Bay and 3/F, 14 Yiu Wa Street, Causeway Bay, Hong Kong. The business of Metropolitan Apartment commenced in 2012 and all suites provided by Metropolitan Apartment are fully furnished with flexible terms by monthly renewal. The types of serviced apartments Metropolitan Apartment offers including (i) co-living apartments (ranging from 80 to 120 sq. ft in size); (ii) contemporary studios (ranging from 180 to 230 sq. ft in size); (iii) studio with terrace (ranging from 230 to 390 sq. ft. in size with a terrace of approximately 20 to 180 sq. ft. each); and (iv) family studio (which are 400 sq. ft. to 700 sq. ft. in size). It mainly targets short-term overseas employees, local residents and college students.

The valuation of the properties used by Metropolitan Apartment for its apartment business conducted by the Independent Valuer was HK$175,000,000 as at 31 December 2019. Metropolitan Apartment (i) is beneficially owned by Mr. Chan as to 85.0% as at the date of the Acquisition Agreement; and (ii) is to be held indirectly by the Target Company as to approximately 85.0% immediately upon completion of the Reorganisation.

Wine cellar and fine wine businesses

Metropolitan Wine Cellar Group and Metropolitan Fine Wine principally engage provision of professional fine wine storage services and wine trading, respectively. Metropolitan Wine Cellar was established in 2011 and is a participant of the Wine Storage Management Systems (WSMS) Certification Scheme of the Hong Kong Quality Assurance Agency (HKQAA). It also complies with the requirement of Fine Wine Storage Management Systems Standard of HKQAA Wine Storage Management Systems Certification Scheme: 2013 applicable to provision of 24-hour wine storage rental services for fine wine. The wine storage facilities are located in rented and self-owned properties in Tin Hau, Hong Kong, where the total storage area available is over 16,000 sq. ft. and there are a total 232 wine lockers and 131 private cellars as at the Latest Practicable Date. The capacity of each wine locker ranges from 24 to 432 bottles or 2 to 36 cases and that of each private cellar ranges from 132 to 9,360 bottles or 11 to 780 cases. Supplementing the fine wine storage services offered by Metropolitan Wine Cellar Group, Metropolitan Fine Wine mainly targets Hong Kong local customer and offer product delivery services. The major wine products include dessert wine, red wine, sparkling wine, white wine, rose wine, champagne and spirits that are sourced from Europe, Australia, the United States of America and South America.

The valuation of the properties used by Metropolitan Wine Cellar Group and held by Crystal Cay Group for its fine wine storage business conducted by the Independent Valuer was HK$33,000,000 as at 31 December 2019. Metropolitan Wine Cellar Group and Metropolitan Fine Wine are both (i) beneficially owned by Mr. Chan as to 80.75% as at the date of the Acquisition Agreement; and (ii) to be held indirectly by the Target Company as to approximately 80.75% immediately upon completion of the Reorganisation.

Storage and workshop businesses

Metropolitan Storage Group and Metropolitan Workshop principally engage the provision and operation of 24-hour storage service to the public in Hong Kong and 24-hour co-working spaces, respectively. The operation of storage and workshop businesses is under the same management team. Metropolitan Storage Group operates the mini-storage business in 14 branches with a total number of approximately 2,000 units located in Chai Wan, San Po Kong, Lai Chi Kok, Fo Tan, Yuen Long, Kwai Chung, Tsing Yi and Tai Po as at the Latest Practicable Date, and the sizes of each mini-storage unit ranging from 8 sq. ft. to over 40 sq. ft.. Due to the mobility of the storage clients were limited, Metropolitan Storage Group needs to fulfill its obligations under the licence agreements with the clients and the term for each of such licence agreements is long. Metropolitan Workshop operates its co-working spaces at its self-owned properties located in Central, Admiralty, Wanchai, Tin Hau and Kwai Chung. It positions itself between co-working spaces and business centers, which provides a higher privacy to existing co-working spaces and cheaper option for business owners. The target customers are freelancers, entrepreneurs and smaller companies. It provides more than 200 private work spaces and 450 work desks with 435 active members as at the Latest Practicable Date. Under the Acquisition, the Company will also acquire 100% of the issued share capital of Seongsu Vision, a Target Group Company, which is an investment holding company holding a property situated in Seongsu, Seoul, South Korea. This property is currently a bare site for potential development of workshop business.

The valuation of the properties used by Metropolitan Workshop and held by Crystal Cay Group conducted by the Independent Valuer was HK$669,800,000 as at 31 December 2019. Metropolitan Storage Group and Metropolitan Workshop (i) are beneficially owned by Mr. Chan as to 78.0% and 85.0% as at the date of the Acquisition Agreement; and (ii) to be held indirectly by the Target Company as to approximately 78.0% and 85.0%, respectively, immediately upon completion of the Reorganisation.

Production and other investment holding business

Metropolitan Production principally engages in provision of marketing solution and consultancy services, film or advertisement, production and organization of local and overseas music concert, artist management and film production, as well as professional photography services to well-known organisations. It has developed two social media platforms, namely as "DStage" and "Memories Hong Kong". DStage is aimed to provide a stage for young people to perform different types of art while Memories Hong Kong is aimed at promoting local tourism and business through producing videos for website and Facebook as well as organising competitions and performances. It also produced a series of promotional videos for promoting the "The Rainbow", and promote the brand image of Star Properties by developing its Facebook and Instagram fan pages. Metropolitan Production (i) is beneficially owned by Mr. Chan as to 75.0% as at the date of the Acquisition Agreement; and (ii) to be held indirectly by the Target Company as to approximately 75.0% immediately upon completion of the Reorganisation.

In addition to the properties as described above, the Target Group also hold the following properties;

(i) farmland with an area of approximate 97,052 sq.ft. situated in Yuen Long, New Territories, Hong Kong, which is held by Mark Wealthy Limited, a Target Group Company, is now leased to 2 leases to operate as commercial/farm and being held as an investment property. The property lies within an area zoned "Agriculture" in Kam Tin South Outline Zoning Plan. Currently, it is served as a land bank of the Target Group. A substantial change of land use by statutory resumption or lease modification is expected by the Group in the coming future; and

(ii) a shop located on 1/F podium of the Admiralty Centre, Admiralty, Hong Kong, which is held by Well Sure Corporation Limited, a Target Group Company, is being held as an investment property and is currently leased to an independent third party for a monthly rent of HK$45,000 from 11 August 2019 to 10 August 2021. The Group considers that the shop will continue to be held as an investment property upon completion of the Acquisition. The Target Group offered a 10% rent discount to the leasee from the period from 1 March 2020 to 31 August 2020 considering the negative impacts of the COVID-19 outbreak to the retail business. The shop is expected to generate stable rental income for the Group during the term of lease.

Mark Wealthy Limited and Well Sure Corporation Limited are Target Group Companies which are 100% indirectly owned by the Target Company and will be acquired under the Acquisition. The valuation of the above property interests held by Mark Wealthy Limited and Well Sure Corporation Limited conducted by the Independent Valuer was HK$79,375,000 as at 31 December 2019.

3.2 Financial information of the Target Group

The table below sets out a summary of the audited financial information of the Target Group (i) for the three financial years ended 31 December 2016, 2017 and 2018; (ii) for the nine months ended 30 September 2018 and (iii) for the nine months ended 30 September 2019 of the Target Group (assuming the Reorgaisation had been completed):

Summarised financial results of the Target Group

	Year ended 31 December			**Nine months ended 30 September**	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Revenue	24,805	35,044	45,255	34,630	39,419
Profit before income tax	23,116	48,314	23,951	29,755	20,450
Profit for the year/period	21,665	43,656	17,539	24,487	14,400

The revenue of the Target Group for the years ended 31 December 2016, 2017 and 2018 was mainly derived from storage and workshop operations and wine operations. The revenue of the Target Group for the year ended 31 December 2017 amounted to HK$35.0 million, representing an increase of approximately 41.3% as compared to the year ended 31 December 2016.

The increase was mainly due to higher occupancy rate of workshop business and new operation of storage business in Chai Wan, Fo Tan, Kwai Chung, Yuen Long.

The Revenue of the Target Group for the year ended 31 December 2018 amounted to approximately HK$45.3 million, representing an increase of approximately 29.1% as compared to the year ended 31 December 2017. The increase was mainly due to (i) higher occupancy rate of workshop business and new operation of storage business in Chai Wan, Fo Tan, Kwai Chung, Yuen Long and (ii) increase sales of wine operation due to higher sales volume of fine wine retail business and higher occupancy rate of wine cellars leased. We also noted that the profit for the year ended

31 December 2017 amounted to approximately HK$43.7 million, representing an increase of approximately 101.5% as compared to the year ended 31 December 2016, which was in line with the increase of revenue for the year ended 31 December 2017. This was mainly due to (i) the increase of revenue of approximately HK$10.2 million from newly opened storage business and media production service; and (ii) the Target Group recorded net valuation gain on investment properties in the amount of approximately HK$56.3 million, representing an increase of approximately 225.5% as compared to the year ended 31 December 2016, net off with increase in administrative and other operating expenses of approximately HK$8.8 million. The profit for the year ended 31 December 2018 amounted to approximately HK$17.5 million, representing a decrease of approximately 59.8% as compared to the year ended 31 December 2017, which was not in line with the increase of revenue for the year ended 31 December 2018. This was mainly due to (i) the Target Group recorded net valuation gain on investment properties in the amount of approximately HK$41.9 million for the year ended 31 December 2018, represented a decrease of approximately 25.6% as compared to the year ended 31 December 2017; (ii) the increase in administrative and other operating expenses of approximately 39.4% for the year ended 31 December 2018 as compared to the year ended 31 December 2017 due to additional co-working spaces and storage units were added to the workshop and storage operation; and (iii) the increase in finance costs of approximately 94.9% for the year ended 31 December 2018 as compared to the year ended 31 December 2017 due to increase in interest cost for new bank borrowings raised for acquiring a new property for workshop and business expansion of workshop and storage business during the year ended 31 December 2018.

The revenue of the Target Group for the nine months ended 30 September 2019 and 2018 was also mainly derived from storage and workshop operations, wine operations and others. The revenue of the Target Group for the nine months ended 30 September 2019 amounted to approximately HK$39.4 million, representing an increase of approximately 13.8% as compared to the nine months ended 30 September 2018, which was mainly due to the increase sales in workshop and storage operation of the Target Group for the nine months ended 30 September 2019. The Target Group recorded net profit in the amounts of approximately HK$14.4 million for the nine months ended 30 September 2019, representing a decrease of approximately 41.2% as compared to the nine months ended 30 September 2018, which was mainly due to (i) the Target Group recorded net valuation gain on investment properties in the amount of approximately HK$36.2 million for the nine months ended 30 September 2019, represented a decrease of approximately 12.1% as compared to the nine months ended 30 September 2018; (ii) the increase in administrative and other operating expenses of approximately 26.8% for the nine months ended 30 September 2019 as compared to the nine months ended

30 September 2018 due to additional co-working spaces and storage units were added to the workshop and storage operation in 2018 of the Target Group; (iii) the increase in finance costs of approximately 27.2% for the nine months ended 30 September 2019 as compared to the nine months ended 30 September 2018 due to increase in interest cost for new bank borrowings raised for of Target Group's business expansion of workshop and storage business during the year ended 31 December 2017; and (iv) the one-off gain on disposal of investment properties in the amount of approximate HK$2.8 million occurred during the nine months ended 30 September 2018.

Summarised financial position of the Target Group

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	606,615	779,498	976,954	1,041,541
Current assets	21,801	74,132	41,534	45,928
Current liabilities	367,859	567,668	696,974	763,112
Non-current liabilities	59,825	71,576	93,316	89,553
Net assets	200,732	214,386	228,198	234,804

As at 30 September 2019, the non-current assets of the Target Group amounted to approximately HK$1,041.5 million, which mainly consisted of investment properties in the amount of approximately HK$956.6 million and property, plant and equipment in the amount of approximately HK$82.4 million. The increase of non-current assets as at 30 September 2019 as compared to 31 December 2018 was mainly due to the fair value gain on investment property assets during the period. The current assets of the Target Group as at 30 September 2019 was amounted to approximately HK$45.9 million, which mainly included inventories of approximately HK$10.1 million; deposits, prepayments and other receivables of approximately HK$14.2 million; and cash and bank balances of approximately HK$20.3 million. The Target Group recorded current liabilities in the amount of approximately HK$763.1 million as at 30 September 2019, which mainly consisted long-term bank borrowings due for repayment within one year or after one year but contains a repayable on demand clause in the amount of approximately HK$508.4 million; and amounts due to an equity owner which are repayable on demand in the amount of approximately HK$216.2 million. The net current liabilities of the Target Group is approximately HK$717.2

million as at 30 September 2019. The increase of total current liabilities as at 30 September 2019 as compared to as at 31 December 2018 was mainly due to the increase of borrowings for the expansion of the workshop business and increase in the amounts due to an equity owner during the nine months ended 30 September 2019. The non-current liabilities of the Target Group as at 30 September 2019 mainly consisted approximately HK$35.7 million of lease liabilities and approximately HK$53.9 million of deferred tax liabilities. The net assets value of the Target Group was approximately HK$234.8 million as at 30 September 2019.

3.3 The outbreak of recent social events and COVID-19

As enquired with the Directors, the outbreak of the social events and COVID-19 would cause slight impact on the Target Group's financial performance for the first quarter of 2020 in relation to slight decrease in the occupancy rate of serviced apartment business, storage and workshop business, and wine cellar and fine wine business.

For serviced apartment business, the occupancy rate has dropped from approximately 85% each year from 2012 to 2018 to approximately 70% in February 2020. However, good reputation, high standard hygienic conditions and good services helped in attracting more referrals from existing tenants. Also, the monthly leasing renewal arrangement gives the flexibility to the customers who demand for short term leasing.

For wine cellar businesses, the occupancy rate decreased from approximately 95% in December 2019 to approximately 93% in February 2020. As for fine wine, Metropolitan Fine Wine changed its sales strategy from offline trading to online trading as customers are staying at home for safety and health reasons. Crisis creates opportunities, online trading penetrates into a bigger market not only locally but internationally. Metropolitan Wine Cellar Group has a wine cellar business to power up the wine trading business of Metropolitan Fine Wine. If customers order from online but cannot pick up the wines immediately or do not want to stock up too many bottles of wine at home, they can choose to store their wine orders temporarily at the cellar of Metropolitan Wine Cellar Group.

For storage and workshop businesses, the outbreak of COVID-19 has an impact for new members to get on board and for existing customers to renew their contracts for the months of January and February 2020. Average occupancy rate of private work desks declined from an average of 81% in December 2019 to 74% and 72% in January 2020 and February 2020, respectively. Metropolitan Workshop is seeing a market recovery towards the end of February 2020, with lead enquiries increased 43% month to month. There are 15 confirmed new members and contracts were signed by Metropolitan Workshop with each of them and this will be reflected in the occupancy rate in March and April 2020. Metropolitan Workshop believes that the flexibility from its co-working space could cater for customers looking to scale up or down quickly during both the market highs and lows. According to the Company, the COVID-19 outbreak had minimal impact on the storage business, as the business increased approximately 0.44% in January 2020 as compared to December 2019.

The Target Group have established epidemic prevention and control working group to undertake various precautionary measures to prevent any widespread of COVID-19 in the properties and office, such as (i) enhancing the hygienic level of the properties and the offices by cleaning and sanitising areas including offices and properties regularly; (ii) performing compulsory daily temperature checks of all employees before work; (iii) minimising in-person meetings to the extent possible; and (iv) requesting the employees to wear masks at all time during work and report to the Target Group promptly whenever they feel unwell.

The Directors confirm that, as at the Latest Practicable Date, no employees of the Target Group has been infected with the COVID-19 and that the COVID-19 has so far had not caused a material impact on the Target Group's operations, based on the current available information and the business of Target Group was not suspended due to the outbreak up to the Latest Practicable Day. After taking into account slight impact to the Target Group's business as mentioned above and the measures that Target Group had taken, we concur with the Directors' view that the outbreak of social events and COVID-19 did not have material adverse impact on the Target Group's business, including its operation and financial performance.

As disclosed in the section headed "3.2 Financial information of the Target Group", the Target Group recorded a decreasing trend in its net profit from the year ended 31 December 2017 to 31 December 2018 and from nine months ended 31 September 2018 to 31 September 2019. However, this was mainly due to the decrease of net valuation gain on investment properties, a one-off gain on disposal of an investment property, and increase in finance costs due the expansion of workshop and storage business. The revenue of the principal business of the Target Group was in increasing trend during the same year/period. According to the "2019 Economic Background and 2020 Prospects" published by the Office of the Government Economist and the Financial Secretary's Office of the Government of Hong Kong, the deterioration of the Hong Kong economy was particularly sharp in the second half of 2019 due to the local social incidents involving violence hurt the overall economic sentiment and disrupted a wide range of economic activities. The overall economy would be heavily weighted on by the situation of the COVID-19, the development in US-Mainland trade relations and the local social incidents in 2020. The Hong Kong economy is forecast to grow by -0.15% to 0.5% in 2020. As mentioned above, the outbreak of the COVID-19 had minimal impacts on the Target Group's business as up to the Last Practicable Date, which proved that the Target Group's business is sustainable and able to cope with the overall challenging economic sentiment. Therefore, we are of the view that the Acquisition is fair and reasonable, and in the interest of the Company and its shareholder as a whole.

4. The principal terms of the Acquisition Agreement

4.1 The Acquisition Agreement

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

Date

24 January 2020

Parties

(i) The Company (as purchaser); and

(ii) Metropolitan Lifestyle (BVI) Limited (as vendor).

Assets to be acquired

Pursuant to the Acquisition Agreement, the assets to be acquired comprise (i) the Sale Share; and (ii) the Sale Loan. The Sale Share represent the entire issued capital of the Target Company as at the date of the Acquisition Agreement and Completion. The Sale Loan shall represent all obligations, liabilities and debts owing or incurred by the Target Group to the Vendor on or at any time prior to the Completion whether actual, contingent or deferred and irrespective of whether or not the same is due payable on Completion. It is expected that the Target Group will hold the various interest in the businesses and properties upon the completion of the Reorganisation, which are the subjects of the Acquisition. Please refer to section headed "4. Information on the Target Group" of Letter from the Board and Appendix II of this circular for details further information on the business and financial information of the Target Group.

4.2 Consideration

The Consideration is HK$420.0 million in aggregate, which shall comprise the purchase price of the Sale Loan (representing the dollar-to-dollar equivalent of the amount of the Sale Loan) in the amount of HK$216.2 million as at 30 September 2019 and the purchase price for the Sale Share (which shall be the aggregate Consideration less the purchase price for the Sale Loan) in the amount of HK$203.8 million. The Consideration will be payable by the Company to the Vendor as (i) 50% of the Deposit, being HK$21,000,000, shall be paid by the Purchaser as deposit and part payment of the Consideration upon the signing of the Acquisition Agreement; (ii) the remaining 50% of the Deposit, being HK$21,000,000, shall be paid by the Purchaser as deposit and part payment of the Consideration on the 14th day after the date of the Acquisition Agreement; and (iii) the sum of HK$378,000,000, being the balance of the Consideration, shall be satisfied by the Company by way of the issue and delivery of the Convertible Bonds in the name of the Vendor on Completion.

Basis of the Consideration

As stated in the Letter from the Board, the Consideration was determined after arm's length negotiations between the Company and the Vendor on normal commercial terms with reference to, including without limitation, to (i) the market value of the property interests held by the Target Group of HK$956,000,000 as at 30 September 2019 based on the preliminary valuation conducted by the Independent Valuer based on market approach adopting a direct comparison method; and (ii) the net asset value of the Target Group is approximately HK$234.8 million as at 30 September 2019 after taking into account the market value of the property interests. Please refer to Appendix V to and Appendix II to the Circular for the valuation report of the properties and financial information of the Target Group, respectively.

The outstanding indebtedness owing by the Target Group to the Vendor as at 31 January 2020 increased to approximately HK$269.5 million due to the short-term financing by the Vendor to the Target Group for loan restructuring, the purchase price of the Sale Share (which shall be the aggregate Consideration less the purchase price for the Sale Loan) would be approximately HK$150.5 million, representing a discount of approximately 36.1% to the adjusted combined net asset value of the Target Group as at 30 September 2019 of approximately HK$234.8 million (after the adjustment of the market value of the property interest of the Target Group). The outstanding indebtedness owing by the Target Group to the Vendor is subsequently reduced to the balance as at 30 Sept ember 2019 amounted to approximately HK$216.2 million after the loan restructuring.

For terms related to the conditions precedent and Completion, please refer to the paragraphs headed "Conditions precedent" and "Completion" under the section head "2. The Acquisition Agreement" in the Letter from the Board of this circular.

(i) Market value of the properties held by the Target Group

To access the fairness and reasonableness of the Consideration, we have considered the valuation of the properties to be held by the Target Group (the "**Properties**") prepared by the Independent Valuer of the Company. The appraised value of the Properties was in an aggregate amount of HK$958.7 million as at 31 December 2019. Please refer to Appendix V to this circular for the valuation report of the Properties.

We have performed works as required under Rule 13.80 of the Listing Rules in respect of the valuation of the Properties performed by the Independent Valuer. We have reviewed and discussed with the Independent Valuer (i) the experiences of the Independent Valuer in valuing properties in similar to those Properties and its relationship with the Group and other parties to the Agreement; (ii) the scopes of works of the Independent Valuer's engagement for assessment of the valuation of the Properties; (iii) the methodology of, and basis and assumptions adopted; and (iv) the steps and due diligence measures taken by the Independent Valuer.

We have discussed with the Independent Valuer in relation to their experiences and understand that valuation undertaken was supervised by Mr. Eddie T. W. Yiu, a senior director of the Independent Valuer and the director-in-charge of the valuation report. He is a chartered surveyor with over 24 years of experience in valuation of properties in Hong Kong as well as relevant experience in the other Asian countries including Korea and the Philippines. Therefore, we are satisfied with the qualification and experience of the Independent Valuer in preparation of the valuation report.

We have also reviewed the terms of engagement of the Independent Valuer for the valuation of the Properties to the appropriateness of the scope of work and noted the scope of work performed by the Independent Valuer is consistent with the market practice and appropriate to give the opinion. There were no limitation on the scope of work which might adversely impact the degree of assurance given by the Independent Valuer in the valuation report. The independent Valuer confirmed that (i) except for its engagements in respect of 3 property valuation on the Group's other projects between 2017 to 2019, it has no current or prior relationship with the Group and its connected persons; (ii) the professional fees received from the engagements as mentioned above for the Group are standard professional fees charged at market rates. Although the Independent Valuer was appointed for the Group's previous engagements, given that the Independent Valuer acted independently in each of those engagements and received at market rates, we consider that the previous engagements would not affect the independence of the Independent Valuer in performing the valuation work on the Properties.

We noted that the Independent Valuer carried the valuation on a market value basis and adopted direct comparison method when conducting the valuation for the Properties. For properties that are used for serviced apartment business, the Independent Valuer adopted both of direct comparison method and adopted income capitalization method. We reviewed the valuation report of the Properties prepared by the Independent Valuer the methodology of, and basis and assumptions adopted in arriving at the valuation of the Properties as 31 December 2019. We understand the Independent Valuer that the valuation report was prepared in compliance with all requirements contained in Chapter 5 of the Listing Rules; the RICS Valuation – Professional Standard published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

The direct comparison method was adopted when assessing the value of the properties which are held for sale and held under development and is based on comparing the property to be valued directly with other comparable properties; which have recently transferred their legal ownership. As set out in the valuation report, for assessing the properties held for sale and development, the Independent Valuer identified and analysed various relevant sales evidence in the locality which have similar characteristics as the subject property such as nature and use of the property. We have discussed with the Independent Valuer the selection criteria on the comparable properties that they used to assess the valuation on the properties which are held for sale or held for under development and noted that comparables are the similar properties located within the area with available price information. We also noted some of the properties which are held for investment were also adopted the direct comparison method instead of the income capitalization method. We have also enquired with the Independent Valuer and understood that due to active transactions in the Hong Kong property market, and the durations of the rental leases are usually under three years; therefore, using direct comparison method for those properties would reflect the real value of such properties. Base on the above, we concur with the view of the Independent Valuer that the comparables used in valuation are reasonable as compare to the Target Group's properties which are held for sale and held under development.

The income capitalization method was adopted when assessing the value of the properties which are held for investment is income-driven and properties have been rented to third parties under the existing and it is based on the capitalization of the net income potential by adopting appropriate capitalization rate, which is derived from analysis of sale transactions and the interpretation of prevailing investment requirements and expectations. Income capitalization method was also adopted for properties used for service apartment business, as accommodation fees are the major income of the service apartment business. We have discussed with the Independent Valuer and reviewed the list of leasing information and parameters provided by the Independent Valuer and noted that such information is from lease data readily available in the market. We also noted that the Independent Valuer had carried out site inspection on the exterior and where possible, the interior of the properties in January 2020 and obtained relevant information from the relevant government departments and have made relevant enquiries; and no irregularities were noted.

We consider the methodology and basis adopted by the Independent Valuer determined the market values of the Properties are appropriate, given (i) the methodologies adopted by the Independent Valuer are common and appropriate for determining the market value, which are so in compliance with valuation standards; and (ii) the bases and assumptions for the valuations of the Properties are fair and reasonable for our further assessment on the Consideration.

(ii) Adjusted net asset value of the Target Group

The adjusted net asset value of the Target Group attributable to equity shareholders of the Target Company as at 30 September 2019 amounted to approximately HK$451.0 million after taking into account the market value of the property interests, which was calculated as follows:

	HK$'000
Combined net asset value of the Target Group attributable to equity shareholders of the Target Company as at 30 September 2019	234,804
The aggregate shareholder's loans owed to the Vendor by the Target Group as at 30 September 2019	216,177
Adjusted combined net asset value of the Target Group attributable to equity shareholders of the Target Company as at 30 September 2019	**450,981**

The Consideration of HK$420.0 million represents a discount of approximately 6.9% to the adjusted combined net asset value of the Target Group as at 30 September 2019 of approximately HK$451.0 million.

Our analysis on the Consideration

We conducted a research on the website of the Stock Exchange for companies which:

(i) are currently listed on the Main Board of Stock Exchange;

(ii) have conducted transactions on acquisition/disposal of properties/land and related business between 23 October 2019 and 24 January 2020, being three months period immediately prior the date of the Acquisition Agreement (the "**Comparison Period**") which constitute a notifiable transaction;

(iii) considerations are determined with reference of the net asset value of the target group; and

(iv) are not in trading suspension.

We consider the Comparison Period reveals the prevailing market transactions regarding acquisition/disposal of properties and contains enough information to have an understanding on the recent transactions in relation of properties/land. Based on the above criteria, we have, on our best effort, identified 5 comparable transactions (the "**Transaction Comparables**") which we consider are exhaustive based on the said criteria and the representative samples as those transaction involved the acquisition/disposal of properties/land. At the same time, however, Shareholders should note that the business, operation and prospects of the Company are not the same as the companies of the Transaction Comparables and we have not conducted any on-depth investigation into their business and operations. Set out below is a summary of the nature of transaction and the basis for determination of the consideration for the Transaction Comparables.

Company Name	**Stock code**	**Date of announcement**	**Nature of transaction**	**Basis of consideration**	**Premium/ (discount) of consideration over/(to) the net asset value** *(%)*
Shenyang Public Utility Holdings Company Limited	747	28-Oct-19	Acquisition of the 78% of the target company which principally engages the property investment as well as development and sales of properties in Hubei.	With reference to the fair market value of the existing and properties to be built of the Target Company and unaudited net asset value of the Target Company of approximately RMB420.8 million as at 31 August 2019	(23.7)
Skyframe Realty (Holdings) Limited	59	6-Nov-19	Acquisition of 100% of the target company which principally engaged in property development, leasing of property and sales of building and renovation materials in Chongqing, the PRC and its principal asset is the Bishan Land.	With reference to the transaction agreement are on normal commercial terms with reference to the net asset value of the target company as at 31 August 2019	11.7

Company Name	Stock code	Date of announcement	Nature of transaction	Basis of consideration	Premium/ (discount) of consideration over/(to) the net asset value *(%)*
Yuexiu Property Company Limited	123	22-Nov-19	Disposal of 100% equity interest in target company which holds a complex property project comprising shopping malls, entertainment facilities, offices and residential properties located in Nanhai District, Foshan	The equity transfer consideration was determined with reference to the net asset value of the target company as at 31 July 2019.	Not disclosed
CWT International Limited	521	11-Dec-19	Disposal of properties comprises a Grade-A office building located in London, United Kingdom	With reference to the value of the properties based on the latest valuation report available and the net asset value of the Target Company and the prevailing market conditions	12.4
CWT International Limited	521	13-Jan-20	Disposal of a subsidiary which holds a golf course in the PRC	With reference to the value of the PRC golf course and the net asset value of the target company	(21.4)
				Minimum	(23.7)
				Maximum	12.4
				Average	(5.2)
The Company	**1560**	**24-Jan-20**	**Acquisition of the Target Company which holds certain properties that and various interests of business under the "Metropolitan" brand**	**With reference to the valuation of the properties as at 30 September 2019 and net asset value of the Target Group as at 30 September 2019**	(6.9)

As shown in the above table, all the consideration of the Transaction Comparables were based on both or either of the property valuation and/or the net asset value of the target companies. Therefore, we consider it is a common practice to make reference to the property valuation and/or net asset value of the target companies in determination of the consideration for acquisition or disposal of companies principally engage in property investment related business. We noted that the consideration of the Transactions ranged from a discount of approximately 23.7% to a premium of approximately 12.4% to/over the respective net asset value of the target company with an average discount of approximately 5.2%. The discount of approximately 6.9% of the Consideration to the adjusted net asset value of the Target Group is within the range of the Transaction Comparables.

Based on the above and having consider particular that (i) the methodology and basis adopted by the Independent Valuer determined the market values of the Properties; (ii) it is common for the consideration of transaction relating to property business making to be based on property valuation and/or the net asset value of the target companies; and (iii) the discount of approximately 6.9% of the Consideration to the adjusted net asset value of the Target Group is within the range of the Transaction Comparables, we are of the view that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

4.3 Convertible Bonds

Set out below is the summarized key terms of the Convertible Bonds and please refer to page 15 to 18 of the Letter from the Board for details:

Issuer:	The Company
Principal amount:	HK$378,000,000
Maturity date:	The Convertible Bonds are perpetual in term and have no maturity date
Interest rate:	The Convertible Bonds bear a coupon rate of 3% per annum. The coupon shall accrue on the outstanding principal amount of the Convertible Bonds and be payable annually subject to the Company's sole discretion to defer the coupon payment for a maximum period of 10 years from the date when the relevant coupon payment fall due by giving notice to the holders of the Convertible Bonds
Conversion price:	The initial Conversion Price is HK$0.65 per Conversion Share subject to adjustments for adjustment provisions summarized (details of which are summarized below)

Conversion Shares:	Assuming the conversion rights attaching to the Convertible Bonds are exercised in full at the initial Conversion Price of HK$0.65 per Conversion Share, a maximum of 581,538,461 new Shares will be issued upon conversion of the Convertible Bonds (subject to adjustments), which represent (i) approximately 90.65% of the existing issued share capital of the Company on the date of the Acquisition Agreement; and (ii) approximately 47.55% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds at the initial Conversion Price
Conversion period:	The holders of the Convertible Bonds may convert such Convertible Bonds (in whole or in part) into Conversion Shares during the period commencing from the date of issue of the Convertible Bonds up to the date which falls on the 10th anniversary of the date of issue of the Convertible Bonds (the "**Conversion Period**") to the extent all or part of the Convertible Bonds remain outstanding. Upon expiry of the said Conversion Period, no conversion rights could be exercised and the amount outstanding under the Convertible Bonds (if any) will become an unlisted straight perpetual bond of the Company.
Conversion rights:	Provided that any conversion of the Convertible Bonds does not result in (i) a mandatory offer under rule 26 of the Takeovers Code on the part of the holder and/or any party(ies) acting in concert with it; and (ii) the public float of the Shares being less than 25% (or such percentage as required by the Listing Rules) of the issued Shares, the bondholder shall, subject to compliance with the procedures set out in the CB Conditions, have the right at any time during the Conversion Period to convert the whole or part of the outstanding principal amount of the Convertible Bonds registered in their name into Shares, provided further that any conversion shall be made in amounts of not less than a whole multiple of HK$1,000,000 on each conversion (or if the outstanding principal amount of the Convertible Bonds is less than HK$1,000,000 on such conversion, the whole of such outstanding principal amount of the Convertible Bonds).

Adjustments to Conversion Price: The Conversion Price shall from time to time be adjusted upon the occurrence of certain events in relation to the Company including but not limited to the following:

(i) an alteration of the number of the Shares by reason of consolidation or subdivision;

(ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund);

(iii) a capital distribution being made by the Company to the Shareholders (which includes a payment of cash dividends subject to certain conditions, details of which are set out in Appendix VII of this circular), whether on a reduction of capital or otherwise, to Shareholders (in their capacity as such) or a grant by the Company to Shareholders (in their capacity as such) of rights to acquire for cash assets of the Company or any of its subsidiaries;

(iv) an offer of new Shares for subscription by way of rights, or grant any options or warrants to subscribe for new Shares, being made by the Company to the Shareholders (in their capacity as such) at a price which is less than 80% of the then market price of the Share;

(v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total effective consideration per Share initially receivable for such securities is less than 80% of the then market price of the Shares, or such rights of conversion or exchange or subscription attached to any such securities being modified so that the said total effective consideration per Share initially receivable for such securities is less than 80% of the then market price of the Shares;

(vi) an issue being made by the Company wholly for cash of Shares (other than Shares issued on the exercise of conversion rights attaching to the Convertible Bonds or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) at a price per Share less than 80% of the then market price of the Shares; and

(vii) an issue being made by the Company of Shares for the acquisition of asset at the total effective consideration per Share which is less than 80% of the then market price of the Shares.

Our analysis on the Conversion Price

The Conversion Price was determined based on arm's length negotiations between the parties with reference to the prevailing market prices of the Shares. The initial Conversion Price of HK$0.65 per Conversion Share represents:

(i) a discount of approximately 7.14% to the closing price of HK$0.70 per Share as quoted on the Stock Exchange on the date of the Acquisition Agreement;

(ii) a discount of approximately 7.67% to the average closing price of approximately HK$0.704 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Acquisition Agreement;

(iii) a discount of approximately 7.67% to the average closing price of approximately HK$0.704 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the date of the Acquisition Agreement;

(iv) a discount of approximately 41.18% to the net assets value per Share attributable to the Shareholders of approximately HK$1.105 as at 31 December 2019; and

(v) a premium of approximately 51.16% to the closing price of HK$0.43 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

In assessing the fairness and reasonableness of the terms of the Convertible Bonds, we have reviewed and identified 8 transactions announced by companies in relation issuance of Convertible Bonds in Hong Kong Dollars listed on the Stock Exchange, (excluding H-shares listed companies which capital structures are different from that of the Company as not all the issued shares of H-share listed company can be traded on the Stock Exchange such as its A-share or domestic shares). For the purpose of our analysis, the basis of our selection of the CB/CN Comparables is as follows:

(i) an acquisition; and

(ii) the acquisition is fully or partly settled by the issue of convertible bonds/notes under general or specific mandate as consideration.

We consider that the selection of comparable companies within 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 convertible bonds/notes were determined.

Taking into account that the terms of the CB/CN Comparables are determined under similar market conditions and sentiments as the issue of the Convertible Bond/ Note, we consider that the CB/CN Comparables may reflect the recent market trend of an acquisition involving issuance of convertible bonds as full or partial settlement of consideration. As such, we consider the CB/CN Comparables are fair and representative samples for comparison. It should be noted that all the companies involved in the CB/CN Comparables may have different principal activities, market capitalisation, profitability, and financial position as compared with those of the Company. Circumstances leading the CB/CN Comparables companies to issue convertible bonds may differ from that of the Company. The analysis is meant to be used as a general reference to similar types of transactions in Hong Kong, and we consider them to be one of the appropriate basis to assess the fairness and reasonableness of the terms of the Convertible Bonds/Notes. The table below summarizes our findings:

				Premium/(discount of conversion price over/to the closing price per share					
Company (Stock Code)	Date of announcement	Maturity (Years)	Interest rate (%)	on the date of the corresponding announcement (%)	on the last five trading days prior to the date of the corresponding announcement (%)	Premium/ (discount) of conversion price over/to the net asset value (%)	Premium/ (discount) of market price over/ to the net asset value (%)	Differences between (a) and (b)	Conversion price being subject to adjustment? (Yes/ No)
TL Natural Gas Holdings Limited (8536)	19-Jan-20	3	0	6.1	6.9	0.9	(5.0)	5.9	Yes
Code Agriculture (Holdings) Limited (8153)	6-Dec-19	4	0	122.2 *(Note 2)*	132.6 *(Note 2)*	N/A *(Note 3)*	N/A *(Note 3)*	N/A *(Note 3)*	Yes
Anchorstone Holdings Limited (1592)	21-Nov-19	2 *(Note 1)*	0	9.1	8.7	128.5	109.5	19.0	Yes
Newtree Group Holdings Limited (1323)	27-Sep-19	3	0	(3.8)	(3.8)	239.8	233.4	6.4	Yes
Hao Tian International Construction Company Limited (1341)	10-Sep-19	3	5	16.7	16.7	102.1	73.2	28.9	Yes
Lerthai Group Limited (112)	2-May-19	10	2	(6.5)	(5.5)	(1.7)	5.1	(6.8)	Yes
International Entertainment Corporation (1009)	30-Apr-19	5	0	0.0	3.1	(31.6)	(31.6)	0.0	Yes
China City Infrastructure Group Limited (2349)	3-Jan-19	3	3	63.9 *(Note 2)*	64.5 *(Note 2)*	2.0	(37.8)	39.8	Yes
	Maximum	10	5	16.7	16.7	239.8	233.4	39.8	
	Minimum	2	0	(6.5)	(5.5)	(31.6)	(37.8)	(6.8)	
	Average	4.1	1.3	3.6	4.3	62.9	49.5	13.3	
	Median	3	0	3.1	5.0	2.0	5.1	6.4	
	The Company	Perpetual	3	(7.1)	(7.7)	(61.4)	(58.4)	(3.0)	Yes

Source: the announcement of relevant companies published on the Stock Exchange's website

Notes:

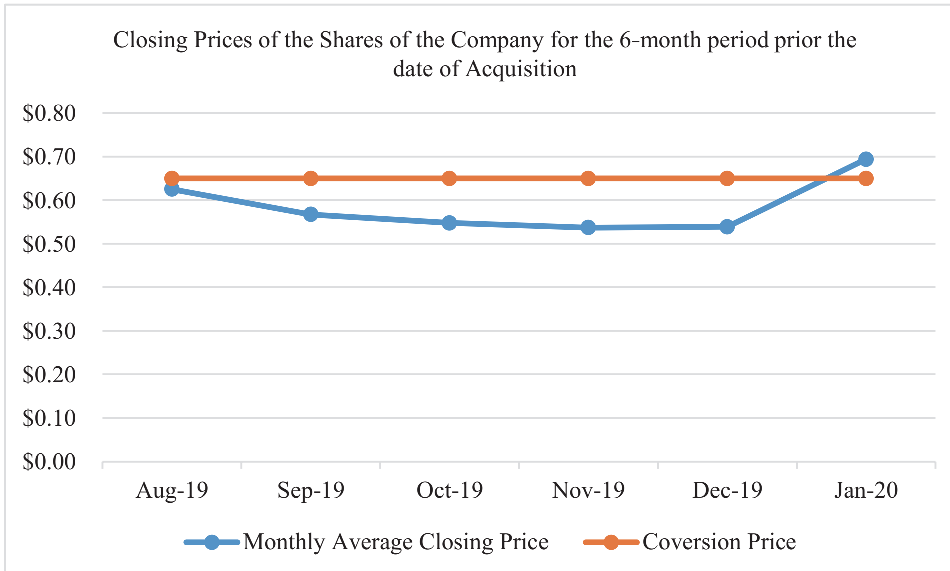
(1) The day falling on the second anniversary of the first issue date of the convertible bonds, which can, at the sole and absolute discretion of the holder of the convertible bonds, be extended to the date falling on the third anniversary of the relevant date of issue of the convertible bonds.

(2) These Transactions Comparables (Code Agriculture (Holdings) Limited and China City Infrastructure Group Limited) are considered as outliers as their premiums are extremely high as compared to other comparables. Based on the information available from the website of the Stock Exchange, we note that the share price of Code Agriculture (Holdings) Limited ranged from approximately HK$0.015 to HK$0.176 for a period of 12-month from the date of announcement and the share prices formed a decreasing trend starting from the third quarter of September 2019 which resulted in extremely high premium. Also, as disclosed in the circular of China City Infrastructure Group Limited, we note that the conversion price of China City Infrastructure Group Limited was determined referencing to the 2018 interim report (which as approximately HK$0.49 per Share) and the subscription price of HK$0.50 per Share for subscription of new Shares as announced in 2017.

(3) With reference to the interim report of Code Agriculture (Holdings) Limited for the six months ended 30 September 2019, Code Agriculture (Holdings) Limited recorded total deficit attributable to owners of the Company as at 30 September 2019; therefore, we are not able to analyse the premium/discount of conversion price over/ to its net asset value attributable to its shareholders per share.

As demonstrated in the above table, we noted that the conversion prices of the CB/CN Comparables ranged from a discount of approximately 6.5% and 5.5% to a premium of approximately 16.7% and 16.7% to/over the respective closing prices of their shares on the last trading day and last five trading days prior to date of the respective announcements, respectively. As such, the Company's discount of approximately 7.1% and 7.7% to the respective closing prices of its shares on the last trading day and last five trading days prior to the date of the announcement are slightly below the minimum and out of the range of the CB/CN Comparables.

However, this discount is caused by the recent share price increase in January 2020 (from the average closing price of HK$0.54 in December 2019 to the average closing price of HK$0.70 in January 2020, representing an increase of approximately 29.5%). Based on the information from the website of the Stock Exchange, save for the announcement published by the Company regarding the disposal of a property holding company on 31 December 2019, we were not aware of any announcements issued by the Company relating to the abovementioned movement of the price of the Shares during the month of January 2020. As advised by the Directors, they were not aware of any other reasons that led to the above-mentioned trend of the closing price of the Shares during January 2020. The Conversion Price of HK$0.65 represents a premium of approximately 20.3%, 13.2% and 11.9% of the average trading price in December 2019, three months and six months prior to the date of the Acquisition Agreement. We also noted that the ranges of discount/premium to the to the respective closing prices of its shares on the last trading day and last five trading days prior to the date of the announcement are wide and this may due to the specific circumstances facing each of the CB/CN Comparables. Therefore, we are of the view that the Conversion Price of HK$0.65 per conversion share is in the interest of the Company and its shareholders as a whole.



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

In addition, if we compare the conversion price to the net asset value of the Company (discount of 61.4% after taking into account of the disposal of Rainbow Red Holdings Limited to an independent third party as announced by the Company on 31 December 2019) to the average premium of 62.9% and with a range from the discount of 31.6% to the premium of 239.8% of the CB/CN Comparables, it may seem that the conversion price of the Company is deeply discounted relative to the CB/CN Comparables. However, we consider this may not be an appropriate comparison because the existing market capitalisation of a company is not solely base on net asset value of a company alone and investors value different companies on a whole range of factors (including but not limited to the future prospects of a company, the management experience, asset quality, etc). As such, each company is trading on different discount/premium to its net asset value. Without reference to the existing market capitalisation of the company, a pure comparison of the conversion price to the net asset value fails to take into account of all the other factors and thus not accurately demonstrating whether the conversion price is fair or not. A more accurate comparison should be comparing the differences between (i) the premium/discount of conversion price over the net asset value ("**Conversion Price Ratio**") and (ii) the premium/discount of market price over the net asset value ("**Market Price Ratio**"). This difference reflects how much premium/discount is the conversion price is relative to the market price to its net asset value. Based on the above, the difference between the Conversion Price Ratio of the Company is only at a discount of 3.0% to the Market Price Ratio, which is within the comparable range of discount of 6.8% to premium of 39.8%.

Therefore, we concur with the view of the Directors that the Conversion Price is fair and reasonable as far as the Company and the Independent Shareholders are concerned.

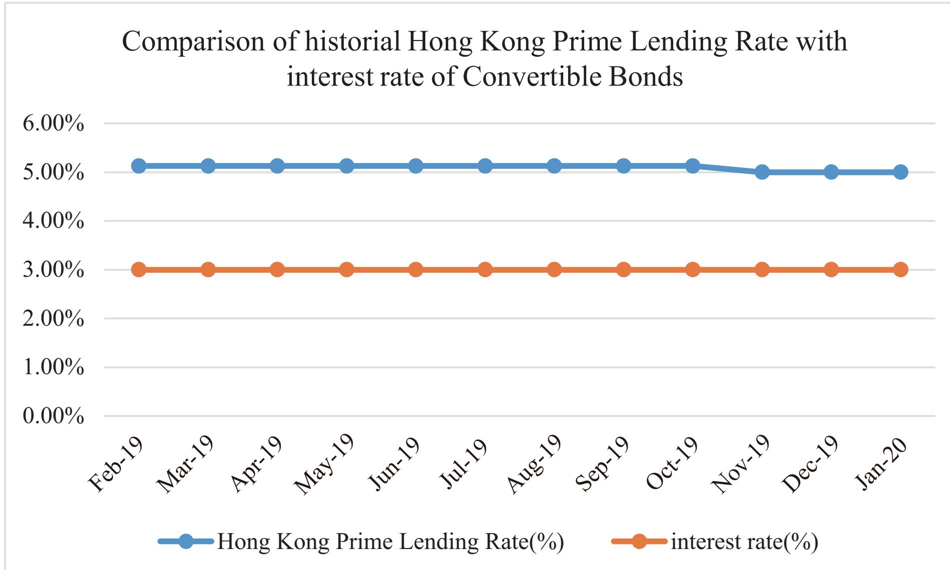
Our analysis on other major terms of the Convertible Bonds/Note

Maturity

We noted that the maturity terms of the CB/CN Comparables range from 1 year to 10 years. The Convertible Bonds are perpetual in term and have no maturity date. The following advantages were considered for issuing the perpetual Convertible Bonds (i) it allows the Company to save refinancing or issuing costs in the long run and (ii) it will allow the Company to have longer period of time for necessary financial arrangement without immediate cash outlay for the redemption of the Convertible Bonds.

Interest rate

As for interest rate of the Convertible Bonds, it is 3.00% per annum which falls within the range of the interest rate of the CB/CN Comparables from nil to 8% per annum. We have also made reference to the recent prime lending rate of Hong Kong. Prime rate is the interest rate that commercial banks charge their corporate customers. We noted that the prime lending rate was relatively stable between February 2019 and January 2020 in the range of 5.0% to 5.13%. According to the 2018 Annual Report, the range of the ranges of the effective interest rates of the Group's borrowings are 3.5% and 2.3%-4.15% for fixed-rate borrowings and variable-rate borrowings for the year ended 31 December 2018, respectively. Bank borrowings are secured by the Group's assets, such as properties held for sale, investment properties and pledged bank deposits. The comparison of historical prime lending rate between February 2019 and January 2020 as compared to the interest rate of the Convertible Bonds is illustrated as follows:



Source: Hong Kong Monetary Authority

Based on the above and having considered (i) the interest rate of the Convertible Bonds is lower than the average of the historical prime lending rate between February 2019 and January 2020 and within the range of the CB/CN Comparable Companies; and (ii) the interest rate of the Convertible Bonds is lower than the effective interest rate of the Group's borrowings for the year ended 31 December 2018 and the Convertible Bonds do not require collateral, we consider that the interest rate of the Convertible Bonds with maturity term of perpetual is justifiable as it can secure the Company with a fixed finance cost in the long run.

Adjustments to Conversion Prices

According to the terms of Convertible Bonds, the Conversion Price is subject to adjustment upon occurrence of corporate events which include consolidation, sub-division and reclassification of the Shares, capitalisation issue, capital distributions, rights issues of Shares or options over Shares or other securities of the Company, issue of Shares or other securities of the Company in discount, modification of rights of conversion and other offer of securities. We have also reviewed the adjustment terms of the conversion price of the CB/CN Comparables, the conversion prices of all the CB/CN Comparables are subject to adjustment upon occurrence of similar dilutive events. Therefore, we are of the view that the adjustment and relevant adjustment everts are usual and normal adjustment terms as other convertible bonds in the market.

We have also reviewed other terms of the Convertible Bonds such as conversion restriction, voting rights, etc and compared with that of the CB/CN Comparables and we are not aware of any unusual terms.

4.4 Potential Dilution effect on shareholding interests

As at the Latest Practicable Date, the Company has 641,498,000 Shares in issue. Set out below the shareholding structure of the Company is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) upon Completion but prior to the exercise of conversion rights under the Convertible Bonds and the allotment and issue of the Convention Shares; and (iii) immediately upon full conversion of the Convertible Bond (for illustration purpose only) based on the best knowledge, information and belief of the Directors:

	As at the Latest Practicable Date		**Upon Completion but prior to the exercise of conversion rights under the Convertible Bonds and the allotment and issue of the Conversion Shares**		**Immediately after the allotment and issue of the Conversion Shares upon the exercise of the conversion rights under the Convertible Bonds in full (for illustration purpose only)**	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
Mr. Chan	2,500,000	0.39	2,500,000	0.39	2,500,000	0.20
Star Properties Holdings (BVI) Limited *(Note 1)*	432,140,800	67.36	432,140,800	67.36	432,140,800	35.33
Vendor	–	–	–	–	581,538,461	47.55
Ms. Cheung Wai Shuen *(Note 3)*	300,000	0.05	300,000	0.05	300,000	0.02
Ms. Chan Wah Man Carman *(Note 4)*	156,000	0.02	156,000	0.02	156,000	0.01
Mr. Lam Kin Kok	1,120,000	0.17	1,120,000	0.17	1,120,000	0.09
Eagle Trend (BVI) Limited *(Note 2)*	38,259,200	5.96	38,259,200	5.96	38,259,200	3.13
Public Shareholders	167,022,000	26.04	167,022,000	26.04	167,022,000	13.66
Total	641,498,000	100	641,498,000	100	1,223,036,461	100

Notes:

(1) Star Properties Holdings (BVI) Limited is an investment holding company incorporated in the BVI with limited liability and is wholly-owned by Mr. Chan. By virtue of the SFO, Mr. Chan is deemed to be interested in all shares in which Star Properties Holdings (BVI) Limited is interested.

(2) Eagle Trend (BVI) Limited is an investment holding company incorporated in the BVI with limited liability and is wholly-owned by Mr. Lam Kin Kok. By virtue of the SFO, Mr. Lam Kin Kok is deemed to be interested in all shares in which Eagle Trend (BVI) Limited is interested.

(3) Ms. Cheung Wai Shuen is an executive Director.

(4) Ms. Chan Wah Man Carman is an independent non-executive Director.

(5) The authorised share capital of the Company is HK$10,000,000.

We noted that the shareholding of the existing Public Shareholders will decrease from approximately 26.04% to approximately 13.66%, assuming after the allotment and issue of the Conversion Shares upon the exercise of the conversion rights under the Convertible Bonds in full, representing a dilution of approximately 12.38%. The net asset value is approximately HK$1.1 per share of the Group as at 31 December 2019. Assuming the Acquisition is completed by 31 December 2019 and after the allotment and issue of the Conversion Shares upon the exercise of the conversion rights under the Convertible Bonds in full, the net asset value of the Enlarged Group would decrease to approximately HK$0.8 per share. Taking into account that (i) the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholder as a whole as mentioned in this letter; (ii) the positive financial impart of the Target Group's business as it will generate stable revenue from lease income to the Group and the sustainability of the Target Group's business; (iii) the "Reasons of the Acquisition" as stated in this letter; (iv) the fairness and reasonableness of the Consideration and the terms of the Convertible Bonds as stated in this letter; we are of the view that the possible dilution effects on the shareholding interests of the public Shareholders and net asset value per share is acceptable.

In addition, according to the terms of the Convertible Bonds as stated in the Letter from the Board, any conversion of the Convertible Bonds shall not result in a mandatory offer under rule 26 of the Takeovers Code on the part of the holder and/or any party(ies) acting in concert with it; which the Conversion Shares is not expected to result in a change of control of the Company and the minimum float of the Shares shall never be lower than 25%, which represent the limitations to the exercise of the Conversion Rights and dilution impact. We consider that the issue of Convertible Bonds and the Conversion Price is fair and reasonable and in the interest of the Company and its Shareholder as a whole.

4.5 Other alternative settlement methods considered

As set out in the Letter from the Board, the Board has considered other alternative possible settlement methods, such as issuance of other types of debt securities, placing or subscription of new Shares by independent third parties and right issues to raise funds.

With respect to issuance of other types of debt securities, the Board is of the view that the interest rate of issuance of other types of debt securities is much higher than the interest rate of the Convertible Bonds. Assuming the interest rate of the debt securities is 10% (with reference to past bank borrowing with only corporate guarantee by the Company), the finance cost will be at HK$37.8 million per annum, while the finance cost of the Convertible Bonds with 3% per annum will be HK$11.3 million, which is much lower than using debt securities. Also, if the Consideration is settled by debt securities, the borrowing will increase by HK$378.0 million and hence the gearing ratio will increase accordingly. On the other hand, if the Consideration is settled by Convertible Bonds, the debt component of the Convertible Bonds will be eventually transferred to equity upon conversion, which implies that there will be no increase in the borrowing and no impact on the gearing ratio (for illustrative purpose only).

With respect to placing and subscription of new Shares by independent third parties, those methods are considered to be relatively costly and time consuming. The fund raising needs of HK$378.0 million, for the settlement of the balance of the Consideration. Raising funds through placing or subscription of new Shares will involve specific mandate requiring Shareholders' approval, given the number of Shares exceeds the limit under the general mandate granted to the Directors on 12 April 2019 (assuming that the placing or subscription price is equal to the Conversion Price of the Convertible Bonds under the Acquisition). If rights issue or open offer is considered as the settlement method, additional time and costs may also be incurred, among others, (i) preparing relevant administrative and compliance works; (ii) engaging more professional parties which would lead to an increase in professional fees required, underwriting commissions and/or placing commissions; and (iii) completing the fund raising exercises due to the relatively complicated and time consuming trading arrangements involved. The Directors, after approaching several securities firms, found that it is difficult to secure placing agents and subscribers in light of the sizable amount of securities involved in the placing or subscription. Also, due to the substantial amount of the Shares required to be issued in order to settle the balance of the Consideration of HK$378.0 million, the potential investors normally require a substantial placing discount to the trading price of the Shares as advised by the placing agents.

After considering the above possible settlement methods, we are of the view that (i) issuance of other types of debt securities may inevitably incur interest costs and may have adverse financial impact on the Group's financial position; and (ii) raising funds through issuance of new shares to independent third parties, rights issues or open offer is relatively more costly and time consuming and the Company may not be able to procure commercial underwriting at favorable terms in a timely manner; therefore, we concur with the Board that the issuance of Convertible Bonds to settle the Consideration is in the interests of the Company and its Shareholders as a whole.

5. Reasons for the Acquisition

As disclosed in the annual report of the 2018 Annual Report, it is the Group's strategy to source for the best development opportunities to replenish its land reserve and build up a brand as a property developer that delivers high quality buildings with modern and stylish design to customers.

Upon the completion of the Reorganisation, the Target Company will hold operating entities which operate the business of provision of stylish living space including serviced apartments, workshops, storage and wine cellars. As advised by the Directors, this is an integrated approach that had been developing in the global property section in recent years whereby living spaces are integrated with different life-style facilities such as wine cellar, storage space and co-working space, which the Directors also believes that the provision of this type of stylish living space will become the trend in the global property market, including Hong Kong. The Directors consider there is synergy to the Group by operating the life-style business in the Group's developing projects such as in Kwun Tong Site Project, Yuen Long Site Project, Tack Lee Project, etc. which may in turn increase the value of different developed properties in the future.

The principal business of the Company is to engage in property development and property investment for sale, rental or capital appreciation, provision of property management services and provision of finance. As stated in the 2019 Interim Report, the revenue generated from property investment segment for the six months ended 30 June 2019 was approximately HK$212,000. As advised by the Directors, the acquisition of an established brand, namely, the "Metropolitan" brand, together with its underlying investment properties and business will allow the Group to strengthen and enhance the value of its asset base, and generating stable and regular income for the Group at the same time. The Independent Valuer is also of the view that the rental income to be generated from leasing out the whole property directly to the independent third party or the value of the investment properties are expected to be enhanced by the provision of value added services operated under the lifestyle-related businesses such as serviced apartments, co-working and storage space.

Promising outlook of the industry

– Serviced apartment business

With Hong Kong being top tourist and business destination for travellers around the world, the demand for serviced apartments in Hong Kong has increased and the popularity is on the rise. Serviced apartments are a cost-efficient way to experience living in prime areas in Hong Kong, such as Happy Valley or Causeway Bay, without paying for the high hotel nightly rates in these areas as well as enjoying hotel standards and services.

According to the article "Residents Leasing" published by Savills Research and Consultancy in October 2019, we noted from the rental indices of serviced apartment which offers more affordable options when compared to the traditional apartments or hotels as the property prices in Hong Kong Island are on the high side. The rental indices of traditional apartments in Hong Kong Island increased from 100 in the first quarter of 2003 to 194 in the first quarter of 2019. Meanwhile, the rental indices of hotel and serviced apartment increased from 100 in the first quarter of 2003 to approximately 180 and approximately 150, respectively. Most serviced apartments are in inner-city areas, offering convenience for transportation and business centres and is a good alternative if travellers need proximity to an inner city address.

The serviced apartments in Hong Kong are the new trend of accommodation, an alternative way for people who are most likely to rent for a short-term like a month or two, the serviced apartment can offer a more flexible lease terms and meanwhile they provide a home-from-home experience that a living environment is more spacious than a hotel room. For instances, Metropolitan Serviced Apartment's co-living apartment provides spacious sharing area with fully equipped in-room facilities, including but not limited to cooking utensils, microwave oven and hob. According to South China Morning Post, apart from renting for short-term, the permanent residents consist of three major groups, including high-net-worth retirees, company executives and expatriates, the major reasons they choose to stay in serviced apartments in Hong Kong are attributable to i) high quality customer services, housekeeping and on-site repair and maintenance services; ii) security and safety and; iii) Hong Kong is a business hub which they could enjoy convenient regional and international travel options.

– *Wine cellar and fine wine businesses*

According to Census and Statistic Department and Statista, the total market value of alcoholic beverages increased consecutively over the years and the revenue in the alcoholic beverages market amounts to approximately US$2.5 billion in 2020 and the market is expected to grow annually by 3.2% (CAGR 2020-2023). This is attributable to the growth of middle class population in Hong Kong who can afford alcohol beverages (which classified as income of household is or over HK$ 50,000), the number of domestic household of middle class population increased from approximately 500,000 in July 2015 to approximately 668,400 in July 2018. Also, sales from off-trade distribution channels such as grocery stores and convenience stores in Hong Kong maintained relatively stable of over HK$5,500 million from 2015 to 2019.

Wine products in Hong Kong can be split into two selling price segments: (i) Fine Wines, which includes red and white wines with a selling price of less than HK$1,000 per bottle, and (ii) Premier Collectible Wines, which covers red and white wines with a selling price at or above HK$1,000 per bottle. Premier Collectible Wines typically consist of boutique wines, rare wines, collector wines, and vintages that are well sought by wine connoisseurs. Premier Collectible Wines are wines originating from prestigious vineyards and regions known for producing the high quality wines paired with good grape production years, and usually have limited availability in the open market.

According to HKTDC research on wine industry in Hong Kong and Commerce and Economic Development Bureau, global attention has shifted to Asia when shrinking wine consumption across much of Europe. Consumers in Asia are increasingly wine savvy and their demand for wine remains strong. The wine sales in Asia totaled US$54.9 billion or 2.8 billion litres in 2018, up 8.0% in value and up 2.6% in volume per annum in the past five years. For 2019 to 2023, it is forecast that wine sales in Asia will grow 4.0% per annum in value and 1.2% per annum in volume. The outlook for the mainland market is also promising, with sales totaling US$25.5 billion or 1.7 billion litres in 2018, up 6.2% and 2.6% respectively per annum over the past five years. For 2019 to 2023 growth is forecast at 4.1% per annum in value and 1.1% per annum in volume.

Due to the growing demand for wine in Asia and the removal of wine duty since 2008, there has been sustained growth in wine imports and related business in Hong Kong. Hong Kong has become a regional wine trading and distribution hub, as well as the largest wine auction centre in the world. In addition to new entries, international wine companies and their specialist partners have increasingly moved to Hong Kong. With Hong Kong recognised as the region's culinary centre, a growing local trend has been for restaurants and hotels to host food and wine appreciation sessions, occasions where various wines are paired with Asian cuisine. There is also a food matching competition presided over by a number of Asian experts during the course of the HKTDC Hong Kong International Wine and Spirits Fair.

– *Storage and workshop businesses*

According to 'Self-storage in Hong Kong: A Growing Niche' and 'The Self-storage Association Asia Annual Survey' published by Colliers International and Ipsos in 2014 and 2019 respectively. The self-storage industry began to develop and establish a strong presence in emerging markets across the region within the last decade. Beginning with Japan, Hong Kong and Singapore, it has put down roots in Thailand, India, the Philippines, South Korea, Indonesia and many other Asian countries. The Hong Kong government provides public housing to meet grassroots families' housing needs, with an average living space of 13.3 square meters per person in 2019. There are approximately 1.1 million private residential units in Hong Kong. About 8% of the private housing is classified as "large units" with a saleable area of over 1,076 sq ft, while the rest are classified as "small-medium size units".

In Hong Kong, where people live in small, expensive flats and typically lack space to store their items such as old books and clothes, the self-storage industry has expanded quickly since the first facility opened in 2001. Hong Kong with its booming economy, dense population and high property prices, is one of the first cities to embrace the mini storage concept, and retained its position as the only Asian market where the industry has kept all its options open. The percentage of operators for storage business who favoured local expansion increased (rising from 22% in 2016 to 38% in 2017).

Also, the self-storage investment opportunity has often been overlooked because the existing size of the sector is relatively small in Hong Kong. Virtually all of the 2.8 million sq ft of self-storage area is established in existing industrial buildings, which represents only a small portion of the more than 200 million sq ft of existing industrial property stock. There is a shift of investment demand from traditional to non-traditional property sectors in view of higher returns. Self-storage gained real estate investors' interest because the sector provides a better return when compared with the traditional option of buying industrial premises simply to lease out.

According to the article 'Hong Kong's flexible work space offering grows 50% in three years' published by Jones Lang LaSalle in 2018, the demand for flexible offices – including co-working spaces and serviced offices – has been growing faster in Asia Pacific than anywhere else in the world. The region's stock of flexible floor space is growing at 35.7% per year compared to 25.7% in the US and 21.6% in Europe. In Hong Kong, the flexible work space offering has grown by 50% in three years with almost 90% of all new offerings in the past five years, coming over in the past two years.

Moreover, new scheme implemented by the Government such as "Space Sharing Scheme for Youth" initiative, that supports creative and emerging industries, about 90,000 sq. ft. of shared work spaces has been set aside for start-ups and those in arts and culture-related work at discounted rental rates starting in 2018. These work spaces are located in Wanchai, Wong Chuk Hang, Lai Chi Kok, Kwun Tong and Tsuen Wan.

– *Production business*

According to HKTDC, Hong Kong is the marketing services capital of Asia, which provides a strong presence of multinational agencies and the regional headquarters of the multinational agencies are set up in Hong Kong in order to focus their regional business. They offer a full range of marketing services such as advertising, brand/ image consulting as there is high demand for one-stop solution in marketing.

The world of digital marketing continues to evolve and marketers have now shifted to digital platforms for promoting their brands through online TV and music streaming platforms. Traditional marketing uses more direct forms of advertising and marketing such as traditional TV and radio sources. The marketing trends in digital marketing focus on visuals and video content, since consumers are more likely to purchase a product online after watching a video.

According to "Hong Kong's digital spending to surge to US$5.8b by 2022 as consumers turn to mobile media" published by South China Morning Post in June 2018, revenue generated from digital sources in Hong Kong such as video and social media advertising is expected to reach US$5.8 billion by 2022. As consumers are increasing use of mobile devices to watch streaming videos and read news, it is highly effective to attract customers. Although revenue generated from non-digital advertising are higher than digital advertising, consumers are turning to digital platforms and will prompt advertisers to shift their spending. Hong Kong's internet advertising market is expected to increase from US$456 million in 2017 to US$732 million in 2022. Mobile internet advertising revenues will account for approximately 39% by 2022, from approximately 32% in 2017.

In the light of the above, we concur with the view of the Directors that the Acquisition (i) will create synergy between the Group's property development business and the businesses of the Target Group; (ii) will enhance the Group's the Group's portfolio of investment properties with regular income; and (iii) will give the Group opportunities to tap into the new business segments which the prospects are promising. It is in the interests of the Company and Independent Shareholders as a whole.

6. *Financial effects of the Acquisition*

Upon the Completion of the Acquisition, the Target Company will become an indirect wholly-owned subsidiary of the Company and its assets, liabilities and financial results will be consolidated into the consolidated financial statement of the Group.

Earnings

According to the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to the Circular, assuming the Acquisition had been completed on 31 December 2019, the profit for the year ended 31 December 2018 would have increased by approximately HK$17.6 million from approximately HK$191.8 million to HK$209.4 million.

Cash flow

The total cash consideration is HK$42.0 million. The consideration of HK$378.0 million will be satisfied by way of the issue and delivery of the Convertible Bonds and will not have immediately cash outflow for the Acquisition. Therefore, the Group shall have immediate cash out flow for the Acquisition of approximately HK$46.8 million (including the estimated professional fees and transaction costs directly attributable to the Acquisition of approximately HK$4.8 million.

Net asset value

Based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to the Circular, assuming the Acquisition had been completed on 31 December 2019, the unaudited pro forma consolidated total assets and total liabilities of the Enlarged Group would have increased to approximately to HK$4,595.6 million and HK$3,579.8 million, respectively. The unaudited net asset value of the Enlarged Group would be approximately HK$1,015.9 million.

Gearing

Based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to the Circular, assuming the Acquisition had been completed on 31 December 2019, the unaudited pro forma gearing ratio of the Enlarged Group would have decreased from approximately 363.9% of the gearing ratio of the Group as at 31 December 2019 to approximately 312.2% (calculated based on the total borrowings as a percentage of total equity).

Net current liabilities

The net current liabilities of the Target Group is approximately HK$717.2 million as at 30 September 2019, which was mainly due to the long-term bank borrowings due for repayment within one year or after one year but contains a repayable on demand clause and the amounts due to an equity owner. Based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to the Circular, assuming the completion of the Acquisition would have taken place at 31 December 2019, the current ratio of the Enlarged Group will decrease from approximately 1.2 of the Group as at 31 December 2019 to approximately 1.0 and result a negative effect on the Enlarged Group's liquidity position. Despite that the Target Group has recorded net current liabilities, we consider that this is mainly due to the accounting treatment of (i) the long term bank borrowings due for repayment after one year (approximately HK$447.5 million) and (ii) amounts due to the equity owner which amounts to approximately HK$216.2 million. Since both loans contains a repayable on demand clause, in terms of accounting treatment, both were classified under current liabilities. However, fundamentally the long term bank borrowings will only be due after one year and also the equity owner has confirmed that he has no intention to call upon the loan after Completion nor within one year, the above two loans should be long term in nature. Should the above two loans be excluded, the Enlarged Group's position (based on 30 September 2019 figures) should be illustrated as follow:

	As at 30 September 2019 *(HK$'000)*
Net current assets of the Group (as at 31 December 2019)	484,260
Current assets of the Target Group	45,928
LESS: Current liabilities of the Target Group	(763,112)
ADD: Long term bank borrowings due for repayment after one year	447,500
ADD: Amounts due to the equity owner	216,177
	430,753

Therefore, the Enlarged Group should have recorded a net current asset position if the two loans are excluded. Having considered the above, we are of the view that the net current liabilities position of the Target Group as at 30 September 2019 will not affect the liquidity of the Enlarged Group after completion of the Acquisition.

OPINION AND RECOMMENDATION

Taking into consideration the factors and reasons as stated above, we are of the opinion that the terms of the Acquisition Agreement are on normal commercial terms (although the Acquisition is not in the ordinary and usual course of the business of the Group), and fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to approve the Acquisition Agreement at the EGM.

Yours faithfully,
For and on behalf of
Sinolink Securities (HK) Company Limited

Ken Wong	**Dixi He**
Managing Director	*Director*

Mr. Ken Wong is a licensed person registered with the Securities and Futures Commission and a responsible officer to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance. He has over 17 years of experience in the field of corporate finance advisory in Hong Kong.

Ms. Dixi He is a licensed person registered with the Securities and Futures Commission and a representative to carry out Type 1 (dealing in securities) and responsible officer to carry out Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance. She has around 7 years of experience in the field of corporate finance advisory in Hong Kong.

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for each of the three years ended 31 December 2016, 31 December 2017 and 31 December 2018 respectively, the audited consolidated results of the Group for the year ended 31 December 2019 and the unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2019, together with the relevant notes thereto are disclosed in the following documents, which were published on both the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (www.starproperties.com.hk):

- the annual report of the Company for the year ended 31 December 2016 published on 22 March 2017 (pages 40-95) https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0322/ltn20170322483.pdf;

- the annual report of the Company for the year ended 31 December 2017 published on 12 March 2018 (pages 49-118) https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0312/ltn20180312425.pdf;

- the annual report of the Company for the year ended 31 December 2018 published on 12 March 2019 (pages 57-140) https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0312/ltn20190312393.pdf; and

- the interim report of the Group for the six months ended 30 June 2019 published on 29 August 2019 (pages 17-48) https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0829/ltn20190829297.pdf.

- The preliminary final results announcement of the Group for the year ended 31 December 2019 published on 11 March 2020 (pages 2-20) https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0311/2020031101256.pdf

2. INDEBTEDNESS OF THE ENLARGED GROUP

As the close of business on 31 January 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular, the total indebtedness of the Enlarged Group amounted to HK$2,595 million, and comprised (i) secured bank borrowings amounted to HK$2,175 million; (ii) unsecured bank borrowings amounted to HK$91 million; (iii) amounts due to a director amounted to HK$285 million and (iv) lease liabilities amounted to HK$44 million.

(i) Secured bank borrowings

Certain bank borrowings amounted to HK2,145 million which were secured by the pledge of the Group's investment properties, properties held for sale and properties under development and a bank borrowing amounting to HK$30 million were secured by the pledged bank deposits of a subsidiary of the Company; and certain of such secured bank borrowings amounted to HK$1,981 million were guaranteed by entities within the Enlarged Group and/or the director, and the remaining secured bank borrowings amounted to HK$194 million were not guaranteed.

(ii) Unsecured bank borrowings

All the unsecured bank loans amounted to HK$91 million were guaranteed by entities within the Enlarged Group and/or the director.

(iii) Amount due to a director

All the amount due to a director amounted to HK$285 million were unsecured and unguaranteed.

(iv) Lease liabilities

Lease liabilities of the Enlarged Group amounted to HK$44 million were secured by the rental deposits paid and not guaranteed.

Save as disclosed above and apart from intra-group liabilities, the Enlarged Group did not have any outstanding debentures issued and outstanding, or authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, material hire purchase commitments, mortgages and charges, material contingent liabilities and guarantees outstanding at the close of business on 31 January 2020, being the latest practicable date for the purpose of ascertaining the indebtedness of the Enlarged Group prior to the printing of this circular.

3. WORKING CAPITAL STATEMENT OF THE ENLARGED GROUP

The Directors, after due and careful enquiry, are of the opinion that taking into account of the Acquisition and the present financial resources available to the Enlarged Group including but not limited to its internally generated revenue and funds, cash and cash equivalents on hand, banking facilities available to the Enlarged Group, and in the absence of unforeseen circumstances, the working capital available to the Enlarged Group is sufficient for the Enlarged Group's requirements for at least 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date and save as disclosed in the interim report of the Company for the six months ended 30 June 2019, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, the date to which the latest published audited financial statements of the Group were made up.

5. ACQUISITIONS AFTER THE DATE OF THE LATEST PUBLISHED AUDITED ACCOUNTS

Since 31 December 2018, being the date to which the latest published audited accounts of the Group were made up, the Group has completed or proposed the following acquisitions whose profits or assets make or will make a material contribution to the figures in the next published financial statements of the Group for the year ended 31 December 2019:

On 3 May 2019, Ritzy Soar, an indirect wholly owned subsidiary of the Company, entered into a provisional sale and purchase agreement ("**Provisional Agreement**") with Celinal and West Coast International, pursuant to which Ritzy Soar agreed to acquire, and Celinal and West Coast International agreed to sell, 10 ordinary shares of Palico Development, representing all the issued shares of Palico Development, and the loan advance of Celinal and West Coast International due and payable, free from all encumbrances (including all rights and interests of Palico Development in the Palico Development Property) owing by the Palico Development to Celinal and West Coast International and their respective associates (if any) as at the 31 October 2019 at an aggregate consideration of HK$49,380,000 (the "**Palico Development Acquisition**").

Pursuant to the Provisional Agreement,

(i) Glory Sky International Limited shall guarantee for the period of twenty four (24) months commencing from 31 October 2019 to Ritzy Soar the due observance and performance of obligations of Celinal and West Coast International under the Provisional Agreement or the formal agreement in relation to the Palico Development Acquisition ("**Formal Agreement**") (as the case may be) and that the warranties given or provided by Celinal and West Coast International under the Provisional Agreement or the Formal Agreement (as the case may be) are to the best information and knowledge of Celinal and West Coast International are true, accurate and correct; and

(ii) The Company shall guarantee to Celinal and West Coast International the due observance and performance of Ritzy Soar's obligations to complete the purchase pursuant to the Provisional Agreement or the Formal Agreement.

Please refer to the announcement of the Company dated 3 May 2019 for details of the Palico Development Acquisition. The Palico Development Acquisition was completed on 31 October 2019.

The aggregate of the remuneration payable to and benefits in kind received by the Directors will not be varied in consequence of the aforementioned acquisition.

Save as disclosed above, since 31 December 2018 (the date to which the latest published audited accounts of the Group have been made up), no member of the Group has acquired or agreed to be acquired or is proposing to acquire a business or an interest in the share capital of a company whose profits or assets make or will make a material contribution to the figures in the auditor's report or next published accounts of the Group.

6. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Looking ahead, the Company will strengthen its existing businesses and enlarge the recurring income from Target Group. Following the Completion, the Company intends to continue the operation of its existing businesses and has no intention, negotiation, agreement, arrangement and understanding (concluded or otherwise) about any disposal, scaling-down and/or termination of its existing businesses and/or major operating assets. The management is most eager to further increase the recurring income of the Group by the acquisition of the Target Group. In addition to the businesses of the Target Group, the Group will continue to be principally engaged in the property development and property investment for sale, rental or capital appreciation, provision of property management services and provision of finance.

Based on the unaudited pro forma financial information as set out in Appendix IV to this circular, assuming that Completion had taken place on 31 December 2019, the portfolio of investment properties after the Completion will be increased from approximately HK$52 million to approximately HK$1,008.5 million. Accordingly, the Group believes that its long-term business strategy can be substantiated and realised through the Acquisition, and that the strong synergy between the Group's property development business and the businesses of the Target Group would allow the Group to stand in good position as disclosed in the section headed "Reasons for and benefits of the Acquisition" under the "Letter from the Board" to this circular. The Board is optimistic about the future development in properties development business as well as the profitability of the Enlarged Group.

Set out below is the text of a report received from the independent reporting accountants of the Company, BDO Limited, Certified Public Accountants, Hong Kong, which has been prepared for the purpose of incorporation in this circular.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF STAR PROPERTIES GROUP (CAYMAN ISLANDS) LIMITED

Introduction

We report on the historical financial information of Metropolitan Group (BVI) Limited (the "Target Company") and its subsidiaries (collectively referred to as the "Target Group") set out on pages II-4 to II-74, which comprises the combined statements of financial position of the Target Group as at 31 December 2016, 2017 and 2018 and 30 September 2019, the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows, for each of the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019 (the "Track Record Period"), and a summary of significant accounting policies and other explanatory information (the "Historical Financial Information"). The Historical Financial Information set out on pages II-4 to II-74 forms an integral part of this report, which has been prepared for inclusion in the circular of Star Properties Group (Cayman Islands) Limited (the "Company") dated 27 March 2020 (the "Circular") in connection with the proposed acquisition of the entire issued share capital of the Target Company by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

The Underlying Financial Statements of the Target Group as defined on page II-4, on which the Historical Financial Information is based, were prepared by the directors of the Target Company. The directors of the Target Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting Accountants' Responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the HKICPA. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2016, 2017 and 2018 and 30 September 2019 and of the Target Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of Stub Period Corresponding Financial Information

We have reviewed the stub period corresponding financial information of the Target Group which comprises the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the nine months ended 30 September 2018 and other explanatory information (together the “Stub Period Corresponding Financial Information”). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purposes of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

BDO Limited
Certified Public Accountants

Pak Tak Lun
Practising Certificate Number: P06170

Hong Kong
27 March 2020

I. HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of the Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The combined financial statements of the Target Group for the Track Record Period, on which the Historical Financial Information is based, were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by BDO Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Nine months ended 30 September	
		2016	2017	2018	2018	2019
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Revenue	*7*	24,805	35,044	45,255	34,630	39,419
Cost of sales		(8,042)	(7,620)	(12,419)	(10,283)	(6,614)
Gross profit		16,763	27,424	32,836	24,347	32,805
Other income and gains, net	*7*	15,360	1,060	4,497	2,998	653
Net valuation gain on investment properties		17,300	56,309	41,901	41,201	36,235
Administrative and other operating expenses		(19,706)	(28,506)	(39,740)	(27,380)	(34,721)
Finance costs	*10*	(6,601)	(7,973)	(15,543)	(11,411)	(14,522)
Profit before income tax	*8*	23,116	48,314	23,951	29,755	20,450
Income tax expense	*11*	(1,451)	(4,658)	(6,412)	(5,268)	(6,050)
Profit for the year/period		21,665	43,656	17,539	24,487	14,400
Other comprehensive income						
Item that may be reclassified subsequently to profit or loss:						
Exchange differences on translation of financial statements of foreign operation		—	—	(3,727)	(3,491)	(4,365)
Total comprehensive income for the year/period		21,665	43,656	13,812	20,996	10,035
Attributable to:						
Profit for the year/period attributable to:						
Owners of the Target Company		22,064	44,623	19,833	27,206	15,595
Non-controlling interest		(399)	(967)	(2,294)	(2,719)	(1,195)
		21,665	43,656	17,539	24,487	14,400
Total comprehensive income for the year/period attributable to:						
Owners of the Target Company		22,064	44,623	16,106	23,715	11,230
Non-controlling interest		(399)	(967)	(2,294)	(2,719)	(1,195)
		21,665	43,656	13,812	20,996	10,035

COMBINED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 September
		2016	2017	2018	2019
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	*13*	36,553	59,904	92,580	82,395
Investment properties	*15*	558,275	708,775	861,555	956,575
Deferred tax assets	*21*	1,797	1,658	2,451	2,571
Prepayment for acquisition of investment properties		9,990	9,161	20,368	—
Total non-current assets		606,615	779,498	976,954	1,041,541
Current assets					
Inventories	*17*	4,395	4,295	7,446	10,097
Account receivables	*16*	1,215	2,028	2,241	1,391
Deposits, prepayments and other receivables	*18*	7,467	13,330	16,723	14,182
Cash and bank balances		8,724	54,479	15,124	20,258
Total current assets		21,801	74,132	41,534	45,928
Current liabilities					
Trade and other payables	*20*	(9,178)	(13,093)	(17,946)	(24,939)
Amount due to an equity owner	*19*	(127,144)	(196,575)	(175,123)	(216,177)
Lease liabilities	*26*	(4,441)	(6,475)	(14,594)	(13,406)
Borrowings	*25*	(227,027)	(351,434)	(489,196)	(508,409)
Income tax payable		(69)	(91)	(115)	(181)
Total current liabilities		(367,859)	(567,668)	(696,974)	(763,112)
Net current liabilities		(346,058)	(493,536)	(655,440)	(717,184)
Total assets less current liabilities		260,557	285,962	321,514	324,357

COMBINED STATEMENTS OF FINANCIAL POSITION *(Continued)*

		As at 31 December			As at 30 September
		2016	2017	2018	2019
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities					
Lease liabilities	*26*	(23,569)	(30,576)	(45,597)	(35,656)
Borrowings	*25*	—	(435)	—	—
Deferred tax liabilities	*21*	(36,256)	(40,565)	(47,719)	(53,897)
Total non-current liabilities		(59,825)	(71,576)	(93,316)	(89,553)
Net assets		200,732	214,386	228,198	234,804
Equity attributable to owners of the Target Company					
Share capital	*22*	20	20	20	20
Reserves	*23*	202,765	216,902	233,008	239,562
Total equity attributable to owners of the Target Company		202,785	216,922	233,028	239,582
Non-controlling interest		(2,053)	(2,536)	(4,830)	(4,778)
Total equity		200,732	214,386	228,198	234,804

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Company					
	Share capital HK$'000 (Note 22)	Foreign exchange reserve HK$'000 (Note 23)	Retained earnings HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
At 1 January 2016	20	—	180,701	180,721	(1,654)	179,067
Profit for the year and total comprehensive income for the year	—	—	22,064	22,064	(399)	21,665
At 31 December 2016 and 1 January 2017	20	—	202,765	202,785	(2,053)	200,732
Profit for the year and total income for the year	—	—	44,623	44,623	(967)	43,656
Dividend *(Note 12)*	—	—	(30,000)	(30,000)	—	(30,000)
Change in non-controlling interests without change in control	—	—	(486)	(486)	484	(2)
At 31 December 2017 and 1 January 2018	20	—	216,902	216,922	(2,536)	214,386
Profit for the year	—	—	19,833	19,833	(2,294)	17,539
Other comprehensive income for the year: Exchange differences on translation of financial statements of foreign operation	—	(3,727)	—	(3,727)	—	(3,727)
Total comprehensive income for the year	—	(3,727)	—	(3,727)	—	(3,727)
At 31 December 2018 and 1 January 2019	20	(3,727)	236,735	233,028	(4,830)	228,198

COMBINED STATEMENTS OF CHANGES IN EQUITY *(Continued)*

	Attributable to owners of the Target Company					
	Share capital	**Foreign exchange reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 22)	*(Note 23)*				
At 31 December 2018 and 1 January 2019	20	(3,727)	236,735	233,028	(4,830)	228,198
Profit for the period	—	—	15,595	15,595	(1,195)	14,400
Other comprehensive income for the period: Exchange differences on translation of financial statements of foreign operation	—	(4,365)	—	(4,365)	—	(4,365)
Total comprehensive income for the period	—	(4,365)	—	(4,365)	—	(4,365)
Dividend *(Note 12)*	—	—	(3,430)	(3,430)	—	(3,430)
Change in non-controlling interests without change in control	—	—	(1,246)	(1,246)	1,247	1
At 30 September 2019	20	(8,092)	247,654	239,582	(4,778)	234,804
At 1 January 2018	20	—	216,902	216,922	(2,536)	214,386
Profit for the period (unaudited)	—	—	27,206	27,206	(2,719)	24,487
Other comprehensive income for the period (unaudited): Exchange differences on translation of financial statements of foreign operation	—	(3,491)	—	(3,491)	—	(3,491)
Total comprehensive income for the period (unaudited)	—	(3,491)	—	(3,491)	—	(3,491)
At 30 September 2018 (unaudited)	20	(3,491)	244,108	240,637	(5,255)	235,382

COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Cash flows from operating activities					
Profit before income tax	23,116	48,314	23,951	29,755	20,450
Adjustments for:					
Depreciation of property, plant and equipment	3,724	2,987	4,336	4,050	4,136
Amortisation of right-of-use assets	1,765	5,811	10,882	7,000	11,400
Gain on change in fair value on investment properties	(17,300)	(56,309)	(41,901)	(41,201)	(36,235)
Gain on disposals of investment properties	(14,639)	(275)	(2,774)	(2,774)	—
Loss/(gain) on disposal of property, plant and equipment	—	—	—	—	(156)
Provision/(reversal) of expected credit loss	1,079	(469)	(420)	—	181
Provision of impairment of inventories	150	132	85	54	—
Finance costs	6,601	7,973	15,543	11,411	14,522
Operating profit before working capital changes	4,496	8,164	9,702	8,295	14,298
Decrease/(increase) in inventories	3,981	(32)	(3,236)	(2,494)	(2,651)
(Increase)/decrease in account receivables	(1,778)	(345)	207	(1,878)	669
(Increase)/decrease in deposits, prepayments and other receivables	(1,230)	(5,863)	(3,273)	(12,013)	2,541
(Decrease)/increase in trade and other payables	(33,530)	3,915	4,853	8,960	6,782
Cash (used in)/generated from operations	(28,061)	5,839	8,253	870	21,639
Tax refund/(paid)	20	(190)	(27)	(27)	66
Net cash (used in)/generated from operating activities	(28,041)	5,649	8,226	843	21,705

COMBINED STATEMENTS OF CASH FLOWS *(Continued)*

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Cash flows from investing activities					
Purchase of investment properties	—	(131,201)	(143,838)	(143,838)	(38,197)
Proceeds from disposals of investment properties	73,885	47,275	44,774	44,774	—
Purchase of property, plant and equipment	(4,939)	(18,206)	(15,690)	(11,922)	(5,515)
Proceeds from disposals of property, plant and equipment	—	—	—	—	320
Increase in prepayment for acquisition of investment property	(9,990)	(9,161)	(20,368)	—	—
Net cash generated from/(used in) investing activities	58,956	(111,293)	(135,122)	(110,986)	(43,392)
Cash flows from financing activities					
Borrowings raised	51,867	127,101	163,175	149,141	188,169
Repayment of borrowings	(128,985)	(2,259)	(25,848)	(22,953)	(168,956)
Capital element of lease rental paid	(999)	(4,901)	(9,064)	(5,608)	(11,129)
Interest element of lease rental paid	(377)	(1,184)	(1,915)	(1,308)	(1,570)
Interest paid	(6,224)	(6,789)	(13,628)	(10,103)	(12,952)
Advance from an equity owner	213,876	111,851	130,876	129,640	88,564
Repayment to an equity owner	(156,277)	(72,420)	(152,328)	(151,228)	(50,940)
Payment for acquisition of non-controlling interest	—	—	—	—	—
Net cash (used in)/generated from financing activities	(27,119)	151,399	91,268	87,581	31,186
Net increase/(decrease) in cash and cash equivalents	3,796	45,755	(35,628)	(22,562)	9,499
Cash and cash equivalents at beginning of year/period	4,928	8,724	54,479	54,479	15,124
Effect of foreign exchange rate changes	—	—	(3,727)	(3,491)	(4,365)
Cash and cash equivalents at end of year/period	8,724	54,479	15,124	28,426	20,258

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Metropolitan Group (BVI) Limited (the "**Target Company**") was incorporated in the British Virgin Islands ("**BVI**") with limited liabilities on 10 January 2020. The address of its registered office is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

The Target Company is an investment holding company which has not carried on any business since the date of its incorporation save for the reorganisation below. The Target Company and its subsidiaries (collectively referred to as the "**Target Group**") are principally engaged in (i) serviced apartment business, (ii) wine cellar and fine wine business, (iii) storage business and workshop business and (iv) other business (the "**Relevant Businesses**").

Through a group reorganisation as explained in the Section headed "Information on the Target Group" in the circular, upon completion of the Reorganisation, the Target Company will become the holding company of the companies comprising the Target Group.

The functional currency of the Target Company is Hong Kong dollar ("**HK$**") which is the same as the presentation currency of the Historical Financial Information. All values are rounded to the nearest thousand (HK$'000) except otherwise stated.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

Pursuant to the announcement dated 24 January 2020 (the "**Announcement**"), Star Properties Group (Cayman Islands) Limited (the "**Purchaser**") entered into an acquisition agreement to conditionally acquire the entire issued share capital of the Target Company from Metropolitan Lifestyle (BVI) Limited, the vendor, which is controlled by Mr. Chan Man Fai Joe.

Prior to the incorporation of the Target Company, the Relevant Businesses were conducted through Metropolitan Production Limited, Metropolitan Workshop Limited, Metropolitan Apartment Limited, Metropolitan Storage Limited, Metropolitan Fine Wine Limited and Metropolitan Wine Cellar Limited and Crystal Cay Assets Limited and its subsidiaries (collectively referred to as "**Operating Companies**"). All the Operating Companies had been controlled by Mr. Chan Man Fai, Joe. To facilitate the Purchaser's proposed acquisition of the Target Company, the Target Group, with reorganisation procedures documented, underwent a reorganisation (the "**Reorganisation**") as disclosed in the section headed "Information on the Target Group" in the Circular. Upon completion of the Reorganisation, the Target Company will become the holding company of the Target Group.

Prior to and after the Reorganisation, the companies now comprising the Target Group were under the common control of Mr. Chan Man Fai, Joe. The control is not transitory and, consequently, there was a continuation of risks and benefits to Mr. Chan Man Fai, Joe. Accordingly, the Reorganisation is treated as a combination of businesses under common control, and the Historical Financial Information has been prepared and presented using the merger basis of accounting as if the Target Group has always been in existence throughout the Track Record Period. The net assets of the companies now comprising the Target Group are combined using the existing book values from the perspective of Mr. Chan Man Fai, Joe.

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Target Group for the Track Record Period include the financial performance and cash flows of the companies now comprising the Target Group as if the current group structure had been in existence and remained unchanged throughout the Track Record Period. The net combined statements of financial position of the Target Group as at 31 December 2016, 2017, 2018 and 30 September 2019 as set out in this report have been prepared to present the financial position of the companies now comprising the Target Group as at those dates as if the current group structure had been in existence as at the respective dates.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION *(Continued)*

Intra-group balances and transactions are eliminated in full in preparing the Historical Financial Information.

As of the date of this report, no audited financial statements have been prepared for the Target Company since its incorporation, as it is not subject to statutory audit requirement under relevant rules and regulations in the jurisdiction of incorporation.

Upon completion of the Reorganisation, the Target Company has direct or indirect interests in the following subsidiaries, all of which are private companies with limited liability.

Name of company	Place of incorporation/ operation	Issued and fully paid	Proportion of ownership interest		Principal activity	Statutory auditors
			Held by the Target Company	** Held by a subsidiary*		*(a)/(b)/(c)/(d)/(e)*
Metropolitan Group (BVI) Limited	BVI	US$1	100%		Investment holding	(b)
Metropolitan Lifestyle Holdings (BVI) Limited	BVI	US$1		100%	Investment holding	(b)
Advalue Group Limited	Hong Kong	HK$2		100%	Property holding	(c)
Charm Luck (Hong Kong) Limited	Hong Kong	HK$1		78%	Operation of storage service	(d)
Cheer Luck International Industrial Limited	Hong Kong	HK$1		78%	Operation of storage service	(d)
Creative Sky Limited	Hong Kong	HK$1		100%	Property holding	(c)
Crystal Cay Assets Limited	BVI	US$2		100%	Investment holding	(b)
CW Luck Limited	Hong Kong	HK$1		78%	Operation of storage service	(d)
East Luck Properties Limited	Hong Kong	HK$1		78%	Operation of storage service	(d)
Eternal Great Development Limited	Hong Kong	HK$9,000		100%	Property holding	(c)
Faithful Luck (H.K.) Limited	Hong Kong	HK$1		78%	Operation of storage service	(d)
Far Orient International Limited	BVI	US$1		100%	Property holding	(b)

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION *(Continued)*

Name of company	Place of incorporation/ operation	Issued and fully paid	Proportion of ownership interest		Principal activity	Statutory auditors
			Held by the Target Company	** Held by a subsidiary*		*(a)/(b)/(c)/(d)/(e)*
FTIII Luck Limited	Hong Kong	HK$1		78%	Operation of storage service	(d)
Golden Abacus Global Limited	Hong Kong	HK$1		100%	Investment holding	(a)
Golden Green Corporation Limited	Hong Kong	HK$1		100%	Property holding	(c)
Grand Silver (Hong Kong) Limited	Hong Kong	HK$1		100%	Property holding	(c)
Great Dawn Holdings Limited	BVI	US$1		100%	Investment holding	(b)
Kowloon Luck Limited	Hong Kong	HK$1		78%	Operation of storage service	(d)
LCKI Luck Limited	Hong Kong	HK$1		78%	Operation of storage service	(d)
Magical Time Global Limited	BVI	US$1		100%	Investment holding	(b)
Manhattan Corporation Limited	Hong Kong	HK$1		100%	Property holding	(c)
Maritime Century Holdings Limited	BVI	US$1		100%	Investment holding	(b)
Mark Wealthy Limited	Hong Kong	HK$10,000		100%	Property holding	(c)
Metro Luck Development Limited	Hong Kong	HK$1		78%	Operation of storage service	(d)
Metro Storage Limited	Hong Kong	HK$1		78%	Operation of storage service	(a)
Metropolitan Apartment Limited	Hong Kong	HK$100		85%	Operation of serviced apartments	(d)
Metropolitan Fine Wine Limited	Hong Kong	HK$10,000		80.75%	Wine Trading	(d)

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION *(Continued)*

Name of company	Place of incorporation/ operation	Issued and fully paid	Proportion of ownership interest		Principal activity	Statutory auditors
			Held by the Target Company	** Held by a subsidiary*		*(a)/(b)/(c)/(d)/(e)*
Metropolitan Production Limited	Hong Kong	HK$100		75%	Media production	(e)
Metropolitan Storage Limited	Hong Kong	HK$100		78%	Operation of storage service	(d)
Metropolitan Wine Cellar Limited	Hong Kong	HK$10,000		80.75%	Wine storage service	(d)
Metropolitan Workshop Limited	Hong Kong	HK$100		85%	Workshop	(d)
Nice Luck Enterprise Limited	Hong Kong	HK$1		78%	Operation of storage service	(a)
Noble Empire Investments Limited	Hong Kong	HK$1		80.75%	Wine storage service	(a)
NT Luck Limited	Hong Kong	HK$1		78%	Operation of storage service	(d)
NTII Luck Limited	Hong Kong	HK$1		78%	Operation of storage service	(d)
Numeric City Limited	Hong Kong	HK$1		100%	Property holding	(a)
Rainbow Luck Limited	Hong Kong	HK$1		78%	Operation of storage service	(d)
Rainbow Value Investments Limited	Hong Kong	HK$1		100%	Property holding	(c)
Rich Luck Enterprise Limited	Hong Kong	HK$1		78%	Operation of storage service	(d)
Seaview Empire Investments Limited	Hong Kong	HK$1		80.75%	Wine Storage service	(a)
Seongsu Vision Co Limited	South Korea	Korean Won 510,000,000		100%	Property holding	(b)
Sunny Generation Limited	Hong Kong	HK$2		100%	Property holding	(c)

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION *(Continued)*

Name of company	Place of incorporation/ operation	Issued and fully paid	Proportion of ownership interest		Principal activity	Statutory auditors
			Held by the Target Company	** Held by a subsidiary*		*(a)/(b)/(c)/(d)/(e)*
Well Sure Corporation Limited	Hong Kong	HK$1		100%	Property holding	(c)
Wise City Holdings Limited	Hong Kong	HK$1		100%	Property holding	(c)

* Certain of interests in subsidiaries were changed subsequent to 30 September 2019 in relation to Note 34.

Notes:

(a) At the date of the report, no audited financial statements have been prepared for these entities, as they were newly incorporated companies and have not carried on any business since the date of incorporation.

(b) At the date of the report, no audited financial statements have been prepared for these entities, as they are not subject to audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

(c) The statutory auditors of these entities are Profectus & Co. certified public accountants during the Track Record Period.

(d) The statutory auditors of these entities are AE Majoris CPA Limited during the Track Record Period.

(e) The statutory auditors of this entity is Raymond W.H. Shum CPA (Practising) during the Track Record Period.

All companies now comprising the Target Group have adopted 31 December as their financial year end date.

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**") which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the HKICPA. Further details of the significant accounting policies adopted are set out in Note 4.

In preparing the Historical Financial Information, the sole director of the Target Company has given careful consideration to the future liquidity of the Target Group in light of the fact that the Target Group recorded a net current liabilities of approximately HK$717,184,000 as at 30 September 2019. The sole director of the Target Company has considered the estimated cash flows of the Target Group for the next twelve months from the end of the reporting period, which enable the Target Group to meet in full its financial obligations as and when they fall due for the foreseeable future. In addition, the equity owner of the Target Company has agreed not to demand for any repayment of amount due to equity owner of HK$216,177,000 as at 30 September 2019 until the Target Group has sufficient resources to repay. Accordingly, the sole director of the Target Company considers that the Target Group has sufficient working capital to finance its operations and the Historical Financial Information has been prepared on a going concern basis.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION *(Continued)*

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis except for investment properties which is measured at fair value as explained in the accounting policy set out below.

The preparation of the Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 5.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Historical Financial Information, the Target Group has adopted all applicable new and revised HKFRSs that are effective for the financial year beginning on 1 January 2019 throughout the Track Record Period, including HKFRS 9, Financial instruments, HKFRS 15, Revenue from contracts with customers and HKFRS 16, Leases.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

3. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Target Group has consistently applied all new Hong Kong Financial Reporting standards, Hong Kong Accounting standards ("**HKASs**"), amendments and interpretations issued by the HKICPA which are effective for the accounting periods beginning on 1 January 2016 throughout the Track Record Period.

At the date of this report, the HKICPA has issued the following new or revised HKFRSs, potentially relevant to the Target Group's Financial Information, have been issued, but are not yet effective and have not been early adopted by the Target Group.

Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 3	Definition of a Business[1]
HKFRS 17	Insurance Contracts[2]
Amendment to HKFRS 10 and HKAS 28	Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture[3]

[1] Effective for annual periods beginning on or after 1 January 2020
[2] Effective for annual periods beginning on or after 1 January 2021
[3] No mandatory effective date yet determined but available for adoption

The Target Group has not early adopted the above new standards and amendments and is in the process of assessing the impact of these new standards and amendments on the Target Group's accounting policies and financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Merger accounting for business combination involving entities under common control and basis of consolidation

The Historical Financial Information incorporates the financial statements of the Target Company and its subsidiaries comprising the Target Group for the Track Record Period. As explained in Note 2 above, the acquisition of the subsidiaries under common control has been accounted for using merger accounting.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

No amount is recognised in respect of goodwill or gain on bargain purchase at the time of common control combination, to the extent of the continuation of the controlling party's interest. All differences between the cost of acquisition and the amount at which the assets and liabilities are recorded have been recognised directly in equity as part of reserve.

The Historical Financial Information includes the results and financial positions of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities first came under common control, where this is a shorter period, regardless of the date of the common control combination.

All intra-group transactions, balances and unrealised gains on transactions have been eliminated in full on combination. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred, in which the case the loss is recognised in profit or loss. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Target Group.

The results of subsidiaries acquired or disposed of during the year are included in the combined statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Target Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Target Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Target Group's previously held equity interest in acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Target Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any excess of the acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the consolidation of a business combination is recognised immediately in profit or loss.

All intragroup assets and liabilities, equity, income, expenses and cash flow relating to transactions between members of the Group are eliminated in full on consolidation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Merger accounting for business combination involving entities under common control and basis of consolidation *(Continued)*

Changes in the Target Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Target Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Target Company.

When the Target Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

(b) Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Target Company. Control is achieved when the Target Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Target Group the current ability to direct the relevant activities of the investee).

When the Target Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Target Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(i) the contractual arrangement with the other vote holders of the investee;

(ii) rights arising from other contractual arrangements; and

(iii) the Target Company's voting rights and potential voting rights.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Associates

An associate is an entity over which the Target Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Target Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Target Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Target Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Target Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

(d) Investment properties

Investment property is property held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

(e) Property, plant and equipment

Property, plant and equipment are stated in the combined statements of financial position at cost less accumulated depreciation and any accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment *(Continued)*

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Leasehold improvement	5-10 years
Furniture and fixtures	5 years
Office equipment	5 years
Motor vehicles	5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(f) Leased assets

At inception of a contract, the Target Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Target Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Target Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Target Group enters into a lease in respect of a low-value asset, the Target Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(f) **Leased assets** *(Continued)*

(i) As a lessee *(Continued)*

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation (see Note 4(e)) and impairment losses (see Note 4(g)(iv)), except for the following types of right-of-use asset:

— right-of-use assets that meet the definition of investment property are carried at fair value in accordance with Note 4(d); and

— right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Target Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Target Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Target Group presents right-of-use assets that do not meet the definition of investment property and inventory in "property, plant and equipment" and presents lease liabilities in combined statements of financial position.

(ii) As a lessor

When the Target Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Target Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 4(r)(i).

When the Target Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease.

4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(g) Financial instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("**FVTPL**"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the Target Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Target Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Fair value through other comprehensive income ("**FVOCI**"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through OCI. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Fair value through profit or loss ("**FVTPL**"): Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Financial instruments *(Continued)*

(ii) Credit losses from financial instruments and lease receivables

The Target Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

— financial assets measured at amortised cost (including cash and cash equivalents, restricted deposits, trade and other receivables); and

— lease receivables.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Target Group in accordance with the contract and the cash flows that the Target Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets, trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate; and

— lease receivables: discount rate used in the measurement of the lease receivables.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Target Group is exposed to credit risk.

In measuring ECLs, the Target Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and lease receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(g) **Financial instruments** *(Continued)*

(ii) ***Credit losses from financial instruments and lease receivables*** *(Continued)*

Measurement of ECLs (Continued)

For all other financial instruments, the Target Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Target Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Target Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Target Group in full, without recourse by the Target Group to actions such as realising security (if any is held). The Target Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Target Group.

The Target Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Target Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Target Group in full, without recourse by the Target Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(g) **Financial instruments** *(Continued)*

(ii) Credit losses from financial instruments and lease receivables *(Continued)*

Significant increases in credit risk (Continued)

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Target Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Target Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or lease receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Target Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(g) **Financial instruments** *(Continued)*

(iii) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "**holder**") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Target Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

The Target Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Target Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in Note 4(g)(ii) apply.

As the Target Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Target Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(iv) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that property, plant and equipment, including right-of-use assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(g) **Financial instruments** *(Continued)*

(iv) Impairment of other non-current assets *(Continued)*

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(v) Financial liabilities

The Target Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables and amount due to an equity holder are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Financial instruments *(Continued)*

(vi) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the Track Record Period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(vii) Derecognition

The Target Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire, or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39 Financial Instruments.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(h) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker ("**CODM**"), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Inventories and other contract costs

(i) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory or property, plant and equipment.

Incremental costs of obtaining a contract are those costs that the Target Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Target Group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventory or property, plant and equipment, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Target Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in Note 4(r).

(j) Contract liabilities

A contract liability is recognised when the customer pays consideration before the Target Group recognises the related revenue (see Note). A contract liability would also be recognised if the Target Group has an unconditional right to receive consideration before the Target Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 4(g)).

4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(k) Contract assets

A contract asset is recognised when the Group recognises revenue (see Note 4(r)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses in accordance with the policy set out in Note 4(g)(ii). Loss allowance for contract assets is measured at an amount equal to lifetime expected credit losses. Expected credit losses on contract assets are estimated using a provision matrix based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the customers and an assessment of both the current and forecast general economic conditions at the reporting date. Contract assets are reclassified to receivables when the right to the consideration has become unconditional (Note 4(g)(i)).

(l) Trade and other receivables

A receivable is recognised when the Target Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Target Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 4(g)).

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with Note 4(g)(iii), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 4(g)(ii).

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(o) **Income tax** *(Continued)*

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note 4(d), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Target Company or the Target Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Target Company or the Target Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(q) Provision and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Target Group or the Target Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue and other income

Income is classified by the Target Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Target Group's assets under leases in the ordinary course of the Target Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Target Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Target Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Target Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Target Group's revenue and other income recognition policies are as follows:

(i) Rental income

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Revenue and other income *(Continued)*

(ii) Sales of goods

Revenue from sales of goods are recognised at a point of time when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion right to direct the goods and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

(iii) Provision of services

Revenue is recognised over time as those services are provided. Revenue from providing service is recognised using output method on a straight-line basis over the terms of the fixed-price contract, as the customer simultaneously receives and consumes the benefits provided.

(iv) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Related parties

(a) A person or a close member of that person's family is related to the Target Group if that person:

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of key management personnel of the Target Group or a parent of the Target Company.

4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(t) Related parties *(Continued)*

(b) An entity is related to the Target Group if any of the following conditions apply:

(i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Target Group or an entity related to the Target Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the Target Group's parent.

Close family members of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) That person's children and spouse or domestic partner;

(ii) Children of that person's spouse or domestic partner; and

(iii) Dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Target Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

(a) Useful lives and residue values of property, plant and equipment

Useful lives of the Target Group's property, plant and equipment with definite useful life are defined as the period over which they are expected to be available for use by the Target Group. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation or amortisation charge where useful lives are less than previously estimated lives, and it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; and actual residual values may differ from estimated residual values. Periodic review could result in a change in useful lives and residual values and therefore depreciation or amortisation expense in future periods.

(b) Impairment of property, plant and equipment

Property, plant and equipment with definite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts are determined based on value-in-use calculations or market valuations. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which require significant judgement relating to items such as the level of turnover and the amount of operating costs. No impairment was provided during the Track Record Period.

(c) Investment properties

As described in Note 15, the fair value of the Target Group's investment properties situated in Hong Kong and Korean had been arrived at based on a valuation carried out at that date by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**"), an independent professional valuer. The fair values of the Target Group's investment properties at 31 December 2016, 2017, 2018 and 30 September 2019 were arrived at based on income approach and direct comparision approach.

At 31 December 2016, 2017, 2018 and 30 September 2019, the carrying amount of the Target Group's investment properties are disclosed in Note 15. By relying on the valuation reports of the independent professional valuer, the management has exercised its judgment and is satisfied that the method of valuation is reflective of the market conditions prevailing at the end of each reporting period. Any changes in the market conditions will affect the fair value of the investment properties of the Target Group.

(d) Income taxes

The Target Group is mainly subject to income taxes in Hong Kong and Korean. The Target Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Target Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(e) Classification between investment properties and owner-occupied properties

The Target Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Target Group considers whether a property generates cash flows largely independently of the other assets held by the Target Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Target Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify an investment property.

6. SEGMENT INFORMATION

The operating segments are reported in a manner consistent with the way in which information is reported internally to the Target Group's CODM for the purposes of resource allocation and assessment of segment performance. The Target Group has identified the following reportable segments for its operating segments:

(i) Serviced apartment;

(ii) Storage and workshop;

(iii) Wine cellar and fine wine; and

(iv) Production and investment holding.

Management monitors the results of the Target Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Target Group's profit/(loss) before tax except that unallocated gains, finance costs and corporate and other unallocated expenses are excluded from such measurement.

Segment assets exclude deferred tax assets and corporate and other unallocated assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings, tax payable, deferred tax liabilities and corporate and other unallocated liabilities as these liabilities are managed on a group basis.

6. **SEGMENT INFORMATION** *(Continued)*

The following summary describes the operations in each of the Target Group's reportable segments:

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Revenue from lease income:					
Serviced apartment	5,496	5,285	4,860	3,584	3,797
Storage and workshop	5,365	14,575	19,883	13,844	23,377
Wine operations – wine cellar	3,650	4,722	5,198	4,745	3,990
Production and investment holding – investment properties	1,349	1,006	1,027	855	512
	15,860	25,588	30,968	23,028	31,676
Revenue from contracts with customers:					
Type of goods or services by segment					
Wine operations – trading of fine wine	8,945	6,567	11,459	9,354	7,212
Production and investment holding – media production	—	2,889	2,828	2,248	531
Total	24,805	35,044	45,255	34,630	39,419

6. SEGMENT INFORMATION *(Continued)*

a. Reportable segments

Year ended 31 December 2016/At 31 December 2016

	Serviced apartment *HK$'000*	Storage and workshop *HK$'000*	Wine cellar and fine wine *HK$'000*	Production and investment holding *HK$'000*	Total *HK$'000*
Segment revenue					
Revenue from external customers	5,496	5,365	12,595	1,349	24,805
Inter-segment revenue	792	1,404	214	—	2,410
Reportable segment revenue	6,288	6,769	12,809	1,349	27,215
Elimination of inter-segment sales					(2,410)
Combined revenue					24,805
Segment results					
Reportable segment profit/(loss)	14,405	13,814	(366)	1,864	29,717
Finance costs					(6,601)
Combined profit before tax					23,116
Segment assets and liabilities					
Reportable segment assets	163,861	323,101	41,816	89,117	617,895
Deferred tax assets					1,797
Unallocated cash and bank balances					8,724
Combined total assets					628,416
Reportable segment liabilities	(1,190)	(29,629)	(6,224)	(214)	(37,257)
Borrowings					(227,027)
Amount due to an equity owner					(127,144)
Deferred tax liabilities					(36,256)
Combined total liabilities					(427,684)
Other segment information					
Gain on disposal of investment properties	—	14,639	—	—	14,639
Change in fair value of investment properties, net	12,100	2,800	900	1,500	17,300
Expected credit loss, net	—	—	(1,079)	—	(1,079)
Depreciation and amortisation	(1,275)	(3,068)	(978)	(168)	(5,489)
Capital expenditure	451	28,082	159	—	28,692

6. **SEGMENT INFORMATION** *(Continued)*

a. **Reportable segments** *(Continued)*

Year ended 31 December 2017/At 31 December 2017

	Serviced apartment	Storage and workshop	Wine cellar and fine wine	Production and investment holding	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue					
Revenue from external customers	5,285	14,575	11,289	3,895	35,044
Inter-segment revenue	1,722	4,035	796	—	6,553
Reportable segment revenue	7,007	18,610	12,085	3,895	41,597
Elimination of inter-segment sales					(6,553)
Combined revenue					35,044
Segment results					
Reportable segment profit	7,905	40,728	3,025	4,629	56,287
Finance costs					(7,973)
Combined profit before tax					48,314
Segment assets and liabilities					
Reportable segment assets	169,159	476,242	46,959	105,133	797,493
Deferred tax assets					1,658
Unallocated cash and bank balances					54,479
Combined total assets					853,630
Reportable segment liabilities	(1,345)	(39,922)	(7,786)	(1,182)	(50,235)
Borrowings					(351,869)
Amount due to an equity owner					(196,575)
Deferred tax liabilities					(40,565)
Combined total liabilities					(639,244)
Other segment information					
Gain on disposal of investment properties	—	275	—	—	275
Change in fair value of investment properties, net	5,300	43,009	2,500	5,500	56,309
Reversal of expected credit loss, net	—	—	469	—	469
Depreciation and amortisation	(117)	(7,494)	(943)	(244)	(8,798)
Capital expenditure	2	173,015	80	243	173,340

6. **SEGMENT INFORMATION** *(Continued)*

a. **Reportable segments** *(Continued)*

Year ended 31 December 2018/At 31 December 2018

	Serviced apartment	Storage and workshop	Wine cellar and fine wine	Production and investment holding	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue					
Revenue from external customers	4,860	19,883	16,657	3,855	45,255
Inter-segment revenue	1,730	11,681	792	—	14,203
Reportable segment revenue	6,590	31,564	17,449	3,855	59,458
Elimination of inter-segment sales					(14,203)
Combined revenue					45,255
Segment results					
Reportable segment profit	6,359	20,471	3,511	9,153	39,494
Finance costs					(15,543)
Combined profit before tax					23,951
Segment assets and liabilities					
Reportable segment assets	174,156	694,080	52,404	80,273	1,000,913
Deferred tax assets					2,451
Unallocated cash and bank balances					15,124
Combined total assets					1,018,488
Reportable segment liabilities	(1,312)	(66,792)	(9,899)	(249)	(78,252)
Borrowings					(489,196)
Amount due to an equity owner					(175,123)
Deferred tax liabilities					(47,719)
Combined total liabilities					(790,290)
Other segment information					
Gain on disposal of investment properties	—	—	—	2,774	2,774
Change in fair value of investment properties, net	3,600	30,115	2,000	6,186	41,901
Reversal of expected credit loss, net	—	—	420	—	420
Depreciation and amortisation	(124)	(13,881)	(955)	(258)	(15,218)
Capital expenditure	71	178,716	1,249	20,857	200,893

6. SEGMENT INFORMATION *(Continued)*

a. Reportable segments *(Continued)*

Period ended 30 September 2018 (Unaudited)

	Serviced apartment *HK$'000*	Storage and workshop *HK$'000*	Wine cellar and fine wine *HK$'000*	Production and investment holding *HK$'000*	Total *HK$'000*
Segment revenue					
Revenue from external customers	3,584	13,844	14,099	3,103	34,630
Inter-segment revenue	1,283	7,602	559	—	9,444
Reportable segment revenue	4,867	21,446	14,658	3,103	44,074
Elimination of inter-segment sales					(9,444)
Combined revenue					34,630
Segment results					
Reportable segment profit	21,034	20,378	4,814	(5,060)	41,166
Finance costs					(11,411)
Combined profit before tax					29,755
Other segment information					
Gain on disposal of investment properties	—	—	—	2,774	2,774
Change in fair value of investment properties, net	19,200	13,115	2,500	6,386	41,201
Depreciation and amortisation	(1,141)	(5,960)	(1,127)	(2,822)	(11,050)
Capital expenditure	71	162,913	894	98,252	262,130

6. SEGMENT INFORMATION *(Continued)*

a. Reportable segments *(Continued)*

Period ended 30 September 2019/At 30 September 2019

	Serviced apartment *HK$'000*	Storage and workshop *HK$'000*	Wine cellar and fine wine *HK$'000*	Production and investment holding *HK$'000*	Total *HK$'000*
Segment revenue					
Revenue from external customers	3,797	23,377	11,202	1,043	39,419
Inter-segment revenue	1,291	8,550	594	—	10,435
Reportable segment revenue	5,088	31,927	11,796	1,043	49,854
Elimination of inter-segment sales					(10,435)
Combined revenue					39,419
Segment results					
Reportable segment profit	6,838	26,937	2,117	(920)	34,972
Finance costs					(14,522)
Combined profit before tax					20,450
Segment assets and liabilities					
Reportable segment assets	175,763	735,108	54,663	99,106	1,064,640
Deferred tax assets					2,571
Unallocated cash and bank balances					20,258
Combined total assets					1,087,469
Reportable segment liabilities	(109)	(73,287)	(786)	—	(74,182)
Borrowings					(508,409)
Amount due to an equity owner					(216,177)
Deferred tax liabilities					(53,897)
Combined total liabilities					(852,665)
Other segment information					
Change in fair value of investment properties, net	3,200	30,835	2,000	200	36,235
Expected credit loss, net	—	—	(181)	—	(181)
Depreciation and amortisation	(99)	(14,509)	(855)	(73)	(15,536)
Capital expenditure	—	63,105	882	93	64,080

6. **SEGMENT INFORMATION** *(Continued)*

b. **Geographical information**

The following tables provide analysis of the Target Group's revenue from external customers and the non-current assets by geographical area:

Revenue from external customers

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Hong Kong	24,805	35,044	45,255	34,630	39,419

The revenue information above is based on the locations where the underlying services were rendered.

Non-Current Assets

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	604,818	777,840	954,135	983,570
South Korea	—	—	20,368	55,400
	604,818	777,840	974,503	1,038,970

c. **Information about major customers**

During the years ended 31 December 2016, 2017 and 2018 and nine months ended 30 September 2019, no individual customer accounted for 10% or more of the Target Group's revenue.

7. REVENUE, OTHER INCOME AND GAINS

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Revenue from contracts with customers within the scope of HKFRS 15					
Sales of goods	8,945	6,567	11,459	9,354	7,212
Income from services	—	2,889	2,828	2,248	531
	8,945	9,456	14,287	11,602	7,743
Revenue from other sources					
Rental income	15,860	25,588	30,968	23,028	31,676
Total revenue	24,805	35,044	45,255	34,630	39,419
Other income and gains					
Gain on disposal of investment properties	14,639	275	2,774	2,774	—
Others	721	785	1,723	224	653
	15,360	1,060	4,497	2,998	653

Please refer to Note 6 for disaggregated revenue information on type of goods or services by segments recognised from contracts with customers. Revenue from contracts with customers were all generated from Hong Kong only. In the following table, revenue is disaggregated by timing of revenue recognition.

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Timing of revenue recognition					
At a point in time	8,945	6,567	11,459	9,354	7,212
Transferred over time	—	2,889	2,828	2,248	531
	8,945	9,456	14,287	11,602	7,743

8. PROFIT BEFORE INCOME TAX

This is arrived at after charging/(crediting):

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Auditor's remuneration	170	204	261	68	121
Carrying amount of inventories sold	7,892	7,488	12,334	10,229	6,614
Inventories written off	150	132	85	54	—
Cost of inventories recognised as expense	8,042	7,620	12,419	10,283	6,614
Depreciation of property, plant and equipment	3,724	2,987	4,336	4,050	4,136
Amortisation of right-of-use assets	1,765	5,811	10,882	7,000	11,400
Provision/(reversal) of expected credit loss	1,079	(469)	(420)	—	181
Loss/(gain) on disposal of property, plant and equipment	—	—	—	—	(156)
Staff costs (including director's remuneration):					
Salaries and other benefits	642	985	1,136	836	623
Contributions to defined contribution retirement plan	30	31	39	28	18
	672	1,016	1,175	864	641

9. DIRECTOR'S AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION

a. Director's emoluments

Director's emoluments disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance (Cap. 622) and the Company (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) are as follows:

Years ended 31 December 2016, 2017, 2018 and nine months ended 30 September 2018 and 2019	Fees	Salaries and other benefits	Retirement benefit schemes contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Name of director				
Chan Man Fai, Joe	—	—	—	—

There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

During the Track Record Period, no remuneration was paid by the Target Group to any director as an inducement to join or upon joining the Target Group or as compensation for loss of office.

9. DIRECTOR'S AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION *(Continued)*

b. Five highest paid individuals

Emoluments payable to the remaining highest paid individuals during the Track Record Period are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Salaries and bonuses	548	903	984	771	617
Contributions to defined contribution retirement plan	26	31	33	25	18
	574	934	1,017	796	635

Their emoluments were within the following bands:

	Number of employees				
	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
				(Unaudited)	
HK$ Nil to HK$ 500,000	5	5	5	5	4
HK$ 500,001 to HK$1,000,000	—	—	—	—	—
	5	5	5	5	4

10. FINANCE COSTS

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interest on bank loans	6,224	6,789	13,628	10,103	12,952
Interest expenses on lease liabilities	377	1,184	1,915	1,308	1,570
	6,601	7,973	15,543	11,411	14,522

11. INCOME TAX EXPENSE

(a) Income tax expense in the combined statement of profit or loss and other comprehensive income represents:

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Hong Kong profits tax					
— Current year	30	210	51	—	—
Deferred tax expense *(Note 21)*	1,421	4,448	6,361	5,268	6,050
	1,451	4,658	6,412	5,268	6,050

Provision for Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for the Track Record Period.

The Target Group is subject to Korean Corporate Income Tax which comprised national and local taxes (collectively "**Korean Corporate Income Tax**"). Korean Corporate Income Tax is charged at the progressive rate from 11% to 24.2% on the estimated assessable profit of eligible entities derived worldwide during the Track Record Period. The Korean Corporate Income Tax rates applicable to Target Group was 11% on the estimated assessable profits during the Track Record Period.

(b) Income tax expense for the year/period can be reconciled to the accounting profit as follows:

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Profit before income tax	23,116	48,314	23,951	29,755	20,450
Income tax calculated at Hong Kong profits tax rate of 16.5%	3,814	7,972	3,952	4,910	3,374
Effect of different tax rates of subsidiaries operating in another jurisdiction	—	—	14	12	54
Tax effect of deductible temporary difference not recognised	(2,494)	4,591	6,393	4,835	6,050
Tax effect of non-taxable income	(3,543)	(18,231)	(13,282)	(10,730)	(8,431)
Tax effect of non-deductible expenses	6,568	9,340	4,218	4,237	2,227
(Utilisation)/tax effect of tax losses not recognised	(2,894)	1,061	5,220	2,004	2,903
Other	—	(30)	(103)	—	(127)
Income tax expense	1,451	4,658	6,412	5,268	6,050

12. DIVIDENDS

No dividends have been paid or declared by Target Company since the date of its incorporation. Prior to the Reorganisation, the subsidiaries had declared dividends to their then shareholders as follow:

	Year ended 31 December			Nine months ended 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Declared by:				
Sunny Generation Limited	—	30,000	—	—
Crystal Sun International Limited	—	—	—	3,430

On 16 May 2017, Sunny Generation Limited declared interim dividends to HK$15,000,000 per ordinary share amounting to HK$30,000,000 out of the company's profit and paid to its shareholders by way of current account settlement.

On 14 June 2019, Crystal Sun International Limited declared special dividends to HK$3,430,000, being a dividend of HK$1,715,000 per share on each of the company's issued shares, and paid to its shareholders by way of current account settlement.

The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this Historical Financial Information.

13. PROPERTY, PLANT AND EQUIPMENT

	Other properties leased for own use *HK$'000*	Leasehold improvement *HK$'000*	Furniture and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost:					
At 1 January 2016	7,106	16,148	2,834	819	26,907
Additions	23,753	4,858	81	—	28,692
Disposals	—	(438)	—	—	(438)
At 31 December 2016 and 1 January 2017	30,859	20,568	2,915	819	55,161
Additions	13,943	16,865	1,341	—	32,149
At 31 December 2017 and 1 January 2018	44,802	37,433	4,256	819	87,310
Additions	32,204	14,799	891	—	47,894
Disposals	—	—	(20)	—	(20)
At 31 December 2018 and 1 January 2019	77,006	52,232	5,127	819	135,184
Additions	—	4,782	733	—	5,515
Disposals	—	—	—	(819)	(819)
At 30 September 2019	77,006	57,014	5,860	—	139,880
Accumulated depreciation:					
At 1 January 2016	2,171	8,830	2,392	164	13,557
Charge for the year	1,765	3,338	222	164	5,489
Disposal	—	(438)	—	—	(438)
At 31 December 2016 and 1 January 2017	3,936	11,730	2,614	328	18,608
Charge for the year	5,811	2,523	300	164	8,798
At 31 December 2017 and 1 January 2018	9,747	14,253	2,914	492	27,406
Charge for the year	10,882	3,668	505	163	15,218
Disposal	—	—	(20)	—	(20)
At 31 December 2018 and 1 January 2019	20,629	17,921	3,399	655	42,604
Charge for the period	11,400	3,636	500	—	15,536
Disposal	—	—	—	(655)	(655)
At 30 September 2019	32,029	21,557	3,899	—	57,485
Net book value:					
At 30 September 2019	44,977	35,457	1,961	—	82,395
At 31 December 2018	56,377	34,311	1,728	164	92,580
At 31 December 2017	35,055	23,180	1,342	327	59,904
At 31 December 2016	26,923	8,838	301	491	36,553

14. RIGHT-OF-USE ASSETS

		Year ended 31 December			Nine months ended 30 September
		2016	**2017**	**2018**	**2019**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Included in "Property, plant and equipment", carried at depreciated cost: Properties leased for own use	*(i)*	26,923	35,055	56,377	44,977
Included in "Investment properties", at fair value: Ownership interests in leasehold investment properties		558,275	708,775	861,555	956,575
		585,198	743,830	917,932	1,001,552

Notes:

(i) Properties leased for own use

The Target Group has obtained the right to use properties as its premise through tenancy agreements. The leases typically run for an initial period of 6 years and did not include an option to renew the lease for an additional period after the end of the contract term.

15. INVESTMENT PROPERTIES

(a) Reconciliation of carrying amount

	HK$'000
At 1 January 2016	600,221
Disposal	(59,246)
Fair value gain	17,300
At 31 December 2016 and 1 January 2017	558,275
Addition	141,191
Disposal	(47,000)
Fair value gain	56,309
At 31 December 2017 and 1 January 2018	708,775
Addition	152,999
Disposal	(42,000)
Fair value gain	41,901
Exchange realignment	(120)
At 31 December 2018 and 1 January 2019	861,555
Addition	58,565
Fair value gain	36,235
Exchange realignment	220
30 September 2019	956,575

Certain investment properties have been pledged to secure banking facilities as detail in Note 24.

15. INVESTMENT PROPERTIES *(Continued)*

(b) Fair value hierarchy

The fair value of the Group's investment properties as at 31 December 2016, 2017, 2018 and 30 September 2019 are a level 3 recurring fair value measurement, which uses significant unobservable inputs in arriving the fair value. In the opinion of the directors, reconciliation on level 3 fair value measurement between the years represents fair value changes on the investment properties.

The fair value of the Target Group's investment properties at 31 December 2016, 2017, 2018 and 30 September 2019 have been arrived at on market value basis carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent firm of professionally qualified valuers, on an open market basis, who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

The fair value of the investment properties is a Level 3 recurring fair value measurement.

Properties	Valuation technique	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Commercial	Direct comparison approach	Recent market asking price of comparables, taken into account of the discount on asking price and size between the subject properties and the comparables, ranging from HK$6,000 to HK$164,000 (2018: HK$5,000 to HK$164,000) (2017: HK$6,000 to HK$181,000) (2016: HK$5,000 to HK$77,000) per square feet.	The higher the asking price, the higher the fair value
Residential	Income capitalisation approach	Net rental income derived from its existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases, range from HK$44 to HK$61 (2018: HK$44 to HK$63) (2017: HK$44 to HK$63) (2016: HK$43 to HK$61) which have been then capitalised to determine the market value at an appropriate capitalisation rate, range from 2.45% to 2.80% (2018: 2.56% to 2.80%) (2017: 2.62% to 2.80%) (2016: 2.62% to 2.80%).	The higher the unit monthly rent, the higher the fair value; The higher the reversionary yield, the lower the fair value.

15. INVESTMENT PROPERTIES *(Continued)*

(b) Fair value hierarchy *(Continued)*

Properties	Valuation technique	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Residential	Direct comparison approach	Recent market asking price of comparables, taken into account of the discount on asking price and size between the subject properties and the comparables, ranging from HK$18,000 to HK$29,000 (2018: HK$21,000 to HK$26,000) (2017: HK$19,000 to HK$23,000) (2016: HK$19,000 to HK$41,000) per square meter.	The higher the asking price, the higher the fair value
Farmland	Direct comparison approach	Recent market asking price of comparables, taken into account of the discount on asking price and size between the subject properties and the comparables, ranging from HK$550 to HK$718 (2018: HK$335 to HK$718) (2017: HK$300 to HK$564) (2016: HK$300 to HK$555) per square feet.	The higher the asking price, the higher the fair value

The fair value measurement is based on the above properties highest and best use, which does not differ from their current use.

Fair value adjustments of investment properties are recognised in profit or loss. All the gains recognised in profit or loss for the year arise from the investment properties held at the end of the reporting period.

There was no transfer between Levels 1, 2 and 3 during the Track Record Period.

The Target Group's investment properties are mainly situated in Hong Kong.

There were no changes to the valuation techniques during the Track Record Period.

The Target Group pledged investment properties to secure the borrowings of the Target Group during the Track Record Period. Please refer to (Note 24) to the Historical Financial Information for details.

(c) Total future minimum lease payments receivables by the Target Group

	Year ended 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	1,026	459	415	938
After 1 year but within 2 years	160	300	390	748
After 2 years but within 5 years	—	458	195	15
	1,186	1,217	1,000	1,701

16. ACCOUNT RECEIVABLES

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Account receivables	2,294	2,638	2,431	1,762
Less: allowance for doubtful debts	(1,079)	(610)	(190)	(371)
	1,215	2,028	2,241	1,391

(a) Ageing analysis

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the ageing analysis of account receivables based on the date of revenue recognition, is as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0-30 days	956	1,655	2,094	1,168
31-60 days	103	121	115	100
61-90 days	49	73	11	51
91-120 days	35	127	7	2
More than 120 days	72	52	14	70
	1,215	2,028	2,241	1,391

Before accepting any new customer, the Target Group has assessed the potential customer's credit quality and defined credit limit to each customer on an individual basis. Limits attributed to customers are reviewed when necessary. The majority of the Target Group's account receivables that are past due but not impaired have no history of default on repayment. As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Target Group did not charge interest nor hold any collateral over the balances.

As part of the Target Group's credit risk management, the Target Group uses debtors' aging to assess the impairment for its customers because these customers consists of a large number of customers which share common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

16. **ACCOUNT RECEIVABLES** *(Continued)*

(b) **Impairment of account receivables**

The movement in the allowance for impairment during the Track Record Period was as follows:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of the year/period	—	1,079	610	190
Impairment loss recognised	1,079	—	—	181
Reversal of Impairment loss recognised	—	(469)	(420)	—
At the end of the year/period	1,079	610	190	371

17. **INVENTORIES**

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Finished goods	4,395	4,295	7,446	10,097

Provisions of impairment of inventories of HK$150,000, HK$132,000, HK$85,000, HK$54,000 and HK$Nil were recognised in profit or loss during the years ended 31 December 2016, 2017 and 2018 and nine months ended 30 September 2018 and 2019 respectively.

18. **DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES**

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits	2,855	4,262	7,872	7,029
Prepayments	80	373	329	510
Paid in advance	4,532	8,695	8,522	6,643
	7,467	13,330	16,723	14,182

The maximum exposure to credit risk at the reporting date is the carrying amounts of each class of receivables mentioned above. The Target Group does not hold any collateral as security.

19. AMOUNT DUE TO AN EQUITY OWNER

Amount due to an equity owner as at 2016, 2017 and 2018 and 30 September 2019 was unsecured, interest-free and repayable on demand.

Amount due to the equity owner as at 31 December 2016, 2017 and 2018 and 30 September 2019 represented a loan with principal amount of approximately HK$127,144,000, HK$196,575,000, HK$175,123,000 and HK$216,177,000 which were unsecured and repayable on demand. The amount due to the equity owner was interest-free during the year ended 31 December 2016, 2017, 2018 and the nine months ended 30 September 2019.

20. TRADE AND OTHER PAYABLES

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	66	331	608	779
Other payables	1,908	2,102	4,311	8,881
Deposits received	2,103	4,113	2,299	4,603
Receipt in advance of rental income	2,428	3,266	6,877	4,976
Contract liabilities	2,673	3,281	3,851	5,700
Classified under current liabilities	9,178	13,093	17,946	24,939

(a) Average credit period granted to the Target Group is 60 to 90 days. Aging analysis of trade payables based on the invoice date (or date of cost recognition, if earlier) as of the end of the respective period ends is as follows:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0-30 days	26	—	12	213
31-60 days	35	—	—	23
61-90 days	5	—	—	37
91-120 days	—	12	—	—
More than 120 days	—	319	596	506
	66	331	608	779

20. TRADE AND OTHER PAYABLES *(Continued)*

(b) The contract liabilities relate to advance payments received from customers in respect of the sale of wine products. This received in advance is recognised as contract liabilities until the wine products are controlled by the customers.

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at beginning of year/period	2,423	2,673	3,281	3,851
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year/period	(1,502)	(940)	(4,945)	(4,652)
Increase in contract liabilities as a result of received receipts in advance from the customers that the goods have not yet transferred and not yet accepted by the customer	1,752	1,548	5,515	6,501
Balance as at end of year/period	2,673	3,281	3,851	5,700

21. DEFERRED TAX ASSETS AND LIABILITIES

The following is the major deferred tax assets and liabilities recognised by the Target Group and their movements:

	Investment properties	Decelerated Tax depreciation	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2016	(33,401)	58	305	(33,038)
Charged/(credited) to profit or loss *(Note 11)*	(2,855)	269	1,165	(1,421)
At 31 December 2016 and 1 January 2017	(36,256)	327	1,470	(34,459)
Charged/(credited) to profit or loss *(Note 11)*	(4,309)	138	(277)	(4,448)
At 31 December 2017 and 1 January 2018	(40,565)	465	1,193	(38,907)
Charged/(credited) to profit or loss *(Note 11)*	(7,154)	281	512	(6,361)
At 31 December 2018 and 1 January 2019	(47,719)	746	1,705	(45,268)
Charged/(credited) to profit or loss *(Note 11)*	(6,170)	334	(214)	(6,050)
Exchange realignment	(8)	—	—	(8)
At 30 September 2019	(53,897)	1,080	1,491	(51,326)

For the purpose of presentation in the combined statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax assets	1,797	1,658	2,451	2,571
Deferred tax liabilities	(36,256)	(40,565)	(47,719)	(53,897)
	(34,459)	(38,907)	(45,268)	(51,326)

Deferred tax assets not recognised

As at 31 December 2016, 2017 and 2018 and 31 May 2019, the Target Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$17,539,000, HK$6,430,000 and HK$31,636,000 and HK$17,594,000 respectively as it is not probable that future taxable income against which the losses can be utilized will be available in the relevant tax jurisdiction and entity.

22. SHARE CAPITAL

For the purposes of this report, the capital as at 1 January 2016, 31 December 2016, 31 December 2017, 31 December 2018, and 30 September 2019 represented the aggregated amount of the paid-in capital of the companies now comprising the Target Group at the respective dates, after the elimination of investments in subsidiaries.

23. RESERVES

The reconciliation between the opening and closing balances of each component of the Target Group's combined equity is set out in the combined statements of changes in equity.

The following describes the nature and purpose of each reserve within owner's equity:

(i) Foreign exchange reserve

Gains/losses arising on retranslating the net assets of foreign operations into presentation currency.

24. PLEDGE OF ASSETS

As at 30 September 2019, save as disclosed elsewhere in these financial statements, the Target Group has pledged the following assets to secure general banking facilities and bank loans granted to the Target Group. The carrying amounts of these assets are analysed as follows:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Investment properties	487,900	634,700	671,800	759,700

25. BORROWINGS

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Secured bank loans:				
Current	227,027	351,434	489,196	508,409
Non-current	—	435	—	—
	227,027	351,869	489,196	508,409

The bank loans are secured by the Target Group's investment properties as further detail in Note 24.

As at 31 December 2016, 2017 and 2018 and 30 September 2019, all bank loans were denominated in the functional currencies of the relevant group entities and interest bearing at HIBOR+1.20% to HIBOR + 2.25%, HIBOR+1.20% to HIBOR + 2.25%, HIBOR+1.20% to HIBOR + 2.50% per annum and HIBOR+1.20% to HIBOR + 2.50% per annum, respectively.

25. BORROWINGS *(Continued)*

During the Track Record Period, total current and non-current bank loans and overdraft were scheduled to repay as follows:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
On demand or within one year	227,027	351,434	489,196	508,409
More than one year, but not exceeding two years	—	435	—	—
More than two years, but not exceeding five years	—	—	—	—
After five years	—	—	—	—
	227,027	351,869	489,196	508,409

26. LEASE LIABILITIES

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Minimum lease payments due				
Lease of right-of-use assets				
— Within 1 year	5,434	7,779	16,616	14,401
— Between 1 to 2 years	5,720	7,685	13,840	11,980
— Between 2 to 5 years	10,448	13,670	23,936	19,514
— Later than 5 years	10,660	13,153	12,321	8,120
	32,262	42,287	66,713	54,015
Less: future finance charges	(4,252)	(5,236)	(6,522)	(4,953)
Present value of lease liabilities	28,010	37,051	60,191	49,062
Current	4,441	6,475	14,594	13,406
Non-current	23,569	30,576	45,597	35,656

The Target Group leases various properties mainly as its office and these lease liabilities were measured at net present value of the lease payments during the lease terms that are not yet paid. Extension options are included in a number of property leases across the Target Group. Periods covered by the extension options were included in the lease terms if the Target Group was reasonably certain to exercise the options.

The total cash outflows for leases including payments of the lease liabilities, payments of interest expenses on leases for the years ended 31 December 2016, 2017, 2018 and the nine months ended 30 September 2019 were HK$7,600,000, HK$12,874,000, HK$ 24,607,000 and HK$25,651,000, respectively.

27. RELATED PARTY DISCLOSURES

I. Transactions

Saved for disclosed elsewhere in the Historical Financial Information, the Target Group has the following material transactions with related parties during the Track Record Period:

Name of related parties	Nature of transaction	As at 31 December 2016 HK$'000	2017 HK$'000	2018 HK$'000	As at 30 September 2019 HK$'000
Equity owner	Rental expense (i)	167	148	148	114
Galaxy Real Estate Investment Management Limited	Management fee (iii)	288	487	537	540
M&M Kitchen Limited	Management fee income (iv)	75	204	105	—
	Facilities rental expense (vi)	—	120	80	—
Metropolitan Life Style (H.K.) Limited	Management fee (iii)	1,341	4,460	4,921	4,967
	Rental income (ii)	240	240	252	9
	Service fees (iv)	670	1,601	1,776	1,331
	Purchase of motor vehicle (v)	—	450	—	—
Lala Eat Company Limited	Rental income (ii)	—	175	420	18

Notes:

(i) Rental expenses were based on office areas occupied by the Target Group and at a rent agreed by both parties.

(ii) Rental income were based on property or office areas occupied by the related parties and at a rent agreed by both parties.

(iii) The management fee was determined based on agreed terms as set out in the letter of employment.

(iv) Service fees charged by Metropolitan Productions Limited which is the provision of media services.

(v) The Target Group purchased a motor vehicle from Metropolitan Life Style (H.K.) Limited.

(vi) The Target Group lease the facilities from M&M Kitchen Limited.

A director of the Target Company has significant influence over the above related companies.

II. Compensation of key management personnel

The directors of the Target Company are identified as key management members of the Target Group, and their compensations during the Track Record Period are set out in Note 9.

28. CONTINGENT LIABILITIES

At 31 December 2016, 2017 and 2018 and 30 September 2019, the Target Group did not have any contingent liabilities.

29. CAPITAL RISK MANAGEMENT

The Target Group's objective of managing capital is to safeguard the Target Group's ability to continue as a going concern in order to provide returns for equity owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The Target Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher returns to equity owners that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

30. FINANCIAL RISK MANAGEMENT

The main risks arising from the Target Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Interest rate risk

The Target Group does not anticipate there is any significant impact on the bank balances because the interest rates of bank deposits are not expected to change significantly.

The sensitivity analysis below has been determined based on the exposure to interest rate on bank borrowings. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting periods were outstanding for the whole year/period.

A 100 basis point increases/decrease is used for bank borrowings and represent management's assessment of reasonably possible changes in interest rates. If interest rates had a 100 basis points increase/ decrease and all other variables were held constant, the Target Group's profit after tax for the years ended 31 December 2016, 2017 and 2018 would decrease/increase by HK$2,270,000, HK$3,519,000 and HK$4,892,000, respectively and the profit after tax for the nine months ended 30 September 2019 would decrease/increase by HK$5,084,000.

In the opinion of the directors, the sensitivity analysis is unrepresentative of the inherent interest rate risk because the year/period end exposure does not reflect the exposure during the Track Record Periods.

30. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Liquidity risk

The Target Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of each reporting period of the Target Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of each reporting period) and the earliest date the Target Group can be required to pay:

	Carrying amount	Total contractual undiscounted cash flows	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2016						
Trade and other payables	9,178	9,178	9,178	—	—	—
Borrowings	227,027	233,251	233,251	—	—	—
Amount due to an equity owner	127,144	127,144	127,144	—	—	—
Lease liability	28,010	32,262	5,434	5,720	10,448	10,660
	391,359	401,835	375,007	5,720	10,448	10,660

	Carrying amount	Total contractual undiscounted cash flows	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2017						
Trade and other payables	13,093	13,093	13,093	—	—	—
Borrowings	351,869	358,658	358,215	443	—	—
Amount due to an equity owner	196,575	196,575	196,575	—	—	—
Lease liability	37,051	42,287	7,779	7,685	13,670	13,153
	598,588	610,613	575,662	8,128	13,670	13,153

	Carrying amount	Total contractual undiscounted cash flows	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2018						
Trade and other payables	17,946	17,946	17,946	—	—	—
Borrowings	489,196	502,824	502,824	—	—	—
Amount due to an equity owner	175,123	175,123	175,123	—	—	—
Lease liability	60,191	66,713	16,616	13,840	23,936	12,321
	742,456	762,606	712,509	13,840	23,936	12,321

30. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Liquidity risk *(Continued)*

	Carrying amount	Total contractual undiscounted cash flows	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 30 September 2019						
Trade and other payables	24,939	24,939	24,939	—	—	—
Borrowings	508,409	525,726	525,726	—	—	—
Amount due to an equity owner	216,177	216,177	216,177	—	—	—
Lease liability	49,062	54,015	14,401	11,980	19,514	8,120
	798,587	820,857	781,243	11,980	19,514	8,120

(c) Foreign currency risk

Currency risk arises on financial instruments that are denominated in a currency other than the functional currency of the entity to which they relate. The Target Group currently does not have a foreign currency hedging policy. However, the directors monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amount of the Target Group's foreign currency denominated monetary assets and liabilities at the reporting date is as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	—	775	6,854	1,287
Deposits and other receivables	—	—	20,912	968
Other payables	—	—	(9)	—
Borrowings	—	—	—	(36,704)
	—	775	27,757	(34,449)

30. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Foreign currency risk *(Continued)*

Foreign currency sensitivity analysis

The following table details the Target Group's sensitivity to a 5% increase or decrease in Korean Won for the years ended 31 December 2016, 2017, 2018 and the nine months ended 30 September 2019 which is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents the director's assessment of the possible change in foreign exchange rate. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A positive number indicates an increase in after tax profit and increase in after tax loss and negative number indicates a decrease in after tax profit and decrease in after tax loss for the Track Record Periods where the foreign currencies strengthen 5% against the functional currency of the respective group entity. For a 5% weakening of the foreign currencies against the functional currency of the respective group entity, there would be an equal and opposite impact.

	Effect on after tax profit for the year ended 31 December			**Effect on after tax profit Nine months ended 30 September**
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Korean Won	—	39	1,388	(1,722)

In the opinion of the directors, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the year/period end exposure does not reflect the exposure during the Track Record Periods

(d) Credit risk

As at the respective reporting dates, the Target Group's maximum exposure to credit risk which will cause a financial loss to the Target Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the combined statements of financial position.

The Target Group has certain concentration of credit risk in relation to its account receivables as follows:

	As at 31 December			**As at 30 September**
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount due from the largest debtor as a percentage to total trade receivables	43%	33%	34%	17%
Total amount due from the five largest debtors as a percentage to total trade receivables	61%	52%	63%	37%

Other than the above, the Target Group does not have significant concentration of credit risk.

30. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Credit risk *(Continued)*

(i) Credit risk of account receivables

During the Track Record Period, the Target Group reassess the lifetime ECL for account receivables at the end of each reporting period to ensure that adequate impairment losses are made for significant increases in the likelihood or risk of a default occurring since initial recognition. In this regard, management of the Target Group considers that the Target Group's credit risk is significantly reduced.

The table below provides information about the exposure to credit risk and ECL for account receivables which are assessed based on a provision matrix as at 31 December 2016, 2017, 2018 and 30 September 2019:

31 December 2016	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**
	(%)	*HK$'000*	*HK$'000*
Neither past due nor impaired	0%	58	—
0-30 days past due	22%	1,149	(252)
31-60 days past due	48%	197	(94)
61-90 days past due	64%	134	(85)
Over 90 days past due	86%	756	(648)
		2,294	(1,079)

31 December 2017	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**
	(%)	*HK$'000*	*HK$'000*
Neither past due nor impaired	0%	575	—
0-30 days past due	8%	1,178	(99)
31-60 days past due	32%	178	(57)
61-90 days past due	41%	123	(50)
Over 90 days past due	69%	584	(404)
		2,638	(610)

31 December 2018	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**
	(%)	*HK$'000*	*HK$'000*
Neither past due nor impaired	0%	1,001	—
0-30 days past due	4%	1,145	(51)
31-60 days past due	24%	150	(36)
61-90 days past due	38%	19	(7)
Over 90 days past due	83%	116	(96)
		2,431	(190)

30. **FINANCIAL RISK MANAGEMENT** *(Continued)*

(d) **Credit risk** *(Continued)*

(i) ***Credit risk of account receivables*** *(Continued)*

30 September 2019	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**
	(%)	*HK$'000*	*HK$'000*
Neither past due nor impaired	0%	1,003	—
0-30 days past due	10%	183	(18)
31-60 days past due	15%	117	(18)
61-90 days past due	17%	61	(10)
Over 90 days past due	82%	398	(325)
		1,762	(371)

(ii) ***Credit risk of other receivables and amount due from an equity holder and a related parties***

For the deposits and other receivables, the Target Group has assessed and concluded that the expected credit loss rate for these receivables is immaterial under the lifetime ECL method based on the Target Group's assessment on the risk of the default of the counterparties.

(iii) ***Credit risk of pledged deposits and cash and cash equivalents***

To manage this risk arising from cash and cash equivalents, they are mainly placed with banks with high credit rating. There has been no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

(e) **Capital management**

The primary objectives of the Target Group's capital management are to safeguard the Target Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Target Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Target Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Track Record Period.

The Target Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes trade and other payables, amount due to an equity owner, lease liabilities, interest-bearing borrowings less cash and cash equivalents. Total capital represents equity attributable to owners of the parent. The gearing ratios as at the end of each of the Track Record Period were as follows:

30. **FINANCIAL RISK MANAGEMENT** *(Continued)*

(e) **Capital management** *(Continued)*

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	9,178	13,093	17,946	24,939
Amount due to an equity owner	127,144	196,575	175,123	216,177
Lease liabilities	28,010	37,051	60,191	49,062
Borrowings	227,027	351,869	489,196	508,409
Less: Cash and cash equivalents	(8,724)	(54,479)	(15,124)	(20,258)
	382,635	544,109	727,332	778,329
Equity attributable to owners of the parent	202,785	216,922	233,028	239,582
Total capital and net debt	585,420	761,031	960,360	1,017,911
Gearing ratio	34%	28%	24%	24%

The Target Group targets to maintain a gearing ratio to be in line with the expected changes in economic and financial conditions. The Target Group's overall strategy on capital management remains unchanged throughout the Track Record Period.

31. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of each category of financial instruments as at the end of the reporting period are as follows:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at amortised costs				
Financial assets measured at amortised cost:				
Account receivables	1,215	2,028	2,241	1,391
Deposits	2,855	4,262	7,872	7,029
Cash and bank balances	8,724	54,479	15,124	20,258
	12,794	60,769	25,237	28,678
Financial liabilities at amortised costs				
Financial liabilities measured at amortised cost:				
Trade and other payables	4,076	6,546	7,218	14,263
Amount due to an equity owner	127,144	196,575	175,123	216,177
Lease liabilities	28,010	37,051	60,191	49,062
Borrowings	227,027	351,869	489,196	508,409
	386,257	592,041	731,728	787,911

Financial instruments not measured at fair value

Management has assessed that the fair values of cash and bank balances, account receivables, deposits, prepayments and other receivables, financial liabilities included in trade and other payables, amount due to an equity owner, lease liabilities and interest-bearing borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

32. CAPITAL COMMITMENTS

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure contracted for but not provided for in the combined financial statements in respect of acquisition of:				
Investment properties	49,021	11,653	38,197	—

33. NOTE SUPPORTING THE COMBINED STATEMENTS OF CASH FLOWS

(a) Cash and cash equivalents comprise:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	8,724	54,479	15,124	20,258
Significant non-cash transactions are as follows:				
Dividend declare	—	30,000	—	3,430

33. NOTE SUPPORTING THE COMBINED STATEMENTS OF CASH FLOWS *(Continued)*

(b) Reconciliation of liabilities arising from financing activities:

	Amount due to an equity owner	Bank borrowings	Interest payable	Lease liabilities	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2016	69,545	304,145	—	5,255	378,945
Changes from financing cash flows:					
Advance from an equity owner	213,876	—	—	—	213,876
Repayment to an equity owner	(156,277)	—	—	—	(156,277)
Proceeds from new bank loans	—	51,867	—	—	51,867
Repayment of bank loans	—	(128,985)	—	—	(128,985)
Capital element of lease rental paid	—	—	—	(999)	(999)
Interest element of lease rental paid	—	—	—	(377)	(377)
Interest paid	—	—	(6,224)	—	(6,224)
Other changes:					
Addition of right-of-use assets	—	—	—	24,131	24,131
Interest expenses	—	—	6,224	—	6,224
As at 31 December 2016 and 1 January 2017	127,144	227,027	—	28,010	382,181
Changes from financing cash flows:					
Advance from an equity owner	111,851	—	—	—	111,851
Repayment to an equity owner	(72,420)	—	—	—	(72,420)
Proceeds from new bank loans	—	127,101	—	—	127,101
Repayment of bank loans	—	(2,259)	—	—	(2,259)
Capital element of lease rental paid	—	—	—	(4,901)	(4,901)
Interest element of lease rental paid	—	—	—	(1,184)	(1,184)
Interest paid	—	—	(6,789)	—	(6,789)
Other changes:					
Addition of right-of-use assets	—	—	—	15,126	15,126
Interest expenses	—	—	6,789	—	6,789
Dividend declare	30,000	—	—	—	30,000
As at 31 December 2017 and 1 January 2018	196,575	351,869	—	37,051	585,495

33. NOTE SUPPORTING THE COMBINED STATEMENTS OF CASH FLOWS *(Continued)*

(b) Reconciliation of liabilities arising from financing activities: *(Continued)*

	Amount due to an equity owner *HK$'000*	Bank borrowings *HK$'000*	Interest payable *HK$'000*	Lease liabilities *HK$'000*	Total *HK$'000*
As at 31 December 2017 and 1 January 2018	196,575	351,869	—	37,051	585,495
Changes from financing cash flows:					
Advance from an equity owner	130,876	—	—	—	130,876
Repayment to an equity owner	(152,328)	—	—	—	(152,328)
Proceeds from new bank loans	—	163,175	—	—	163,175
Repayment of bank loans	—	(25,848)	—	—	(25,848)
Capital element of lease rental paid	—	—	—	(9,064)	(9,064)
Interest element of lease rental paid	—	—	—	(1,915)	(1,915)
Interest paid	—	—	(13,628)	—	(13,628)
Other changes:					
Addition of right-of-use assets	—	—	—	34,119	34,119
Interest expenses	—	—	13,628	—	13,628
As at 31 December 2018 and 1 January 2019	175,123	489,196	—	60,191	724,510
Changes from financing cash flows:					
Advance from an equity owner	88,564	—	—	—	88,564
Repayment to an equity owner	(50,940)	—	—	—	(50,940)
Proceeds from new bank loans	—	188,169	—	—	188,169
Repayment of bank loans	—	(168,956)	—	—	(168,956)
Capital element of lease rental paid	—	—	—	(11,129)	(11,129)
Interest element of lease rental paid	—	—	—	(1,570)	(1,570)
Interest paid	—	—	(12,952)	—	(12,952)
Other changes:					
Addition of right-of-use assets	—	—	—	1,570	1,570
Interest expenses	—	—	12,952	—	12,952
Dividend declare	3,430	—	—	—	3,430
As at 30 September 2019	216,177	508,409	—	49,062	773,648

33. NOTE SUPPORTING THE COMBINED STATEMENTS OF CASH FLOWS *(Continued)*

(b) Reconciliation of liabilities arising from financing activities: *(Continued)*

	Amount due to an equity owner	Bank borrowings	Interest payable	Lease liabilities	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2018	196,575	351,869	—	37,051	585,495
Changes from financing cash flows:					
Advance from an equity owner	129,640	—	—	—	129,640
Repayment to an equity owner	(151,228)	—	—	—	(151,228)
Proceeds from new bank loans	—	149,141	—	—	149,141
Repayment of bank loans	—	(22,953)	—	—	(22,953)
Capital element of lease rental paid	—	—	—	(5,608)	(5,608)
Interest element of lease rental paid	—	—	—	(1,308)	(1,308)
Interest paid	—	—	(10,103)	—	(10,103)
Other changes:					
Addition of right-of-use assets	—	—	—	25,662	25,662
Interest expenses	—	—	10,103	—	10,103
As at 30 September 2018 (unaudited)	174,987	478,057	—	55,797	708,841

34. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the balance sheet date, the holding company of the Target Group had disposed 10 shares of Metropolitan Storage Limited on 13 December 2019 and 5 shares of Metropolitan Workshop Limited, 500 shares of Metropolitan Fine Wine Limited and 500 shares of Metropolitan Wine Cellar Limited on 16 January 2020, which respectively 10%, 5%, 5% and 5% equity interest on respective subsidiaries to the existing non-controlling shareholders at par. Subsequent to the disposals, the Target Group retains control on these subsidiaries.

D. SUBSEQUENT FINANCIAL INFORMATION

No audited financial statement have been prepared by the Target Group or any of its subsidiaries in respect of any period subsequent of 30 September 2019.

The following management discussion and analysis should be read in conjunction with the accountants' report of Target Group for the year ended 31 December 2016, 31 December 2017, 31 December 2018 and nine months ended 30 September 2019 as set out in Appendix II to this circular.

BUSINESS REVIEW

The Target Company is a company incorporated in the BVI with limited liability on 10 January 2020. As at the Latest Practicable Date, it is owned as to 100% by the Vendor. The Target Company is an investment holding company and the Target Group Companies operate the following businesses under the "Metropolitan" brand: (i) serviced apartment business, (ii) wine cellar and fine wine business, (iii) storage business and workshop business and (iv) production and other investment holding business.

Set out below is the management discussion and analysis of the Target Group for the three years ended 31 December 2018 and the nine months ended 30 September 2019 (collectively, the "**Reporting Period**"). All references to "FY2016", "FY2017" and "FY2018" mean the financial years ended 31 December 2016, 31 December 2017 and 31 December 2018, respectively. The following financial information is based on the Accountants' Report on the Target Group as set out in Appendix II to this circular.

FINANCIAL REVIEW

Revenue

(i) Serviced apartment business

The revenue generated from serviced apartment business in FY2016, FY2017, FY2018 and the nine months ended 30 September 2018 and 2019 were approximately HKD5.5 million, HKD5.3 million, HKD4.9 million, HKD3.6 million and HKD3.8 million, respectively. The revenue from serviced apartment business remained stable from FY2016 to FY2017 but decreased in FY2018 due to termination of leased term with certain customers during FY2018. The rental income had a growth from HKD3.6 million for the nine months ended 30 September 2018 to HKD3.8 million for the nine months ended 30 September 2019, which was due to higher occupancy rate of apartments leased during the nine months ended 30 September 2019.

(ii) wine cellar and fine wine business

The revenue generated from wine cellar and fine wine business in FY2016, FY2017, FY2018 and the nine months ended 30 September 2018 and 2019 were approximately HKD12.6 million, HKD11.3 million, HKD16.7 million, HKD14.1 million and HKD11.2 million, respectively. The revenue from wine cellar and fine wine business decreased from HKD12.6 million for FY2016 to HKD11.3 million for FY2017, which was mainly due to the decrease in sales volume of the retail segment in the fine wine business. The revenue from wine cellar and fine wine business increased significantly from HKD11.3 million for FY2017 to HKD16.7 million for FY2018, which was mainly due to the strong growth in sales volume of the retail segment and consignment business segment in the fine wine business, and higher occupancy rate of wine cellars leased. The revenue from wine cellar and fine wine business decreased from HKD14.1 million for the nine months 30 September 2018 to HKD11.2 million for the nine months ended 30 September 2019, which was due to the temporary drop in available units of wine cellar caused by some renovation works carried out during May to July 2019, and the reduction of sales volume in the retail segment of the fine wine business.

(iii) Storage and workshop business

The revenue generated from storage and workshop business in FY2016, FY2017, FY2018 and the nine months ended 30 September 2018 and 2019 were approximately HKD5.4 million, HKD14.6 million, HKD19.9 million, HKD13.8 million and HKD23.4 million, respectively.

The revenue from storage and workshop business increased significantly from HKD5.4 million for FY2016 to HKD14.6 million for FY2017, which was mainly due to higher occupancy rate of workshop business and new operation of storage business in Chai Wan, Fo Tan, Kwai Chung and Yuen Long. The revenue from storage and workshop business increased from HKD14.6 million for FY2017 to HKD19.9 million for FY2018, which was mainly due to the more stable operation and good reputation built by the storage and workshop business. The revenue from storage and workshop business increased significantly from HKD13.8 million for the nine months ended 30 September

2018 to HKD23.4 million for the nine months ended 30 September 2019, which was mainly due to new operation of storage business located in San Po Kong and Tai Po in late 2018 and an increase in available units of the expanded store places located in Chai Wan and Fo Tan during the nine months ended 30 September 2019.

(iv) production and other investment holding business

The revenue generated from production and other investment holding business in FY2016, FY2017, FY2018 and the nine months ended 30 September 2018 and 2019 were approximately HKD1.3 million, HKD3.9 million, HKD3.9 million, HKD3.1 million and HKD1.0 million, respectively. The revenue from production and other investment holding business increased significantly from HKD1.3 million for FY2016 to HKD3.9 million for FY2017, which was mainly due to new operation of media production services in FY2017. The revenue from production and other investment holding business remained stable of HKD3.9 million for both FY2017 and FY2018. The revenue from production and other investment holding business decreased from HKD3.1 million for the nine months ended 30 September 2018 to HKD1.0 million for the nine months ended 30 September 2019, which was mainly due to decrease of revenue from media production projects during the period.

Cost of sales

The cost of sales incurred by the Target Group mainly represented the cost of wine sold of wine cellar and fine wine business, and partly represented the cost of media production services. The Target Group recorded cost of sales of approximately HKD8.0 million, HKD7.6 million, HKD12.4million, HKD10.3 million and HKD6.6 million, respectively in FY2016, FY2017, FY2018 and the nine months ended 30 September 2018 and 2019. The cost of sales remained stable from FY2016 to FY2017. The increase from approximately HKD7.6 million for the FY2017 to approximately HKD12.4 million for FY2018 was due to higher sales volume of fine wine business and the cost of media production service which was newly operated in FY2017. The decrease from approximately HKD10.3 million for the nine months ended 30 September 2018 to approximately HKD6.6 million for the nine months ended 30 September 2019 was due to reduction of sales volume in the retail segment of the fine wine business, and reduction in number of media production projects completed during the period.

Other income and gains, net

The net other income and gains recorded by the Target Group mainly represented gain on disposal of investment properties and others. The Target Group recorded net other income and gains of approximately HKD15.4 million, HKD1.1 million, HKD4.5 million, HKD3.0 million and HKD0.7 million, respectively in FY2016, FY2017, FY2018 and the nine months ended 30 September 2018 and 2019. The significant decrease from approximately HKD15.4 million for FY2016 to approximately HKD1.1 million for FY2017 was mainly due to gain on disposal of an investment property located in Stanley, Hong Kong for FY2016 amounted to approximately HKD14.6 million.

Net valuation gain on investment properties

The property interests held for generating rental income were measured using fair value model and were accounted for as investment properties. The fair value of our investment properties as at 31 December 2016, 2017 and 2018 and 30 September 2019 had been valued by the independent properties valuer, primarily based on the direct comparison approach by making reference to comparable sales evidence as available in the relevant market and residual approach.

The Target Group recorded net valuation gain on investment properties of approximately HKD17.3 million, HKD56.3 million, HKD41.9 million, HKD41.2 million and HKD36.2 million, respectively in FY2016, FY2017, FY2018 and the nine months ended 30 September 2018 and 2019. During the Reporting Period, the Target Group recognised positive fair value gain due to the general uptrend of Hong Kong's property market. The significant fair value gain of approximately HKD56.3 million for FY2017 was mainly contributed by the significant fair value gain of investment properties held for storage and workshop business, amounted to approximately HKD43.0 million, which was mainly contributed by approximately HKD10.8 million of fair value gain from two newly acquired investment properties and approximately HKD26.0 million of fair value gain from an investment property in Admiralty Centre in Hong Kong. The fair value gain of approximately HKD41.2 million for the nine months ended 30 September 2018 was mainly contributed by the significant fair value gain on investment properties held for serviced apartment business, amounted to approximately HKD19.2 million, which was mainly contributed by approximately HKD17.1 million of fair value gain from the investment properties located in No.18 Yiu Wa Street in Hong Kong.

Administrative and other operating expenses

The administrative and other operating expenses incurred by the Target Group mainly represented depreciation, consultancy fee, rent and rates, amortization of right-of-use assets, entertainment, building management fee, provision of expected credit loss, business registration fee and others including repair and maintenance, electricity, gas and water, advertising and promotion and other operating expenses.

The Target Group recorded administrative and other operating expenses of approximately HKD19.7 million, HKD28.5 million, HKD39.7 million, HKD27.4 million and HKD34.7 million, respectively in FY2016, FY2017, FY2018 and the nine months ended 30 September 2018 and 2019. Due to the growth of the size and operation of the Target Group, the administrative and other operating expenses increased accordingly. The administrative and other operating expenses increased from approximately HKD19.7 million for FY2016 to HKD28.5 million for FY2017, which was mainly due to the rental expense, consultancy fee, depreciation and other expenses incurred by the newly operated storage business. The administrative and other operating expenses increased from approximately HKD28.5 million for FY2017 to HKD39.7 million for FY2018, which was mainly due to expansion of storage business in serval new locations in FY2018 which incurred significant increase in rental expense, consultancy fee, and depreciation. The administrative and other operating expenses increased from approximately HKD27.4 million for the nine months ended 30 September

2018 to HKD34.7 million for the nine months ended 30 September 2019, which was mainly due to the further expansion of storage and workshop business in Chai Wan and Fo Tan during the nine months ended September 2019 which incurred significant increase in rental expense and higher consultancy fee.

Finance costs

The finance costs incurred by the Target Group mainly represented interest from borrowings. The Target Group recorded finance cost of approximately HKD6.6 million, HKD8.0 million, HKD15.5 million, HKD11.4 million and HKD14.5 million, respectively in FY2016, FY2017, FY2018 and the nine months ended 30 September 2018 and 2019. The significant increase from approximately HKD8.0 million for FY2017 to approximately HKD15.5 million for FY2018 was mainly due to increase in interest cost for new bank borrowings raised for business expansion of workshop and storage business in late 2017 and early 2018.

Profit for the year/period

The Target Group recorded profit for the year/period of approximately HKD21.7 million, HKD43.7 million, HKD17.5 million, HKD24.5 million and HKD14.4 million, respectively in FY2016, FY2017, FY2018 and the nine months ended 30 September 2018 and 2019.

The fluctuation of the profit for the year/period of the Target Group during the Reporting Period was primarily due to the net valuation gain on investment properties. The profit for the year of the Target Group increased significantly from approximately HKD21.7 million in FY2016 to approximately HKD43.7 million in FY2017 which was mainly due to an increase in revenue of approximately HKD10.2 million from newly opened storage business and media production service and increase in net valuation gain on investment properties of approximately HKD39.0 million, net off with an increase in administrative and other operating expenses of approximately HKD8.8 million, and a decrease in other incomes and gains due to a one-off gain on disposal of an investment property of approximately HKD14.6 million in FY2016. The profit for the year of the Target Group decreased significantly from approximately HKD43.7 million in FY2017 to approximately HKD17.5 million in FY2018 which was mainly due to a decrease in net valuation gain on investment properties of approximately HKD14.4 million, increase in cost of sales of approximately HKD4.8 million, and increases in administrative and other operating expenses and finance cost of approximately HKD11.2 million and approximately HKD7.6 million, respectively, net off with an increase in revenue of approximately HKD10.2 million from expansion of workshop and storage business. The profit for the period of the Target Group decreased significantly from approximately HKD24.5 million for the nine months ended 30 September 2018 to approximately HKD14.4 million for the nine months ended 30 September 2019, which was mainly due to a decrease in net valuation gain on investment properties of approximately HKD5.0 million, a one-off gain on disposal of an investment property of approximately HK$2.8 million recorded for the nine months ended 30 September 2018 and an increases in administrative and other operating expenses and finance cost of approximately HKD7.3 million and approximately HKD3.1 million, respectively, net off with an increase in revenue of approximately HKD4.8 million and a decrease in cost of sales of approximately HKD3.7 million.

Capital structure, liquidity and financial resources

During the Reporting Period, the Target Group mainly financed its operation by i) cash flow from operation as at 31 December 2016, 2017 and 2018 and 30 September 2019, the Target Group had cash and cash equivalents of approximately HKD8.7 million, HKD54.5 million, HKD15.1 million and HKD20.3 million respectively, ii) borrowings of approximately HKD227.0 million, HKD351.4 million, HKD489.2 million HKD508.4 million as at 31 December 2016, 2017 and 2018 and 30 September 2019 respectively with an annual effective interest from HIBOR + 1.2% to HIBOR + 2.50% per annum and iii) advance from an equity owner of approximately HKD 127.1 million, HKD196.6 million, HKD175.1 million and HKD216.2 million as at 31 December 2016, 2017 and 2018 and 30 September 2019 respectively. The amounts due to the equity owner were unsecured, interest-free and repayable on demand.

During the Reporting Period, the Target Group did not have any formal hedging policies and no financial instrument was used for hedging purpose.

As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 September 2019, the Target Group recorded net current liabilities of approximately HKD346.1 million, HKD493.5 million, HKD655.4 million and HKD717.2 million respectively and the net current liabilities were mainly attributable to: i) the Target Group's long-term bank borrowings due for repayment within one year or after one year but contained a repayable on demand clause; and ii) the amounts due from an equity owner, which were repayable on demand. As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Target Group's gearing ratio ("Gearing Ratio", represented by total interest-bearing borrowings as a percentage of total equity) were approximately 113.1%, 163.9%, 214.4% and 216.5% respectively.

Employee and Remuneration Policies

As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 September 2019, the Target Group had, in aggregate, 2, 7, 8 and 5 employees respectively in Hong Kong and Korea. The Target Group recruited, employed, promoted and remunerated its employees based on their qualifications, experience, skills, performances and contributions. Remuneration was also determined with reference to, among others, the market trend. The Target Group had implemented various programs for staff training and development as well.

For the FY2016, FY2017, FY2018 and for the nine months ended 30 September 2019, the total staff costs including director's remuneration amounted to approximately HKD672,000, HKD 1.0 million, HKD 1.2 million and HKD 641,000, respectively.

Future plans for material investments or capital assets

As at 30 September 2019, the Target Group did not have any future plans for material investments or capital assets.

Acquisition or disposal of subsidiaries and associated companies

During the Reporting Period, the Target Group acquired and disposed the following subsidiaries:

On 25 October 2016, the Target Group acquired the entire equity interest of Well Sure Corporation Limited, which holds properties for other business, at a consideration of HK$18,800,000.

On 30 June 2017, the Target Group acquired the entire equity interest of Advalue Group Limited, which holds properties for storage and workshop business, at a consideration of HK$82,180,000.

On 13 March 2018, the Target Group acquired the entire equity interest of Eternal Great Development Limited, which holds properties for storage and workshop business, at a consideration of HK$131,910,000.

On 16 April 2018, the Target Group disposed the entire equity interest of Golden Style Holdings Limited, which holds properties for other business, at a consideration of HK$32,000,000.

Significant investments held

During the Reporting Period, the Target Group held the following significant investments:

(i) a property situated at Office 1 to Office 8, 17/F, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong ("**Wan Chai Property**");

(ii) office and ancillary areas on 20/F, Silver Fortune Plaza, 1 Wellington Street ("**Wellington Street Property**");

(iii) properties situated at Units 602A & B and 603 on 6th Floor, Tower I, Admiralty Centre, No. 18 Harcourt Road, Hong Kong (collectively, the "**Admiralty Properties**"); and

(iv) properties situated at 1st to 4th Floors, No. 16 Yiu Wa Street & Ground to 5th Floors and The Roof, No. 18 Yiu Wa Street, Causeway Bay, Hong Kong (collectively, the "**Causeway Bay Properties**")

Each of the Wan Chai Property, the Wellington Street Property, the Admiralty Properties and the Causeway Bay Properties was held as investment property during the Reporting Period. The Wan Chai Property was acquired in 2017 for a consideration of HKD82,180,000. The Wellington Street Property was acquired in 2018 for a consideration of HKD131,910,000. The Admiralty Properties were acquired in 2006 and 2007 for a consideration of HKD45,461,000. The Causeway Bay Properties were acquired in 2011 for a consideration of HKD84,590,000.

The market value of the Wan Chai Property, the Wellington Property, Admiralty Properties and Causeway Bay Properties as at 30 November 2019 were approximately HKD100,000,000, HKD125,000,000, HKD210,000,000 and HKD155,700,000 respectively (details of which are set out in the valuation report in Appendix V), representing approximately 92.0%, 11.5%, 19.3% and 14.3% respectively, of the total assets of the Target Group as at 30 September 2019.

During the Reporting Period, (i) the Wan Chai Property, the Wellington Street Property and the Admiralty Properties were rented out to certain companies in the Target Group for the operation of storage and workshop businesses; and (ii) the residential units of the Causeway Bay Properties were rented out to a company in the Target Group for the operation of the serviced apartment business. The rental income generated from the Wan Chai Property for FY2016, FY2017, FY 2018 and the nine months ended 30 September 2019 were approximately HK$nil, HK$329,000, HK$1,972,000 and HK$1,479,200, respectively. The rental income generated from the Wellington Street Property for FY2016, FY2017, FY 2018 and the nine months ended 30 September 2019 were approximately HK$nil, HK$nil, HK$879,000 and HK$1,979,000, respectively. The rental income generated from the Admiralty Properties for FY2016, FY2017, FY 2018 and the nine months ended 30 September 2019 were approximately HK$1,678,000, HK$2,132,000, HK$3,926,000 and HK$2,868,000, respectively. The rental income generated from the Causeway Bay Properties for FY2016, FY2017, FY 2018 and the nine months ended 30 September 2019 were approximately HK$4,034,000, HK$2,209,000, HK$2,254,000 and HK$1,691,000, respectively.

Upon Completion, the Wan Chai Property, the Wellington Street Property and the Admiralty Properties will be held by the Target Group for the operation of storage and workshop businesses and the Causeway Bay Properties will be held by the Target Group for the operation of serviced apartment business.

Save as disclosed, the Target Group had no other significant investments during the Reporting Period.

Capital Commitment

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Target Group has capital expenditure contracted in respect of acquisition of Investment properties amounted to approximately HKD49.0 million, HKD11.7 million, HKD38.2 million and nil.

Charges on assets

As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 September 2019, the Target Group had pledged the investment properties with a carrying amount of approximately HKD487.9 million , HKD634.7 million, HKD671.8 million and HKD759.7 million respectively to secure general banking facilities and bank loans granted to the Target Group.

Contingent liabilities

The Target Group had no material contingent liabilities as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 September 2019.

Foreign exchange exposure

For the Reporting Period, the Target Group was not exposed to any material foreign currency risk as most of its business transactions, assets and liabilities were denominated in HK dollars. The Target Group has three subsidiaries operated in South Korean with Korean Won and the carrying amount of the Target Group's foreign currency dominated monetary net assets were HKD0.8 million and HKD27.8 million as at 31 December 2017 and 31 December 2018, respectively, and net liabilities were HKD34.4 million as at 30 September 2019.

Prospects

The major evolution happened nowadays is focusing on space-intensive, lifestyle and community spirit. A community is something where one feels connected and it is an essential part to the new generation. This is the vision that is being brought to life by innovative entrepreneurs across the globe in response to growing urban populations and rising levels of alienation in our modern world, that is what hits Target Group and turns it into success. For the future development, Target Group will continue to increase its footprint by offering our wide ranges lifestyle services in the city.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. INTRODUCTION

The accompanying unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**") has been prepared by the Directors in accordance with paragraph 4.29 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for illustrative purposes only, to illustrate the effects of the proposed acquisition of the Target Group, as defined in the Circular (the "**Acquisition**") as if the Acquisition had been completed on 31 December 2019.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group as at 31 December 2019 has been prepared based on: (i) the audited consolidated statement of financial position of the Group as at 31 December 2019, which was extracted from the published preliminary annual results announcement of the Company for the year ended 31 December 2019; and (ii) the audited statement of financial position of the Target Group as at 30 September 2019, which was extracted from the accountants' report thereon set out in Appendix II to this circular, and adjusted on a pro forma basis to reflect the effect of the Acquisition, as if the Acquisition had completed on 31 December 2019.

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group is prepared by the Directors based on a number of assumptions, estimates, uncertainties and currently available information and are prepared for illustrative purpose only. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 31 December 2019 or any other date.

These pro forma adjustments are directly attributable to the Acquisition and are not related to other future events or decisions and are factually supportable.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the historical financial information of the Group as set out in the preliminary annual results announcement of the Group for the year ended 31 December 2019, the accountants' report of the Target Group as set out in Appendix II to this circular and other financial information included elsewhere in this circular.

2. UNAUDITED PRO FORMA CONSOLIDATED ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	The Group as at 31 December 2019	The Target Group as at 30 September 2019	Pro forma adjustments		Unaudited pro forma Enlarged Group as at 31 December 2019
	HK'000	*HK'000*		*HK'000*	*HK'000*
	(Note 1)	*(Note 2)*	*Note*		
NON-CURRENT ASSETS					
Property, plant and equipment	784	37,418			38,202
Right-of-use assets	1,367	44,977			46,344
Investment properties	52,000	956,575			1,008,575
Loan receivables	164,766	—			164,766
Financial assets at fair value through profit or loss	6,119	—			6,119
Deferred tax assets	—	2,571			2,571
Total non-current assets	**225,036**	**1,041,541**			**1,266,577**
CURRENT ASSETS					
Properties held for sale	3,153,060	—			3,153,060
Inventories	—	10,097			10,097
Trade and other receivables	32,608	15,573			48,181
Financial assets at fair value through profit or loss	460	—	3(iii)	18,401	18,861
Stakeholder's accounts	6,066	—			6,066
Pledged bank deposits	10,257	—			10,257
Bank balances and cash	62,276	20,258			82,534
Total current assets	**3,264,727**	**45,928**			**3,329,056**

	The Group as at 31 December 2019	The Target Group as at 30 September 2019	Pro forma adjustments		Unaudited pro forma Enlarged Group as at 31 December 2019
	HK'000	*HK'000*		*HK'000*	*HK'000*
	(Note 1)	*(Note 2)*	*Note*		
CURRENT LIABILITIES					
Trade and other payables	(104,253)	(19,239)	*6*	(4,820)	(128,312)
Amount due to an equity owner	—	(216,177)	*4*	183,017	(33,160)
Amount due to a director	(39,000)	—			(39,000)
Consideration payable	—	—	*3(i),(ii)*	(42,000)	(42,000)
Lease liabilities	—	(13,406)			(13,406)
Contract liabilities	(293)	(5,700)			(5,993)
Tax liabilities	(56,737)	(181)			(56,918)
Borrowings	(2,580,184)	(508,409)			(3,088,593)
Total current liabilities	**(2,780,467)**	**(763,112)**			**(3,407,382)**
NET CURRENT ASSETS/ (LIABILITIES)	**484,260**	**(717,184)**			**(78,326)**
TOTAL ASSETS LESS CURRENT LIABITIES	**709,296**	**324,357**			**1,188,251**
NON-CURRENT LIABILITIES					
Lease liabilities	—	(35,656)			(35,656)
Convertible Bonds	—	—	*3(iii)*	(82,649)	(82,649)
Deferred tax liabilities	(177)	(53,897)			(54,074)
Total non-current liabilities	**(177)**	**(89,553)**			**(172,379)**
Net assets	**709,119**	**234,804**			**1,015,872**

Notes to the Unaudited Pro Forma Financial Information:

1. The financial information of the Group as at 31 December 2019 are extracted from the consolidated statement of financial position of the Group as at 31 December 2019 as set out in the published preliminary annual results announcement of the Company for the year ended 31 December 2019.

2. The financial information of the Target Group as at 30 September 2019 are extracted from the accountants' report of the Target Group as set out in Appendix II to this circular, and are rounded to the nearest thousand.

3. Pursuant to the Acquisition Agreement (as defined in the circular) dated 24 January 2020, the Group shall acquire the Sales Share and Sales Loan (as defined in the circular). The consideration for the Acquisition is to be satisfied as to:

   (i) HK$21,000,000 shall be paid by the Company as the purchaser as deposit and partial payment of the consideration upon signing of the Acquisition Agreement;

   (ii) HK$21,000,000 shall be paid by the Company as the purchaser as deposit and partial payment of the consideration on the 14th day after the date of Acquisition Agreement; and

   (iii) HK$378,000,000 by way of issue of convertible bonds in the aggregate principal amount of HK$378,000,000 entitling the Vendors (or its nominees) to convert into a maximum of 581,538,461 conversion shares in full based on the initial conversion price of HK$0.65 per conversion share (the "**Convertible Bonds**").

   The holder of the Convertible Bonds can convert the Convertible Bonds, perpetual in term, into Conversion Shares within the Conversion Period and the Convertible Bonds will become an unlisted straight bonds upon expiry of the Conversion Period. Since it is only the issuer can redeem the Convertible Bonds at 100% of the principal amount of the Convertible Bonds, the issuer of the Convertible Bonds has no obligation to pay cash on the principal amount that the issuer cannot avoid. The contractual cash outflow from the Convertible Bonds are coupon interest of the Convertible Bonds.

   The Convertible Bonds are considered as compound instruments with: (i) liability component, the 3% coupon bonds, (ii) the derivative component, the redemption option, and (iii) the equity component, the conversion feature.

With reference to a professional valuation conducted by an independent valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, and for the purpose of preparing the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities, the Directors estimated that the fair value of the Convertible Bonds as at 31 December 2019 is approximately HK$329,021,000. The Convertible Bonds comprise of: i) liability component amounted to approximately HK$82,649,000; ii) redemption derivative component, being financial assets at fair value through profit or loss, of debit balance of HK$18,401,000; and iii) the equity component of approximately HK$264,773,000. The fair value of the Convertible Bonds as a whole is estimated by using binomial option pricing model. Key parameters used in the binomial option pricing model including the closing price on valuation date at HK$0.69, 53.15% volatility, 6.98% bond yield and nil for dividend yield. The fair value of the liabilities component is estimated by discounting the estimated contractual cash flows over the contractual terms of the Convertible Bonds at a rate of 6.98% as at 31 December 2019. The discount rate of 6.98% was based on (i) risk-free rate of 1.76%; credit spread of 5.22%. Risk free rate is determined with reference to the Hong Kong Government BVAL Curve. The credit spread is determined with reference to the comparable corporate bonds with similar credit rating. Since the Company has sole discretion to defer the coupon payment for a maximum of 10 years, the liability component of the Convertible Bonds are regarded as non-current liabilities.

The fair value of the Convertible Bonds are subject to change upon the finalisation of the valuation for the completion date of the Acquisition, which may be substantially different from their estimated amounts used in preparation of the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities.

For the purpose of the Unaudited Pro Forma Financial Information, given that the Group and the Target Group are under the common control of Mr. Joe Chan both before and after the Acquisition, the Acquisition will be accounted as business combination under common control and will be accounted for using the principles of merger accounting in accordance with Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants.

4. Pursuant to the reorganisation memorandum, a reorganization is to be undergone to dispose certain entities, that are owned by entities which form part of the Target Group, to the equity owner at their net asset values as at 30 September 2019 which are also approximate to their fair values. An aggregate amount of net asset values of these entities is HK$183,017,000 as at 30 September 2019. The disposal is to be settled by way of current account settlement with the equity owner.

5. The directors of the Company confirm that the basis used in the preparation of the Unaudited Pro Forma Financial Information will be consistent with the accounting policies of the Group, including the principal accounting policies and assumptions of the valuation of the identified assets and liabilities of the Target Group to be consistently adopted in the first set of the financial statements of the Group after the completion of the Proposed Acquisition.

6. The adjustment represents the estimated professional fees and transaction costs of approximately HK$4,820,000 payable by the Group in connection with the Acquisition, which are assumed to be due upon completion.

7. Other than the adjustments in relation to the Acquisition set out in the notes above, no other adjustment have been made to the Unaudited Pro Forma Financial Information to reflect any other transactions of the Group and the Target Group entered into subsequent to 31 December 2019 and 30 September 2019, respectively.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong.

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To the directors of Star Properties Group (Cayman Islands) Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Star Properties Group (Cayman Islands) Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purpose only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2019 and related notes as set out in Part A of Appendix IV to the circular dated 27 March 2020 (the "**Circular**") issued by the Company (the "**Unaudited Pro Forma Financial Information**") in connection with the proposed acquisition (the "**Acquisition**") of the entire issued share capital of Metropolitan Group (BVI) Limited (the "**Target Company**") and its subsidiaries (collectively the "**Target Group**") by the Group. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in section headed "Introduction" in Section A of Appendix IV to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Acquisition on the Group's financial position as at 31 December 2019 as if the Acquisition had taken place at 31 December 2019. As part of this process, information about the Group's financial position as at 31 December 2019 has been extracted by the Directors from the preliminary annual results announcement of the Group for the year ended 31 December 2019, on which a review report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applied Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or a review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the unaudited pro forma financial information included in a Circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the entity as if the event had occurred or transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition at 31 December 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

— The related pro forma adjustments give appropriate effect to those criteria; and

— The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
BDO Limited
Certified Public Accountants
Hong Kong
27 March 2020

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 31 December 2019 of the property interests to be acquired by the Group.

JLL
仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
7/F One Taikoo Place 979 King's Road Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Company Licence No.: C-030171

27 March 2020

The Board of Directors
Star Properties Group (Cayman Islands) Limited
11/F, TG Place,
No. 10 Shing Yip Street,
Kwun Tong,
Kowloon,
Hong Kong

Dear Sirs,

On 24 January 2020 (after trading hours of the Stock Exchange), Star Properties Group (Cayman Islands) Limited (the "Company", as Purchaser) and Metropolitan Lifestyle (BVI) Limited (as Vendor) entered into the Acquisition Agreement, pursuant to which the Company conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the Sale Share and Sale Loan of Metropolitan Group (BVI) Limited ("Target Company"), at an aggregate consideration of HK$420,000,000, which will be satisfied by (i) part payment in cash; and (ii) allotment and issue of the Convertible Bonds. The Conversion Shares will be allotted and issued under the Specific Mandate to be sought from the Independent Shareholders at the EGM. The Target Company and its subsidiaries are defined as "Target Group".

In accordance with your instructions to value the property interests to be acquired by Star Properties Group (Cayman Islands) Limited and its subsidiaries (hereinafter together referred to as the "Group") in Hong Kong and Korea, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at 31 December 2019 (the "valuation date").

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

For the valuation of the properties, we have adopted the direct comparison method. For property nos. 4, 10 and 15, we have also adopted income capitalization method. The values arrived by both direct comparison method and income capitalisation method for these 3 properties are in line with each other and we have applied equal weighting to the values arrived by these two methods.

The direct comparison method is based on comparing the property to be valued directly with other comparable properties, which have recently transferred their legal ownership. However, given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative and quantitative differences that may affect the price likely to be achieved by the property under consideration.

The income capitalization method is based on the capitalization of the net income potential by adopting appropriate capitalization rate, which is derived from analysis of sale transactions and our interpretation of prevailing investor requirements or expectations. The market rents adopted in our valuation have reference to lettings of comparable premises.

Our valuation has been made on the assumption that 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.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

In valuing the property interest, we have complied with all requirements contained in Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation – Global Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and other relevant matters.

For properties in Hong Kong, we have been shown copies of floor plans and summary of tenancy details of various properties and we have obtained relevant information from the Land Registry, the Buildings Department, Rating and Valuation Department and relevant government departments and have made relevant enquiries.

For the property in Korea, we have not been provided with copies of the title documents relating to the property but we have caused searches to be made at the relevant land registry of Korea. However, we have not searched the original documents to verify the ownership or to ascertain any amendment.

However, we have not examined the original documents and assumed that the copies of the documents obtained are consistent with their originals.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but, in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

The site inspection was carried out in January 2020 by Miss Esther Li, Mr. Ken Lam, Miss Wendy Ng and Miss Venus Kwan. Mr. Ken Lam is a member of HKIS and RICS with over 18 years' experience in the valuation of properties in Hong Kong; Miss Esther Li is a probationer of RICS with 3 years' experience in the valuation of properties in Hong Kong and Asia Pacific region; Miss Wendy Ng is a probationer of HKIS with 2 years' experiences in valuation of properties in Hong Kong and Miss Venus Kwan is a probationer of HKIS and RICS with 2 years' experience in the valuation of properties in Hong Kong.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive at an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Hong Kong Dollars (HKD).

We are instructed to provide our opinion of value as per the valuation date only. It is based on economic, market and other conditions as they exist on, and information made available to us as of, the valuation date and we assume no obligation to update or otherwise revise these materials for events in the time since then. In particular, it has come to our attention that since the valuation date, the outbreak of Novel Coronavirus (COVID-19) has caused significant disruption to economic activities around the world. This disruption has increased the risk of the rental/income assumptions, which were prepared by us in our valuation without the assumptions of a pandemic, not being achieved. It may also have a negative impact towards investment sentiment, and hence any form of required rate of return as well as liquidity of any asset. As of the report date, it is uncertain how long the disruption will last and to what extent it will affect the economy. As a result it causes volatility and uncertainty that values may change significantly and unexpectedly even over short periods. The period required to negotiate a sale may also extend considerably beyond the normally expected period, which would also reflect the nature and size of the property. Readers are reminded that we do not intend to provide an opinion of value as of any date after the valuation date in this report.

Our summary of values and valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Eddie T.W. Yiu
MRICS MHKIS RPS (GP)
Senior Director

Note: Eddie T.W. Yiu is a Chartered Surveyor who has 26 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

SUMMARY OF VALUES

Group I — Property interest to be acquired and held for investment by the Group in Hong Kong

No.	Property	Market value in existing state as at the valuation date *HKD*
1.	Offices 1 to 8 (including the Corridor, the Lift Lobby and the Lavatories thereof) on 17th Floor, Tesbury Centre, No. 28 Queen's Road East, Wanchai, Hong Kong	100,000,000
2.	Signage Units 01 to 05, The Galaxy, No. 313 Castle Peak Road, Kwai Chung, Tsuen Wan, New Territories, Hong Kong	75,000
3.	Office and Ancillary Areas on 20th Floor, Silver Fortune Plaza, No. 1 Wellington Street, Central, Hong Kong	125,000,000
4.	3rd Floor, No. 14 Yiu Wa Street, Causeway Bay, Hong Kong	8,500,000
5.	Unit No. 17 on 9th Floor of Block B, Sea View Estate, Nos.4 - 6 Watson Road, North Point, Hong Kong	35,000,000

Group I — Property interest to be acquired and held for investment by the Group in Hong Kong

No.	Property	Market value in existing state as at the valuation date *HKD*
6.	Workshops 01, 02 (with flat roof), 03 & 05-06 on 3rd Floor, The Galaxy, No. 313 Castle Peak Road, Kwai Chung, Tsuen Wan, New Territories, Hong Kong	65,000,000
7.	3rd Floor, World Trust Tower, No. 50 Stanley Street, Central, Hong Kong	72,000,000
8.	Section A of Lot No. 810 in Demarcation District No. 103, Yuen Long, New Territories, Hong Kong	22,500,000
9.	The Remaining Portion of Lot No. 807 & Section B of Lot No. 810 in Demarcation District No. 103, Yuen Long, New Territories, Hong Kong	36,800,000
10.	5th Floor and The Roof, No. 16 Yiu Wa Street, Causeway Bay, Hong Kong	10,800,000

Group I — Property interest to be acquired and held for investment by the Group in Hong Kong

No.	Property	Market value in existing state as at the valuation date *HKD*
11.	Unit No. 17B on 12th Floor of Block B, Sea View Estate, Nos.4 - 6 Watson Road, North Point, Hong Kong	33,000,000
12.	Workshop No. 17, 13th Floor, Honour Industrial Centre, No. 6 Sun Yip Street, Chai Wan, Hong Kong	6,800,000
13.	Units 602A & B and 603 on 6th Floor, Tower I, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	210,000,000
14.	Shop No. 94 on 1st Floor of The Podium, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	20,000,000
15.	1st to 4th Floors, No. 16 Yiu Wa Street & Ground to 5th Floors and The Roof, No. 18 Yiu Wa Street, Causeway Bay, Hong Kong	155,700,000

Group II — Property interest to be acquired and held for investment by the Group in Korea

No.	Property	Market value in existing state as at the valuation date *HKD*
16.	656-25 1ga Sungsu-dong, Seongdong-gu, Seoul, Korea	57,500,000
	Grand-total:	958,675,000

Group I — Property interest to be acquired and held for investment by the Group in Hong Kong

VALUATION CERTIFICATE

	Property	**Description and tenure**	**Particulars of occupancy**	**Market value in existing state as at the valuation date** *HKD*
1.	Offices 1 to 8 (including the Corridor, the Lift Lobby and the Lavatories thereof) on 17th Floor, Tesbury Centre, No. 28 Queen's Road East, Wanchai, Hong Kong 53/1,386 equal and undivided shares of and in Sections B to G and The Remaining Portion of Sub-Section 1, and Sub-Sections 3 and 4 of Section A of Marine Lot No. 65 ("the Lots")	Tesbury Centre ("the Development") is a 27-storey commercial development completed in 1993. It is situated at Queen's Road East in Wan Chai which is an established area with a mixed residential and commercial uses. The Development provides loading areas on Ground Floor and office space on 1st to 29th Floors. The building is of reinforced concrete construction with granite/glass-panelled external exteriors. Vertical circulation within the building is served by 3 passenger lifts, 1 service lift and 2 staircases.	Pursuant to a licence agreement, the right of using the property was granted to a connected party of the Target Group for a period from 1 November 2019 to 31 October 2020 at a monthly license fee of HKD164,360 (inclusive of management fees, Government rent and rates) as at the valuation date.	100,000,000

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
	The property comprises the whole of office space on 17th Floor. The saleable area of the office units as measured from the registered floor plan is approximately 2,771 sq.ft. (or 257.43 sq.m.). The Lots are held under the Government Lease of ML65 for a term of 999 years from 25 June 1863. The current Government rent payable for the property is part of HKD142 per annum.		

Notes:

1. The registered owner of the property is Advalue Group Limited, a wholly-owned subsidiary of the Target Company. As advised by the Company, the registered owner will be a wholly-owned subsidiary of the Company after reorganisation.

2. The following encumbrances were registered against the property as at the valuation date:

   a. Deed of Mutual Covenant and Management Agreement with Plan in favour of Colliers Jardine Management Limited as "The Managers" vide Memorial No. UB5910032 dated 21 January 1994.

   b. Mortgage in favour of The Hongkong and Shanghai Banking Corporation Limited for all moneys vide Memorial No. 17072502390050 dated 30 June 2017.

   c. Rental Assignment in favour of The Hongkong and Shanghai Banking Corporation Limited vide Memorial No. 17072502390064 dated 30 June 2017.

3. The property is currently zoned under Draft Wan Chai Outline Zoning Plan No. S/H5/28 exhibited on 4 May 2018 for "Residential (Group A)" purpose.

4. At the time of our inspection, the property was occupied as co-working spaces. We noted that the interiors and the accessible common areas of the subject development were maintained in a reasonable condition.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
2.	Signage Units 01 to 05, The Galaxy, No. 313 Castle Peak Road, Kwai Chung, Tsuen Wan, New Territories, Hong Kong 10/11,488 equal and undivided shares of and in Section E of Lot No. 693 in Demarcation District No. 445 ("the Lot")	The Galaxy ("the Development") is a 25-storey modern industrial block completed in 2014. It is situated in an industrial zone of Tsuen Wan district. The Development provides parking spaces on Ground to 2nd Floors and industrial units on 3rd to 29th Floors. It is of reinforced concrete construction with reflective glass panels exteriors. Vertical circulation within the building is served by 3 passenger lifts, 1 service lift and 2 staircases. The property comprises 3 signage spaces at the external facades of the building.	Pursuant to a licence agreement, the right of using the property was granted to a connected party of the Target Group at an annual rental fee of HKD12,000 (inclusive of management fees, Government rent and rates) as at the valuation date.	75,000

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
	The Lot is held under New Grant No. TW3554 for a term of 75 years renewed another 24 years from 1 July 1898 and had been extended for 50 years due to expire on 30 June 2047. The current Government rent payable for the property is an amount equivalent to 3% of the prevailing rateable value of the property per annum.		

Notes:

1. The registered owner of the property is Creative Sky Limited, a wholly-owned subsidiary of the Target Company. As advised by the Company, the registered owner will be a wholly-owned subsidiary of the Company after reorganisation.

2. The following encumbrance was registered against the property as at the valuation date:

   a. Deed of Mutual Covenant and Management Agreement with Plans in favour of Galaxy Property Management (HK) Limited (Manager) vide Memorial No. 14092902120036 dated 15 September 2014.

3. The property is currently zoned under Draft Kwai Chung Outline Zoning Plan No. S/KC/29 exhibited on 19 January 2018 for "Industrial" purpose.

4. At the time of our external inspection, the property was occupied as advertising spaces. We noted that the interiors and the accessible common areas of the subject development were maintained in a reasonable condition.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
3.	Office and Ancillary Areas on 20th Floor, Silver Fortune Plaza, No. 1 Wellington Street, Central, Hong Kong 3,828/142,919 equal and undivided shares of and in Sections A, B, C, D, G and J of Inland Lot No. 80 ("the Lots")	The property comprises the whole of 20th Floor in Silver Fortune Plaza ("the Development") situated at Wellington Street within Central District, the core business district ("CBD") of Hong Kong. The Development is a 24-storey commercial block completed in 1992 with retail space on Lower Ground, Upper Ground, 1st to 3rd Floors while office space on 4th to 23rd Floors. The building is of reinforced concrete construction with granite/glass-panelled external exteriors. Vertical circulation within the building is served by 3 passenger lifts, 1 service lift and 2 staircases. The saleable area of the office unit as measured from the registered floor plan is approximately 2,842 sq.ft. (or 264.03 sq.m.)	Pursuant to a licence agreement, the right of using the property was granted to a connected party of the Target Group for a period from 1 September 2018 to 31 December 2019 at a monthly license fee of HKD219,850 (inclusive of management fees, Government rent and rates) as at the valuation date.	125,000,000

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
	The Lots are held under Government Lease of IL80 for a term of 999 years from 26 June 1843. The current Government rent payable for the property is part of HKD118.32 per annum.		

Notes:

1. The registered owner of the property is Eternal Great Development Limited, a wholly-owned subsidiary of the Target Company. As advised by the Company, the registered owner will be a wholly-owned subsidiary of the Company after reorganisation.

2. The following encumbrances were registered against the property as at the valuation date:

   a. Modification Letter vide Memorial No. UB5445681 dated 15 September 1992.

   b. Deed of Mutual Covenant (previously registered by Memorial No. UB5780040) vide Memorial No. UB5993389 dated 26 August 1993.

   c. Deed of Mortgage in favour of O-Bank Company Limited, Hong Kong Branch for all moneys vide Memorial No. 18041702020015 dated 23 March 2018.

   d. Assignment of Rentals in favour of O-Bank Company Limited, Hong Kong Branch vide Memorial No. 18041802550012 dated 23 March 2018.

3. The property is currently zoned under Draft Central District Outline Zoning Plan No. S/H4/17 exhibited on 24 May 2019 for "Commercial" purposes.

4. At the time of our inspection, the property was occupied as co-working spaces. We noted that the interiors and the accessible common areas of the subject development were maintained in a reasonable condition.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
4.	3rd Floor, No. 14 Yiu Wa Street, Causeway Bay, Hong Kong 1/6 equal and undivided shares of and in Inland Lot No. 5434 ("the Lot").	The property comprises a residential unit on 3rd Floor of a 6-storey tenement building ("the building") situated within Causeway Bay, a well-established commercial area offering a wide range of shopping, F&B and entertainment facilities popular to tourists and local residents. It was completed in 1957 and renovated in 2011. The building is of reinforced concrete with painted exteriors. Vertical circulation is served by a common staircase. The saleable area of the property as measured from the registered floor plan is approximately 451 sq.ft. (or 41.90 sq.m.).	Pursuant to a licence agreement, the right of using the property was granted to a connected party of the Target Group for a period from 1 August 2019 to 31 July 2020 at a monthly license fee of HKD12,712 (inclusive of management fees, Government rent and rates) as at the valuation date.	8,500,000

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
	The property is held under Government Lease of IL5434 for a term of 999 years from 1 September 1881. The current Government rent payable for the property is HKD4 per annum.		

Notes:

1. The registered owner of the property is Far Orient International Limited, a wholly-owned subsidiary of the Target Company. As advised by the Company, the registered owner will be a wholly-owned subsidiary of the Company after reorganisation.

2. The following encumbrances were registered against the property as at the valuation date:

    a. Deed of Mutual Grants of Right of Way with plan in favour of Leung Lai Chun dated 13 March 1962 vide Memorial No. UB363499.

    b. Deed of Mutual Covenant dated 1 November 1962 vide Memorial No. UB384517.

    c. Mortgage in favour of Hang Seng Bank Limited for all monies vide Memorial No. 16091401310062 dated 18 August 2016.

    d. Rental Assignment in favour of Hang Seng Bank Limited vide Memorial No. 16091401310072 dated 18 August 2016.

    e. Second Mortgage in favour of Hang Seng Bank Limited for all monies vide Memorial No. 16091401310089 dated 18 August 2016.

3. The property is currently zoned under Draft Wan Chai (HPA 5) Outline Zoning Plan No. S/H5/28 exhibited on 4 May 2018 for "Commercial" purpose.

4. At the time of our external inspection, the property was occupied as service apartment. we noted that the exteriors and the accessible common areas of the subject development were maintained in a reasonable condition.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
5.	Unit No. 17 on 9th Floor of Block B, Sea View Estate, Nos.4 - 6 Watson Road, North Point, Hong Kong 376/95,000 equal and undivided shares of and in Section A of Marine Lot No. 293 and Inland Lot No. 1780 ("the Lots")	The property comprises one of the industrial units on 9th Floor of Block B of Sea View Estate ("the Development") situated in the North Point district which is an established area of mixed residential and commercial uses. The Development was completed in 1971. Block B of the Development is a 15-storey industrial block with industrial space on 1st to 14th Floors and its construction is of reinforced concrete with painted exteriors. Vertical circulation within the building is served by 4 lifts and 2 staircases. The saleable area of the property as measured from the registered floor plan is approximately 3,067 sq.ft. (or 284.93 sq.m.)	Pursuant to a licence agreement, the right of using the property was granted to a connected party of the Target Group for a period from 1 October 2019 to 31 September 2020 at a monthly license fee of HKD71,100 (inclusive of management fees, Government rent and rates) as at the valuation date	35,000,000

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
	The property is held under the respective Government Leases of ML293 from 5 November 1906 and IL1780 from 23 December 1907 both for terms of 75 years renewed for further terms of 75 years. The current Government rent payable for the property is HKD1,748 per annum.		

Notes:

1. The registered owner of the property is Golden Green Corporation Limited, a wholly-owned subsidiary of the Target Company. As advised by the Company, the registered owner will be a wholly-owned subsidiary of the Company after reorganisation.

2. The following encumbrances were registered against the property as at the valuation date:

   a. Deed of Mutual Covenant with Plans vide Memorial No. UB2226951 dated 23 January 1982.

   b. Management Agreement in favour of Selex Properties Management Company Limited as "The Manager" vide Memorial No. UB4038462 dated 31 March 1989.

   c. Mortgage in favour of The Hongkong and Shanghai Banking Corporation Limited for all moneys vide Memorial No. 15012301010039 dated 30 December 2014.

   d. Rental Assignment in favour of The Hongkong and Shanghai Banking Corporation Limited vide Memorial No. 15012301010046 dated 30 December 2014.

3. The property is currently zoned under North Point (HPA 8) Outline Zoning Plan No. S/H8/26 approved on 15 August 2017 for "Commercial (1)" purpose.

4. At the time of our inspection, the property was occupied as co-working spaces. We noted that the interiors and the accessible common areas of the subject development were maintained in a reasonable condition.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
6.	Workshops 01, 02 (with flat roof), 03 & 05-06 on 3rd Floor, The Galaxy, No. 313 Castle Peak Road, Kwai Chung, Tsuen Wan, New Territories, Hong Kong 850/11,488 equal and undivided shares of and in Section E of Lot No. 693 in Demarcation District No. 445 ("the Lot")	The Galaxy ("the Development") is a 25-storey modern industrial block completed in 2014. It is situated in an industrial zone of Tsuen Wan district. The Development provides parking spaces on Ground to 2nd Floors and industrial units on 3rd to 29th Floors. It is of reinforced concrete construction with reflective glass panels exteriors. Vertical circulation within the building is served by 3 passenger lifts, 1 service lift and 2 staircases. As quoted from the developer's sales brochure, the total saleable area of the property is approximately 9,075 sq.ft. (or 843.09 sq.m.) with a flat roof of approximately 210 sq.ft. (or 19.51 sq.m.) respectively.	Pursuant to three licence agreements, the right of using Workshops 01-03, 05 and 06 of the property was granted to the connected parties of the Target Group as at the valuation date. *(see Note 2 for details)*	65,000,000

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
	The Lot is held under New Grant No. TW3554 for a term of 75 years renewed another 24 years from 1 July 1898 and had been extended for 50 years due to expire on 30 June 2047. The current Government rent payable for the property is an amount equivalent to 3% of the prevailing rateable value of the property per annum.		

Notes:

1. The registered owner of the property is Grand Silver (Hong Kong) Limited, a wholly-owned subsidiary of the Target Company. As advised by the Company, the registered owner will be a wholly-owned subsidiary of the Company after reorganisation.

2. The tenancy details of the property are summarized as follows:

Units	License term	Monthly License Fee Receivable (HKD) (Inclusive of management fees, Government rent and rates)
Workshops 01, 02 & 03	1 Jan 2019 - 31 Dec 2019	164,805
Workshop 05	1 Jan 2018 - 31 Dec 2019	5,000
Workshop 06	1 Apr 2019 - 31 Mar 2020	25,000

3. The following encumbrances were registered against the property as at the valuation date:

   a. Deed of Mutual Covenant and Management Agreement with Plans in favour of Galaxy Property Management (HK) Limited (Manager) vide Memorial No. 14092902120036 dated 15 September 2014.

   b. Mortgage in favour Hang Seng Bank Limited for all monies vide Memorial No. 17011701290015 dated 19 December 2016.

   c. Rental Assignment in favour Hang Seng Bank Limited vide Memorial No. 17011701290024 dated 19 December 2016.

   d. Workshop 06 had a Temporary Waiver Letter with Plan issued from District Lands Officer, Tsuen Wan and Kwai Tsing to permit the use of a portion of the premises for the purpose of an eating place (canteen) vide Memorial No. 18051400860025 dated 23 April 2018.

4. The property is currently zoned under Draft Kwai Chung Outline Zoning Plan No. S/KC/29 exhibited on 19 January 2018 for "Industrial" purpose.

5. At the time of our inspection, the property was occupied as co-working spaces. We noted that the interiors and the accessible common areas of the subject development were maintained in a reasonable condition.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
7.	3rd Floor, World Trust Tower, No. 50 Stanley Street, Central, Hong Kong 443/9,999 equal and undivided shares of and in The Remaining Portion of Inland Lot No. 5091 and Inland Lot Nos. 5092, 5093, 5094, 5095 and 5096 ("the Lots")	The property comprises the office space on 3rd Floor of World Trust Tower ("the Development") which is a 23-storey commercial block completed in 1994. The Development is situated within the Central District, the core business district ("CBD") of Hong Kong. Ground Floor of the Development accommodate retail space while office spaces are provided on 1st to 22nd Floors. Construction of the Development is of reinforced concrete construction with ceramic tiled external exteriors. Vertical circulation is served by 2 lifts and 2 staircases. The saleable area of the property as measured from the registered floor plans is approximately 2,457 sq.ft. (or 228.26 sq.m.)	Pursuant to a licence agreement, the right of using the property was granted to a connected party of Target Group for a term from 1 January 2018 to 31 December 2019 at a monthly license fee of HKD127,855 (inclusive of management fees, Government rent and rates) as at the valuation date.	72,000,000

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
	The property is held under the respective Government Leases of the Lots for common terms of 999 years from 26 June 1843. The current Government rent payable for the property is part of HKD60 per annum.		

Notes:

1. The registered owner of the property is Manhattan Corporation Limited, a wholly-owned subsidiary of the Target Company. As advised by the Company, the registered owner will be a wholly-owned subsidiary of the Company after reorganisation.

2. The following encumbrances were registered against the property as at the valuation date:

   a. Deed of Mutual Covenant with Plans vide Memorial No. UB5923792 dated 26 January 1992.

   b. Mortgage in favour of The Hongkong and Shanghai Banking Corporation Limited for all moneys vide Memorial No. 17022402290031 dated 25 January 2017.

   c. Rental Assignment in favour of The Hongkong and Shanghai Banking Corporation Limited vide Memorial No. 17022402290044 dated 25 January 2017.

3. The property is currently zoned under Draft Sai Ying Pun & Sheung Wan (HPA 3) Outline Zoning Plan No. S/H3/33 exhibited on 9 August 2019 for "Commercial" purpose.

4. At the time of our inspection, the property was occupied as co-working spaces. We noted that the interiors and the accessible common areas of the subject building were maintained in a reasonable condition.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
8.	Section A of Lot No. 810 in Demarcation District No. 103, Yuen Long, New Territories, Hong Kong	The property comprises a parcel of agricultural land situated near the Tsing Long Highway in Kam Tin South area of Yuen Long district and close to the Kam Sheung Road MTR Station. Developments in the locality comprise mainly agriculture sites with some temporary structures erected thereon. The general locality remains rural in character. The property is accessible via a pedestrian tunnel from Kam Ho Road following by a footpath. Site area of the property as quoted from the Block Government Lease of DD103 is approximately 36,704 sq.ft. (or 3,409.88 sq.m.).	Pursuant to a tenancy agreement, the property was leased for a term from 6 June 2018 to 28 May 2021 at a monthly rent of HKD7,500 (exclusive of Government rent and rates) as at the valuation date.	22,500,000

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
	The property is held under Block Government Lease of DD103 for a term due to expire on 30 June 2047. The current Government rent payable for the property is an amount equivalent to 3% of the prevailing rateable value of the property per annum.		

Notes:

1. The registered owner of the property is Mark Wealthy Limited, a wholly-owned subsidiary of the Target Company. As advised by the Company, the registered owner will be a wholly-owned subsidiary of the Company after reorganisation.

2. The following encumbrance was registered against the property as at the valuation date:

   a. Mortgage in favour of Shanghai Commercial Bank Limited for all monies vide Memorial No. 18083000370023 dated 20 August 2018 was registered against the property as at the valuation date.

3. The property is currently zoned under Kam Tin South Outline Zoning Plan No. S/YL-KTS/15 approved on 11 December 2018 for "Agriculture" purpose.

4. At the time of our inspection, we noted that the property was fenced mainly by corrugated metal/ wire sheets. We noted some metal structures are erected within the site and the property was occupied for farmland purpose. We have based on the permitted use and restrictions for the purpose of our valuation.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
9.	The Remaining Portion of Lot No. 807 & Section B of Lot No. 810 in Demarcation District No. 103, Yuen Long, New Territories, Hong Kong	The property comprises two parcels of agricultural land situated near the Tsing Long Highway in Kam Tin South area of Yuen Long district and close to the Kam Sheung Road MTR Station. Developments in the locality comprise mainly agriculture sites with some temporary structures erected thereon. The general locality remains rural in character. The property is accessible via a pedestrian tunnel from Kam Ho Road abuts to Tsing Long Highway. The total site area of the property as quoted from the Block Government Lease of DD103 is approximately 60,348 sq.ft. (or 5,606.47 sq.m.).	Pursuant to two tenancy agreements, the property was leased as at the valuation date. *(see Note 2 for details)*	36,800,000

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
	The property is held under Block Government Lease of DD103 for a term due to expire on 30 June 2047. The current Government rent payable for the property is an amount equivalent to 3% of the prevailing rateable value of the property per annum.		

Notes:

1. The registered owner of the property is Mark Wealthy Limited, a wholly-owned subsidiary of the Target Company. As advised by the Company, the registered owner will be a wholly-owned subsidiary of the Company after reorganisation.

2. The tenancy details of the property are summarized as follows:

Portion	Term	Monthly Rent Receivable (HKD)
Lot 807 RP in DD103	9 Jun 2017 – 31 Dec 2021	5,000
	1 Jan 2022 – 31 Dec 2022	7,500
Lot 810 s.B in DD 103	29 May 2017 – 28 May 2021	20,000

Remark: The Monthly rents are exclusive of Government rent and rate.

3. The following encumbrances were registered against the property as at the valuation date:

   a. Consent Letter vide Memorial No. Yl553586 dated 17 May 1993 in respect of The Remaining Portion of Lot No. 807 in DD103.

   b. Notice of Resumption with relevant Resumption Plan annexed vide Memorial No. YL640711 dated 17 August 1995 in respect of The Remaining Portion of Lot No. 807 in DD103.

   c. Consent Letter from Yuen Long District Office to Hastings & Co. Solicitors vide Memorial No. 13072401650028 dated 21 May 2013 in respect of The Remaining Portion of Lot No. 807 in DD103.

   d. Warning Letter from District Lands Officer, Yuen Long vide Memorial No. 16030301760213 dated 23 December 2015 in respect of Section B of Lot No. 810 in DD103.

   e. Mortgage in favour of Shanghai Commercial Bank Limited for all monies vide Memorial No. 18083000370023 dated 20 August 2018.

4. The property is currently zoned under Kam Tin South Outline Zoning Plan No. S/YL-KTS/15 approved on 11 December 2018 for "Agriculture" purpose.

5. At the time of our inspection, we noted that the property was fenced mainly by corrugated metal/ wire sheets and concrete/brick walls. We noted some metal structures are erected within the site and the property was occupied for farmland purpose. We have based on the permitted use and restrictions for the purpose of our valuation.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
10.	5th Floor and The Roof, No. 16 Yiu Wa Street, Causeway Bay, Hong Kong 1/6 shares of Section J and Sub-section 1 of Section K of Inland Lot No. 730 (“the Lots”)	The property comprises a residential unit on 5th Floor and its roof top of a 6-storey tenement building (“the building”) situated within Causeway Bay, a well-established commercial area offering a wide range of shopping, F&B and entertainment facilities popular to tourists and local residents. It was completed in 1958 and renovated in 2011. The building is of reinforced concrete with painted exteriors. Vertical circulation is served by a common staircase. The saleable area of the property from plan is approximately 448 sq.ft. (or 41.62 sq.m.) together with the roof with an area of approximately 332 sq.ft. (or 30.84 sq.m.).	Pursuant to a licence agreement, the right of using the property was granted to a connected party of Target Group from 1 August 2019 to 31 July 2020 at a monthly license fee of HKD17,920 (inclusive of management fees, Government rent and rates) as at the valuation date.	10,800,000

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
	The Lots are held under Government Lease of IL730 for a term of 999 years from 1 September 1881. The current Government rent payable for the property is part of HKD12 per annum.		

Notes:

1. The registered owner of the property is Numeric City Limited, a wholly-owned subsidiary of the Target Company. As advised by the Company, the registered owner will be a wholly-owned subsidiary of the Company after reorganisation.

2. The following encumbrances were registered against the property as at the valuation date:

   a. Deed of Mutual Covenant vide Memorial No. UB279312 dated 21 June 1958.

   b. Notice No. WC/TB03431/06/HK-N01W by The Building Authority under S.24C(1) of The Buildings Ordinance vide Memorial No. 07010300370320 dated 12 October 2006.

   c. Mortgage in favour of Bank of China (Hong Kong) Limited for all monies vide Memorial No. 12081300410041 dated 16 July 2012.

3. The property is currently zoned under Draft Wan Chai (HPA 5) Outline Zoning Plan No. S/H5/28 exhibited on 4 May 2018 for "Commercial" purpose.

4. At the time of our inspection, the property was occupied as service apartment. We noted that the interiors and the accessible common areas of the subject development were maintained in a reasonable condition.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
11.	Unit No. 17B on 12th Floor of Block B, Sea View Estate, Nos.4 - 6 Watson Road, North Point, Hong Kong 522/1,000 of 703/95,000 equal and undivided shares of and in Section A of Marine Lot No. 293 and Inland Lot No. 1780 ("the Lots")	The property comprises an industrial unit on 17th Floor of Block B of Sea View Estate ("the Development") situated in the North Point district which is an established area of mixed residential and commercial uses. The Development was completed in 1971. Block B of the Development is a 15-storey industrial block with industrial space on 1st to 14th Floors and its construction is of reinforced concrete with painted exteriors. Vertical circulation within the building is served by 4 lifts and 2 staircases. The saleable area of the property as measured from the registered floor plan is approximately 2,877 sq.ft. (or 267.28 sq.m.)	Pursuant to a licence agreement, the right of using the property was granted to a connected party of Target Group from 1 Jan 2018 to 31 December 2019 at a monthly license fee of HKD66,000 (exclusive of management fees, Government rent and rates) as at the valuation date.	33,000,000

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
	The property is held under the respective Government Leases of ML293 from 5 November 1906 and IL1780 from 23 December 1907 both for terms of 75 years renewed for further terms of 75 years. The current Government rent payable for the property is HKD1,588 per annum.		

Notes:

1. The registered owner of the property is Rainbow Value Investments Limited, a wholly-owned subsidiary of the Target Company. As advised by the Company, the registered owner will be a wholly-owned subsidiary of the Company after reorganisation.

2. The following encumbrances were registered against the property as at the valuation date:

   a. Deed of Mutual Covenant with Plans vide Memorial No. UB2226951 dated 23 January 1982.

   b. Management Agreement in favour of Selex Properties Management Company Limited "The Manager" vide Memorial No. UB4038462 dated 31 March 1989.

   c. Sub-Deed of Mutual Covenant with Plans vide Memorial No. 11011202320023 dated 21 December 2010.

   d. Mortgage in favour of Hang Seng Bank Limited for all monies vide Memorial No. 16091501500023 dated 18 August 2016.

   e. Rental Assignment in favour of Hang Seng Bank Limited vide Memorial No. 16091501500033 dated 18 August 2016.

3. The property is currently zoned under North Point (HPA 8) Outline Zoning Plan No. S/H8/26 approved on 15 August 2017 for "Commercial (1)" purpose.

4. At the time of our inspection, the property was occupied as wine storage. We noted that the interiors and the accessible common areas of the subject development were maintained in a reasonable condition.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
12.	Workshop No. 17 on 13th Floor, Honour Industrial Centre, No. 6 Sun Yip Street, Chai Wan, Hong Kong 18/11,002 equal and undivided shares of and in The Remaining Portion of Chai Wan Inland Lot No. 6 ("the Lot")	The property comprises an industrial unit on 13th Floor of Honour Industrial Centre ("the Development") situated at the periphery of the Chai Wan industrial area. The Development is a 27-storey industrial block with car parking space on Ground and 1st Floors and industrial space on 2nd to 26th Floors. The Development was completed in 1990 and is of reinforced concrete construction with painted external exteriors. Vertical circulation is served by 8 lifts and 4 staircases. The saleable area of the property as measured from its registered floor plan is approximately 1,017 sq.ft. (or 94.48 sq.m.)	As advised, the property was owner-occupied as at the valuation date.	6,800,000

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
	The property is held under Government Lease of CWIL6 for a term of 75 years from 14 May 1962 renewable for a further term of 75 years. The current Government rent payable for the property is part of HKD890 per annum.		

Notes:

1. The registered owner of the property is Sunny Generation Limited, a wholly-owned subsidiary of the Target Company. As advised by the Company, the registered owner will be a wholly-owned subsidiary of the Company after reorganisation.

2. The following encumbrances were registered against the property as at the valuation date:

   a. Deed of Variation of Lease vide Memorial No. UB3881873 dated 22 June 1988.

   b. Modification Letter vide Memorial No. UB4213793 dated 9 September 1989.

   c. Deed of Mutual Covenant and Management Agreement in favour Hong Yip Service Company Limited "The Manager" vide Memorial No. UB4345569 dated 8 February 1990.

3. The property is currently zoned under Approved Chai Wan Outline Zoning Plan No. S/H20/23 exhibited on 15 September 2017 for "Other Specified Uses" annotated "(Business)" purpose.

4. At the time of our inspection, the property was occupied as storage. We noted that the interiors and the accessible common areas of the subject development were maintained in a reasonable condition.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
13.	Units 602A & B and 603 on 6th Floor, Tower I, Admiralty Centre, No. 18 Harcourt Road, Hong Kong 665/2,458 of 2,458/227,600 equal and undivided shares of and in Inland Lot No. 8423 ("the Lot")	The property comprises 3 office units on 6th Floor of Tower I of Admiralty Centre ("the Development") which is a 33-storey commercial development with retail podium on Ground to 4th Floors and office space on 5th to 32th Floors. The Development was completed in 1994 and is of reinforced concrete construction with reflective glass curtain external exteriors. Vertical circulation is served by 6 passenger lifts, 1 service lift and 3 staircases. The total saleable area of the property as measured from the registered floor plan is approximately 4,306 sq.ft. (or 400.04 sq.m.)	Pursuant to a licence agreement, the right of using the property was granted to connected party of Target Group from 1 January 2019 to 31 December 2019 at a monthly license fee of HK$318,645 (inclusive of Government rent, rate and management fee) as at the valuation date.	210,000,000

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
	The property is held under Conditions of Grant No. UB11226 for a term of 75 years from 18 August 1978 renewable for a further term of 75 years. The current Government rent payable for the property is part of HKD1,000 per annum.		

Notes:

1. As at the valuation date, the registered owner of the property is Sunny Generation Limited, a wholly-owned subsidiary of the Target Company. As advised by the Company, the registered owner will be a wholly-owned subsidiary of the Company after reorganisation.

2. The following encumbrances were registered against the property as at the valuation date:

   a. Deed of Mutual Covenant vide Memorial No. UB2014346 dated 27 December 1980.

   b. Management Undertaking by Mass Transit Railway Corporation in favour of The Government of Hong Kong vide Memorial No. UB4742804 dated 27 February 1991.

   c. Sub-Deed of Mutual Covenant with Plan vide Memorial No. 05092100310030 dated 23 August 2005.

   d. Sub-Sub-Deed of Mutual Covenant with Plan vide Memorial No. 06082401210014 dated 31 July 2006 in respect of Units 602A and 602B

   e. Sub-Sub-Sub-Deed of Mutual Covenant with Plan vide Memorial No. 07102401410035 dated 28 September 2007 in respect of Unit 602B.

   f. Mortgage in favour of The Hongkong and Shanghai Banking Corporation Limited for all moneys vide Memorial No. 19082802190048 dated 30 July 2019.

   g. Rental Assignment in favour of The Hongkong and Shanghai Banking Corporation Limited vide Memorial No. 19082802190054 dated 30 July 2019.

   h. Assignment of Sale and Rental Proceeds in favour of The Hongkong and Shanghai Banking Corporation Limited vide Memorial No. 19082802190063 dated 30 July 2019.

3. The property is currently zoned under Draft Central District (HPA 4) Outline Zoning Plan No. S/H4/17 exhibited on 24 May 2019 for "Commercial" purpose.

4. At the time of our inspection, the property was occupied as co-working spaces. We noted that the interiors and the accessible common areas of the subject development were maintained in a reasonable condition.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
14.	Shop No. 94 on 1st Floor of The Podium, Admiralty Centre, No. 18 Harcourt Road, Hong Kong 31/227,600 equal and undivided shares of and in Inland Lot No. 8423 ("the Lot")	The property comprises a shop unit on 1st Floor of the retail podium of Admiralty Centre ("the Development") which consists of 2 office towers over a retail podium on Ground to 4th Floors. The Development was completed in 1994 and is of reinforced concrete construction with reflective glass curtain external exteriors. Vertical circulation within the retail podium is facilitated by 2 pairs of escalators, various lifts and various staircases. The saleable area of the property as measured from the registered floor plan is approximately 209 sq.ft. (or 19.42 sq.m.).	Pursuant to a tenancy agreement, the property was leased 11 August 2019 to 10 August 2021 at a monthly rent of HK$45,000 (exclusive of Government rates and management fees) as at the valuation date.	20,000,000

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
	The property is held under Conditions of Grant No. UB11226 for a term of 75 years from 18 August 1978 renewable for a further term of 75 years. The current Government rent payable for the property is part of HKD1,000 per annum.		

Notes:

1. The registered owner of the property is Well Sure Corporation Limited, a wholly-owned subsidiary of the Target Company. As advised by the Company, the registered owner will be a wholly-owned subsidiary of the Company after reorganisation.

2. The following encumbrances were registered against the property as at the valuation date:

   a. Deed of Mutual Covenant vide Memorial No. UB2014346 dated 27 December 1980.

   b. Supplemental Deed of Mutual Covenant with Plans vide Memorial No. UB2014348 dated 27 December 1980.

   c. Management Undertaking by Mass Transit Railway Corporation in favour of The Government of Hong Kong vide Memorial No. UB4742804 dated 27 February 1991.

   d. Mortgage in favour of Hang Seng Bank Limited for all monies vide Memorial No. 17011701290031 dated 19 December 2016.

   e. Rental Assignment in favour of Hang Seng Bank Limited vide Memorial No. 17011701290044 dated 19 December 2016.

3. The property is currently zoned under Draft Central District (HPA 4) Outline Zoning Plan No. S/H4/17 exhibited on 24 May 2019 for “Commercial” purpose.

4. At the time of our external inspection, the property was occupied as shop. We noted that the interiors and the accessible common areas of the subject development were maintained in a reasonable condition.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
15.	1st to 4th Floors, No. 16 Yiu Wa Street & Ground to 5th Floors and The Roof, No. 18 Yiu Wa Street, Causeway Bay, Hong Kong 4/6 shares of Section J and Sub-section 1 of Section K of Inland Lot No. 730 and 6/6 shares of The Remaining Portion of Section K of Inland Lot No. 730 ("the Lots")	The property comprises a shop unit on ground floor and 5 residential floors of two 6-storey adjoining tenement buildings situated at Yiu Wa Street in Causeway Bay, a well-established commercial area offering a wide range of shopping, F&B and entertainment facilities popular to tourists and local residents. The buildings were completed in 1958 and renovated in 2011. The buildings are of reinforced concrete with painted exteriors. Vertical circulation is served by a common staircase shared between No. 16 and 18 Yiu Wa Street. The saleable area of the shop unit as measured from plans is approximately 637 sq.ft. (or 59.18 sq.m.) while that of the residential portions is approximately 4,236 sq.ft. (or 393.53 sq.m.) as measured from plans.	Pursuant to two licence agreements, the right of using the property was granted to a connected party of the Target Group as at the valuation date. *(see Note 2 for details)*	155,700,000

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
	Ancillary areas of No. 18 Yiu Wa Street are as follows:		

	(sq.ft.)
Yard on G/F	30
Terrace	180
The Roof	335

Notes:

1. The registered owner of the property is Wise City Holdings Limited, a wholly-owned subsidiary of the Target Company. As advised by the Company, the registered owner will be a wholly-owned subsidiary of the Company after reorganisation.

2. The tenancy details of the property are summarized as follows:

Portions	License Term	Monthly License Fee Receivable (HKD)
Ground Floor, No. 18 Yiu Wa Street	1 Nov 2019 – 31 Oct 2020	95,000 *(Remark 1)*
1st to 4th Floors, No. 16 Yiu Wa Street & 1st to 5th Floors, No. 18 Yiu Wa Street	1 Aug 2019 – 31 Jul 2020	112,840 *(Remark 2)*

Remark 1: The Monthly License fee is exclusive of management charges and Government rent and rates.

Remark 2: The Monthly License fee is inclusive of management charges and Government rent and rates.

3. The following encumbrances were registered against the Properties as at the valuation date:

   a. Deed of Mutual Covenant vide Memorial No. UB279312 dated 21 June 1958 for No. 16 Yiu Wa Street.

   b. Deed of Mutual Covenant vide Memorial No. UB275779 dated 11 April 1958 for No. 18 Yiu Wa Street.

   c. Notice No. WC/TB03430/06/HK/-N01W by The Building Authority Under S.24c(1) of The Buildings Ordinance dated 12 October 2006 vide Memorial No. 07010300370314 in respect of 4/F, No. 16 Yiu Wa Street only.

   d. Notice No. WC/TB03432/06/HK-N01W by The Building Authority Under S.24c(1) of The Buildings Ordinance dated 12 October 2006 vide Memorial No. 07010300370330 in respect of 4/F, No. 18 Yiu Wa Street.

   e. Mortgage in favour of Bank of China (Hong Kong) Limited for all monies vide Memorial No. 11061502260153 dated 16 May 2011.

4. The Properties is currently zoned under Draft Wan Chai (HPA 5) Outline Zoning Plan No. S/H5/28 exhibited on 4 May 2018 for "Commercial" purpose.

5. At the time of our inspection, Ground Floor of No. 18 Yiu Wa Street was occupied as Western restaurant and 1st to 4th Floors, No. 16 Yiu Wa Street and 1st to 5th Floors, No. 18 Yiu Wa Street were occupied as service apartment. We noted that the interiors and the accessible common areas of the subject development were maintained in a reasonable condition.

6. The property is subject to building orders as mentioned in note 3. In the course of our valuation, we have not taken into account any cost of remedial measures in complying with such orders.

Group II — Property interest to be acquired and held for future development by the Group in Korea

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date *HKD*
16.	656-25 1ga Sungsu-dong, Seongdong-gu, Seoul, Korea	The property comprises a parcel of bare land with freehold interest within a semi-industrial area of Seoul. The site area is approximately 487 sq.m. of which approximately 17 sq.m is planned for roadwork.	The property was vacant as at the valuation date.	57,500,000 (equivalent to KRW8,529,800,000)

Notes:

1. The registered owner of the property is Seongsu Vision Co. Limited, a wholly-owned subsidiary of the Target Company vide Memorial No. 9478 dated 12th June 2018. As advised by the Company, the registered owner will be a wholly-owned subsidiary of the Company after reorganisation.

2. The property is subject to a Trust in favour of Shinhan bank vide Memorial No. 9481 dated 3rd January 2019.

3. The property has been permitted of new construction by authorities vide Memorial No. 2019-3030080-1101-60 dated 9th September 2019. According to an investigation by questioning, the construction of the new commercial and office building is expected to begin in March 2020.

4. The property is located in the semi-industrial zoning area. It is a trapezoid shaped lot with 2 sides abutting roads. This property is located around the Seoul-forest subway station sphere which has a commercial facility development plan.

5. The exchange rate adopted in our valuation is approximately HKD1=KRW148 which was approximately the prevailing exchange rate as at the valuation date.

Details of the adjustment mechanism to the Conversion Price are set out below:

(a) Subject as hereinafter provided, the Conversion Price shall from time to time be adjusted in accordance with the following relevant provisions and so that if the event giving rise to any such adjustment shall be such as would be capable of falling within more than one of sub-paragraphs (i) to (vii) inclusive of this Clause (a), it shall fall within the first of the applicable paragraphs to the exclusion of the remaining paragraphs:

(i) If and whenever the Shares by reason of any consolidation or sub-division or re-classification or otherwise become of a different nominal amount, the Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the following fraction:

$$\frac{A}{B}$$

where:

A = the revised nominal amount; and

B = the former nominal amount.

Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the consolidation or sub-division or re-classification or otherwise becomes effective.

(ii) If and whenever the Company shall issue (other than in lieu of a cash dividend) any Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the Conversion Price in force immediately prior to such issue shall be adjusted by multiplying it by the following fraction:

$$\frac{C}{C + D}$$

where:

C = the aggregate nominal amount of the issued Shares immediately before such issue; and

D = the aggregate nominal amount of the Shares issued in such capitalisation.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for such issue.

(iii) If and whenever the Company shall make any Capital Distribution (as defined in Clause (b) of this Appendix) to holders (in their capacity as such) of Shares (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Conversion Price in force immediately prior to such distribution or grant shall be adjusted by multiplying it by the following fraction:

$$\frac{E - F}{E}$$

where:

E = the market price (as defined in Clause (b) of this Appendix) on the date on which the Capital Distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) the date next preceding the date of the Capital Distribution or, as the case may be, of the grant; and

F = the fair market value on the day of such announcement or (as the case may require) the next preceding day, as determined in good faith by the Company's auditors for the time being, of the portion of the Capital Distribution or of such rights which is attributable to one Share,

Provided that:

(aa) if in the opinion of the Company's auditors, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine, and in such event the above formula shall be construed as if meant, the amount of the said market price which should properly be attributed to the value of the Capital Distribution or rights; and

(bb) the provisions of this sub-paragraph (iii) shall not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for the Capital Distribution or the grant.

(iv) If and whenever the Company shall offer to holders of Shares new Shares for subscription by way of rights, or shall grant to holders of Shares any options, warrants or other rights to subscribe for any new Shares at a price which is less than 80% of the market price as at the date of the announcement of the terms of the offer or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of the announcement of such offer or grant by the following fraction:

$$\frac{G + \dfrac{H \times I}{J}}{G + H}$$

where:

G = the number of Shares in issue immediately before the date of such announcement;

H = the aggregate number of Shares so offered for subscription or comprised in the options or warrants or other rights;

I = the amount (if any) payable for the rights, options or warrants or other rights to subscribe for each new Share, plus the subscription price payable for each new Share; and

J = the market price on the trading day immediately prior to such announcement.

Such adjustment shall become effective (if appropriate retroactively) from the commencement of the day next following the record date for the offer or grant.

(v) (aa) If and whenever the Company shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the Total Effective Consideration (as defined below in this sub-paragraph (v)) per Share initially receivable for such securities is less than 80% of the market price as at the date of the announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the issue by a fraction of which the numerator is the number of Shares in issue immediately before the date of the issue plus the number of Shares which the Total Effective Consideration receivable for the securities issued would purchase at the said market price immediately prior to the date of such announcement and the denominator is the number of Shares in issue immediately before the date of the issue plus the number of Shares to be issued upon conversion or exchange of, or the exercise of the subscription rights conferred by, such securities, at the initial conversion or exchange price or subscription price. Such adjustment shall become effective (if appropriate retrospectively) from the close of business in Hong Kong on the Business Day next preceding whichever is the earlier of the date on which the issue is announced and the date on which the Company determines the conversion or exchange price or subscription price.

(bb) If and whenever the rights of conversion or exchange or subscription attached to any such securities as are mentioned in section (aa) of this sub-paragraph (v) are modified so that the Total Effective Consideration (as defined below in this sub-paragraph (v)) per Share initially receivable for such securities shall be less than 80% of the market price as at the date of the announcement of such proposal, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by a fraction of which the numerator is the number of Shares in issue immediately before the date of such modification plus the number of Shares which the Total Effective Consideration receivable for the securities issued at the modified conversion or exchange price would purchase at the said market price and of which the denominator is the number of Shares in issue immediately before such date of modification plus the number of Shares to be issued upon conversion or exchange of or the exercise of the subscription rights conferred by such securities at the modified conversion or exchange price or subscription price. Such adjustment shall take effect as at the date upon which such modification takes effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purposes where it is adjusted to take into account of rights or capitalisation issues and other events normally giving rise to adjustment of conversion or exchange terms.

For the purposes of this sub-paragraph (v), the "**Total Effective Consideration**" receivable for the securities issued shall be deemed to be the consideration receivable by the Company for any such securities plus the additional minimum consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights, and the Total Effective Consideration per Share initially receivable for such securities shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange price or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue.

(vi) If and whenever the Company shall issue wholly for cash any Shares (other than Shares issued on the exercise of conversion rights attaching to this Convertible Bond or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) at a price per Share which is less than 80% of the market price as at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of such announcement by a fraction of which the numerator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares which the aggregate amount payable for the issue would purchase at the said market price immediately prior to the date of such announcement and the denominator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares so issued. Such adjustment shall become effective (if appropriate, retrospectively) from the close of business in Hong Kong on the Business Day next preceding whichever is the earlier of the date on which the issue is announced and the date on which the Company determines the issue price for such Shares.

(vii) If and whenever the Company shall issue the Shares for the acquisition of asset at a Total Effective Consideration (as defined below) per Share which is less than 80% of the market price at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying it by a fraction of which the numerator shall be the Total Effective Consideration per Share and the denominator shall be such market price. Each such adjustment shall be effective (if appropriate retroactively) from the close of business in Hong Kong on the Business Day next preceding whichever is the earlier of the date on which the Company determines the issue price for such Shares or the date of announcement of such issue. For the purpose of this sub-paragraph (vii) "**Total Effective Consideration**" shall be the aggregate consideration credited as being paid for such Shares by the Company on acquisition of the relevant asset without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof, and the "**Total Effective Consideration per Share**" shall be the Total Effective Consideration divided by the number of Shares issued as aforesaid.

(viii) Notwithstanding anything contained herein, if any determination or adjustment is to be made by the Company's auditors pursuant to the provisions set out in this Appendix and if the directors of the Company or the Convertible Bondholder does not agree to such determination or adjustment made by the Company's auditors, the directors of the Company or the Convertible Bondholder (as the case may be) may request the approved merchant bank to make such determination or adjustment in accordance with the provisions set out in this Appendix as soon as practicable The costs of engaging the approved merchant bank under this sub-paragraph (viii) shall be borne by the Convertible Bondholder and the Company in equal shares.

(ix) Notwithstanding anything contained herein, if the Directors or the Convertible Bondholder considers that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances (as referred to in this Appendix) or notwithstanding that no such adjustment is required under the said provisions, or that an adjustment to the Conversion Price provided for under the said provisions should not be made or should be calculated on a different basis, or that an adjustment should take effect on a different date or with a different time from that provided for under the provisions, the Directors or the Convertible Bondholder (as the case may be) may request the approved merchant bank acting as expert to determine as soon as practicable (aa) what adjustment (if any) to the Conversion Price is fair and reasonable to take into account thereto and is appropriate to give the result which the approved merchant bank considers in good faith to reflect the intentions of the provisions of this Appendix and to fairly and reasonably reflect the relative interests of the persons affected thereby; and (bb) the date and time on which such adjustment should take effect; and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this sub-paragraph (viii) if the approved merchant bank is so requested to make such a determination. The costs of engaging the approved merchant bank under this sub-paragraph (ix) shall be borne by the Convertible Bondholder and the Company in equal shares.

(b) For the purposes of this Appendix:

"**announcement**" shall mean any announcement published in the newspaper or on the website of the Stock Exchange by the Company in accordance with the Listing Rules and the "**date of announcement**" shall mean the date of such announcement as set out therein;

"**approved merchant bank**" means a merchant bank of repute in Hong Kong selected and appointed jointly by the Company and the Convertible Bondholder for the purpose of providing a specific opinion or calculation or determination hereunder, or failing which a merchant bank as may be appointed by the President of The Law Society of Hong Kong upon the request of either the Company or the Convertible Bondholder;

"**Capital Distribution**" shall (without prejudice to the generality of that phrase) include distributions in cash or specie but shall exclude a purchase of shares or other securities or rights. Any dividend or distribution charged or provided for in the accounts for any financial period shall (whenever paid and however described) be deemed to be a Capital Distribution, provided that no dividend or distribution shall be a Capital Distribution if:

(i) (and to the extent that) it is paid out of the aggregate of the cumulative net profits (less losses) attributable to the holders of Shares for all financial periods after that ended 31 December 2019 as shown in the audited consolidated profit and loss account of the Group for each such financial period; or

(ii) to the extent that (i) above does not apply, the rate of that dividend or distribution, together with all other dividends or distributions on the class of capital in question charged or provided for in the accounts for the financial period in question, does not exceed the aggregate rate of dividend or distribution on such class of capital charged or provided for in the accounts for the last preceding financial period. In computing such rates, such adjustments may be made as are in the opinion of the auditors of the Company appropriate to the circumstances and shall be made in the event that the lengths of such periods differ materially;

"**Convertible Bondholder**" means the registered holder of the Convertible Bond(s);

"**issue**" shall include allot;

"**market price**" means the average of the closing price per Share for each of the last thirty (30) Stock Exchange trading days on which dealings in the Shares on the Stock Exchange took place ending on such trading day last preceding the day on or as of which the market price is to be ascertained;

"**reserves**" shall include unappropriated profits;

"**rights**" shall include rights in whatsoever form issued; and

"**Shares**" includes, for the purposes of Shares comprised in any issue, distribution or grant pursuant to sub-paragraph (iii), (iv), (v), (vi) or (vii) of Clause (a) of this Appendix, any such ordinary shares of the Company as, when fully paid, will be Shares.

(c) The provisions of sub-paragraphs (ii), (iii) and (v) of Clause (a) of this Appendix shall not apply to:

(i) an issue of fully paid Shares upon the exercise of any conversion rights attached to securities convertible into Shares or upon exercise of any rights (including any conversion of the Convertible Bond) to acquire Shares provided that an adjustment (if required) has been made under the provision(s) set out in this Appendix in respect of the issue of such securities or granting of such rights (as the case may be);

(ii) an issue of the Shares or other securities of the Company or any subsidiary of the Company wholly or partly convertible into, or rights to acquire, the Shares to officers or employees of the Company or any of its subsidiaries or any other eligible participants pursuant to any share option scheme adopted by the Company or any subsidiary of the Company from time to time during the subsistence of the Convertible Bond in compliance with the Listing Rules;

(iii) an issue by the Company of Shares or by the Company or any subsidiary of the Company of securities wholly or partly convertible into or rights to acquire, the Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business PROVIDED THAT an adjustment has been made (if appropriate) under the provision(s) set out in this Appendix in respect of the issue of such securities or granting of such rights (as the case may be);

(iv) an issue of fully-paid Shares by way of capitalisation of all or part of any subscription right reserve, or any similar reserve which has been or may be established pursuant to the terms of any securities wholly or partly convertible into, or rights to acquire, Shares; or

(v) an issue of Shares pursuant to a scrip dividend scheme where an amount not less than the nominal amount of the Shares so issued is capitalised and the market value of such Shares is not more than 80% of the amount of dividend which holders of the Shares could elect to or would otherwise receive in cash, for which purpose the "**market value**" of a Share shall mean the average of the closing prices on such Stock Exchange dealing days on which dealings in the Shares took place (being not less than ten (10) such days) as are selected by the directors of the Company in connection with determining the basis of allotment in respect of the relevant scrip dividend and which fall within the period of one month ending on the last day on which holders of Shares may elect to receive or (as the case may be) not to receive the relevant dividend in cash.

(d) Any adjustment to the Conversion Price shall be made to the nearest one cent so that any amount under 0.005 cent shall be rounded down and any amount of 0.005 cent or more shall be rounded up and, notwithstanding anything contained herein, in no event shall any adjustment (otherwise than upon the consolidation of Shares into Shares of a larger nominal amount) involve an increase in the Conversion Price. Every adjustment to the Conversion Price shall be certified by the Company's auditors or the approved merchant bank (in the event any determination is to be made by the approved merchant bank pursuant to Clause (a)(viii) or (ix) of this Appendix).

(e) Notwithstanding anything contained herein, no adjustment shall be made to the Conversion Price in any case in which the amount by which the same would be reduced in accordance with the foregoing provisions of this Appendix would be less than one cent and any adjustment that would otherwise be required then to be made shall not be carried forward.

(f) If the Company or any subsidiary of the Company shall in any way modify the rights attached to any share or loan capital so as wholly or partly to convert or make convertible such share or loan capital into, or attach thereto any rights to acquire, Shares, the Company shall appoint the Company's auditor to consider whether any adjustment to the Conversion Price is appropriate (and if such auditors shall certify that any such adjustment is appropriate, the Conversion Price shall be adjusted accordingly and the provisions of Clause (d), (e), (g) and (h) of this Appendix shall apply), subject to the provisions of Clause (a)(viii) and (ix) of this Appendix.

(g) Whenever the Conversion Price is adjusted as herein provided, the Company shall as soon as possible but not later than three (3) Business Days after the relevant adjustment has been determined give notice to the Convertible Bondholder that the Conversion Price has been adjusted (setting forth the event giving rise to the adjustment, the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date thereof) and shall at all times thereafter so long as the Convertible Bond remains outstanding make available for inspection at its head office and principal place of business in Hong Kong a signed copy of the said certificate of the auditors of the Company or the approved merchant bank (in the event any determination is to be made by the approved merchant bank pursuant to Clause (a)(viii) or (ix)) of this Appendix and a certificate signed by a Director setting forth brief particulars of the event giving rise to the adjustment, the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date thereof and shall, on request, send a copy thereof to the Convertible Bondholder.

(h) Notwithstanding any other provision of this Appendix, no adjustment shall be made which would (but for this Clause (h)) result in the Conversion Price being reduced so that on conversion, Shares would fall to be issued at a discount to their nominal value, and in such case an adjustment shall be made to the effect that the Conversion Price will be an amount equal to the nominal value of the Shares.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS

(a) Directors' and chief executive's interests and short positions in Shares and underlying Shares

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

Long Positions in the Shares and underlying Shares

Name of Directors/ chief executive	Number of Shares held (Beneficial owner/through controlled corporation)	Interests in share option *(Note 2)*	Other derivative interests in listed corporation	Total	Approximate percentage of shareholding in the Company (%) *(Note 4)*
Mr. Chan Man Fai Joe	434,640,800 *(Note 1)*	5,476,000	581,538,461 *(Note 3)*	1,021,655,261	159.26
Ms. Cheung Wai Shuen	300,000	6,099,200	–	6,399,200	1.00
Mr. Liu Hon Wai	–	4,899,200	–	4,899,200	0.76
Mr. Pong Kam Keung	–	2,136,000	–	2,136,000	0.33
Mr. Yim Kwok Man	–	627,200	–	627,200	0.10
Ms. Chan Wah Man Carman	156,000	471,200	–	627,200	0.10
Mr. Lee Chung Ming Eric	–	627,200	–	627,200	0.10

Notes:

1. Star Properties Holdings (BVI) Limited, a company incorporated in the BVI with limited liability, held 432,140,800 Shares as at the Latest Practicable Date. Star Properties Holdings (BVI) Limited is wholly-owned by Mr. Chan. By virtue of the SFO, Mr. Chan is deemed to be interested in the Shares in which Star Properties Holdings (BVI) Limited is interested.

2. These represent the interests of share options granted to the Directors under the share option scheme adopted by the Company on 27 June 2016 to subscribe for shares.

3. The Vendor is indirectly held as to 100% by Mr. Chan. The Vendor is interested in 581,538,461 Shares by virtue of the Convertible Bonds contemplated under the Acquisition Agreement. By virtue of the SFO, Mr. Chan is deemed to be interested in the Shares in which the Vendor is interested.

4. These percentages were compiled based on the total number of issued Shares (i.e. 641,498,000 Shares) as at the Latest Practicable Date

(b) Directors and chief executive's interest and short position debentures

As at the Latest Practicable Date, the following Director had interests in the debentures issued by the Company:

Name of Director	Amount of debentures Personal interests	Family interests	Corporate Interests	Total	Approximate percentage to the total amount of debentures in issued as at the Latest Practicable Date
Chan Man Fai Joe	—	—	HK$378,000,000 *(note 1)*	HK$378,000,000	100%

Notes:

1. The Convertible Bonds will be issued to the Vendor, which is indirectly held as to 100% by Mr. Chan, pursuant to the Acquisition Agreement.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register of the Company referred to therein; or (iii) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(c) Substantial Shareholders' interests and short positions in Shares and underlying Shares

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (other than the Directors and the chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in the Shares or underlying Shares

Name of Shareholder	Capacity	Number of Shares held	Interests in share option	Approximate percentage of shareholding in the Company (%) *(Note 3)*
Star Properties Holdings (BVI) Limited	Beneficial owner *(Note 1)*	432,140,800	–	67.36
Mr. Lam Kin Kok	Interest of controlled corporation *(Note 2)*	38,259,200	–	5.96
	Beneficial owner	1,120,000	–	0.17
Eagle Trend (BVI) Limited	Beneficial owner *(Note 2)*	38,259,200	–	5.96
The Vendor	Beneficial owner *(Note 3)*	581,538,461	–	90.65

Notes:

1. Star Properties Holdings (BVI) Limited, a company incorporated in the BVI with limited liability, held 432,140,800 Shares as at the Latest Practicable Date. Star Properties Holdings (BVI) Limited is wholly-owned by Mr. Chan. By virtue of the SFO, Mr. Chan is deemed to be interested in the Shares in which Star Properties Holdings (BVI) Limited is interested.

2. Eagle Trend (BVI) Limited, a company incorporated in the BVI with limited liability, held 38,259,200 Shares as at the Latest Practicable Date. Eagle Trend (BVI) Limited is wholly-owned by Mr. Lam Kin Kok. By virtue of the SFO, Mr. Lam Kin Kok is deemed to be interested in the hares in which Eagle Trend (BVI) Limited is interested.

3. The Vendor is indirectly held as to 100% by Mr. Chan. The Vendor is interested in 581,538,461 Shares by virtue of the Convertible Bonds contemplated under the Acquisition Agreement. By virtue of the SFO, Mr. Chan is deemed to be interested in the Shares in which the Vendor is interested.

4. These percentages were compiled based on the total number of issued Shares (i.e. 641,498,000 Shares) as at the Latest Practicable Date.

5. All the interests stated above represent long positions.

Saved as disclosed above, so far as is known to the Directors, as at the Latest Practicable Date, no person had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was a substantial shareholder of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors is a director or employee of a company which has an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Enlarged Group which does not expire or is not terminable by the Enlarged Group within one year without payment of compensation, other than statutory compensation.

4. DIRECTORS' INTEREST IN ASSETS/CONTRACTS AND OTHER INTERESTS

(a) Interests in assets

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2018 (being the date up to which the latest published audited consolidated financial statements of the Group was made), acquired or disposed of by, or lease to any member of the Enlarged Group, or which were proposed to be acquired or disposed of by, or leased to any member of the Enlarged Group.

(b) Interests in contracts

Save as contemplated under the Acquisition Agreement, as at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any subsisting contract or arrangement which was significant in relation to the business of the Enlarged Group.

(c) Interests in competing business

As at the Latest Practicable Date, none of the Directors nor their respective close associates had any interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Enlarged Group.

5. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date which are or may be material:

(a) the provisional sale and purchase agreement dated 3 May 2019 and entered into between Ritzy Soar Limited, an indirect wholly owned subsidiary of the Company, as purchaser, and Celinal Limited and West Coast International Limited, as vendors, in relation to the acquisition of the entire issued share capital of Palico Development Limited and the vendors' loan advance owing by Palico Development to the Celinal Limited and West Coast International Limited and their respective associates (if any) as at 31 October 2019 at an aggregate consideration of HK$49,380,000, details of which are disclosed in the announcement of the Company dated 3 May 2019;

(b) the sale and purchase agreement dated 31 December 2019 and entered into among Inventive Rainbow Limited, an indirect wholly-owned subsidiary of the Company, as vendor, the Company, as guarantor, and 1 Plus 13 Investment Company Limited as purchaser, pursuant to which (i) 1 Plus 13 Investment Company Limited has agreed to purchase and Inventive Rainbow Limited has agreed to sell the entire issued share capital of Rainbow Red Holdings Limited and the shareholder's loan at an aggregate consideration of HK$980,000,000; and (ii) the Company agreed to guarantee and procure the performance of all obligations of Inventive Rainbow Limited under the agreement, details of which are disclosed in the announcement of the Company dated 31 December 2019; and

(c) the Acquisition Agreement.

6. LITIGATION AND CLAIMS

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

7. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinions or advice which are contained in this circular (the "**Experts**")

Name	Qualifications
Sinolink Securities (HK) Company Limited	a corporation licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**")	Independent property valuer
BDO Limited ("**BDO**")	Certified Public Accountants

Each of the above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its report and/or opinion (as the case may be) and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, each of the above expert did not have any shareholding, directly or indirectly, in any member of the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

As at the Latest Practicable Date, each of the above expert did not have any direct or indirect interest in any assets which had been, since 31 December 2018, the date to which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any members of the Enlarged Group.

Each of (i) the letter of the Independent Financial Adviser; (ii) the accountants' report of BDO on the Target Group; (iii) the report of BDO on unaudited pro forma financial information of the Enlarged Group; and (iii) the valuation report of JLL is given as of the date of this circular for incorporation herein.

8. GENERAL

(a) The registered office of the Company is at Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.

(b) The head office and principal place of business of the Company in Hong Kong is at 11/F, TG Place, 10 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong.

(c) The principal share registrar of the Company is Estera Trust (Cayman) Limited, Clifton house, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.

(d) The Hong Kong branch share registrar of the Company is Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) The company secretary of the Company is Ms. Cheung Wai Shuen, who is an associate of The Institute of Chartered Secretaries and Administrators and admitted associate of The Hong Kong Institute of Chartered Secretaries.

(f) The English text of this circular shall prevail over the Chinese text, in case of any inconsistencies.

9. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents will be available for inspection at the principal place of business of the Company in Hong Kong at 11/F, TG Place, 10 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the letter from the Independent Board Committee, the text of which is set out on pages 49 to 50 of this circular;

(c) the letter from the Independent Financial Adviser, the text of which is set out on pages 51 to 94 of this circular;

(d) the annual reports of the Company for the years ended 31 December 2017, 2018 and 2019 and the interim report of the Company for the six months period ended 30 June 2019;

(e) the accountants' report on the Target Group prepared by BDO, the text of which are set out in Appendix II to this circular;

(f) the report on the unaudited pro forma financial information of the Enlarged Group issued by BDO, the text of which is set out in Appendix IV to this circular;

(g) the property valuation report issued by JLL, the text of which is set out in Appendix V to this circular;

(h) a copy of each of the material contracts referred to in the paragraph headed "Material contracts" in this Appendix (or where any of these contracts have not been reduced into writing, a memorandum giving full particulars thereof);

(i) the consent letters referred to in the paragraph headed "Experts and consents" in this Appendix; and

(j) this circular.

Star Properties Group (Cayman Islands) Limited
星星地產集團(開曼群島)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1560)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Star Properties Group (Cayman Islands) Limited (the "**Company**") will be held at 11/F, TG Place, No.10 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong on 17 April 2020 at 10:00 a.m. for the purposes of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company, with or without amendments:

ORDINARY RESOLUTION

1. "**THAT**:

(a) subject to the fulfillment of the terms and conditions set out in the sale and purchase agreement dated 24 January 2020 (the "**Acquisition Agreement**", a copy of which has been produced to the Meeting and signed by the chairman of the Meeting (the "**Chairman**") for identification purpose) entered into between the Company and Metropolitan Lifestyle (BVI) Limited ("**Vendor**") in relation to the proposed acquisition (the "**Acquisition**") of the entire issued share capital of Metropolitan Group (BVI) Limited and all obligations, liabilities and debts owing or incurred by the Target Group (as defined in the circular of the Company dated 27 March 2020 ("**Circular**")) to the Vendor on or at any time prior to completion by the Company from the Vendor, at the aggregate consideration of HK$420,000,000, which shall be satisfied by part payment in cash and the allotment and issue of Convertible Bonds (as defined below), the Acquisition Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) the issuance of the 3% coupon perpetual convertible bonds in the aggregate principal amount of HK$378,000,000 (the "**Convertible Bonds**") by the Company pursuant to the terms of the Acquisition Agreement be and is hereby approved;

(c) the allotment and issue of new ordinary shares of the Company to holder(s) of the Convertible Bonds upon the exercise of the conversion rights attaching to the Convertible Bonds (the "**Conversion Shares**") be and are hereby approved, and the directors of the Company be and are hereby granted a specific mandate to allot and issue the Conversion Shares accordingly; and

(d) any one director of the Company, or any two directors of the Company if affixation of the Company's common seal is necessary, be and is/are hereby authorised to do all such acts and things, to sign and execute all such documents, instruments or agreements (and to affix the common seal of the Company thereon, if necessary) for and on behalf of the Company as he/she/they may in his/her/their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Acquisition Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds to the Vendor and/or its nominee(s), and the allotment and issue of the Conversion Shares and the Consideration Shares to the Vendor and/or its nominee(s)."

Yours faithfully,
For and on behalf of the Board of
Star Properties Group (Cayman Islands) Limited
Chan Man Fai Joe
Executive Director

Hong Kong, 27 March 2020

Notes:

1. In order to determine the list of Shareholders who will be entitled to attend and vote at the EGM, the register of members of the Company will be closed for registration of transfer of Shares from 15 April 2020 to 17 April 2020 (both days inclusive) during which period no transfer of Shares will be effected. Shareholders whose names appear on the register of members of the Company on 17 April 2020 shall be entitled to attend and vote at the EGM. In order for the Shareholders to qualify for attending and voting at the EGM, all transfer documents, accompanied by the relevant Share certificates, should be lodged for registration with Tricor Investor Service Limited, the Company's share registrar, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, on or before 4:30 p.m., 14 April 2020.

2. Any shareholder of the Company entitled to attend and vote at the EGM convened by the above notice is entitled to appoint another person as his proxy to attend and vote instead of him. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company. A form of proxy for use at the EGM is enclosed herewith.

3. Where there are joint registered holders of any share, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

4. To be valid, the form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited at the Company's share registrar, Tricor Investor Service Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the EGM or any adjournment thereof.

5. Delivery of the form of proxy will not preclude a shareholder from attending and voting in person at the EGM or any adjourned meeting or upon the poll concerned and, in such event, the instrument appointing a proxy will be deemed to be revoked.

6. As required under the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited, the above resolution will be voted by way of poll.