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 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) VERY SUBSTANTIAL ACQUISITION 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 96 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 30 September 2020 at 3:00 p.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.

15 September 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 21 July 2020 entered into between the Company and the Vendor 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" or "Star Properties"	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)
"close associate"	has the meaning ascribed to it under the Listing Rules
"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$0.5 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$418,000,000 which will be issued by the Company to the Vendor to settle part of the Consideration
"COVID-19"	the novel coronavirus identified as the source of a global outbreak in late 2019
"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 as at the Latest Practicable Date
"Deed of Guarantee"	the deed of guarantee dated 10 June 2020 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 2020 to 28 February 2023 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

"EGM"	the extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and, if though fit, approve the Acquisition Agreement and the transactions contemplated thereunder
"Existing Target Group"	means the Target Company, and Metropolitan Lifestyle Holdings (BVI) and its subsidiaries, as at the date of the Acquisition Agreement
"Enlarged Group"	the Group upon Completion
"FY2017"	the financial year ended 31 December 2017
"FY2018"	the financial year ended 31 December 2018
"FY2019"	the financial year ended 31 December 2019
"Group"	the Company and its subsidiaries
"HK$" or "HKD"	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
"Kwun Tong Site Project"	our property development project situated at Nos. 107-109 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong

"Latest Practicable Date"	10 September 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 31 October 2020 or such later date as the Vendor and the Company may agree in writing
"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 held indirectly by the Target Company as to 85% as at the Latest Practicable Date and 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 held indirectly by the Target Company as to approximately 80.75% as at the Latest Practicable Date and immediately upon completion of the Reorganisation
"Metropolitan Lifestyle Holdings (BVI)"	means Metropolitan Lifestyle Holdings (BVI) Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Target Company as at the Latest Practicable Date
"Metropolitan Lifestyle Holdings (BVI) Group"	means Metropolitan Lifestyle Holdings (BVI), Metropolitan Fine Wine, Metropolitan Wine Cellar Group, Metropolitan Workshop, Metropolitan Apartment, Metropolitan Production, Metropolitan Storage Group
"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 held indirectly by the Target Company as to 75% as at the Latest Practicable Date and 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 held indirectly by the Target Company as to approximately 78% as at the Latest Practicable Date and immediately upon completion of the Reorganisation

"Metropolitan Storage Group"	means Metropolitan Storage and its subsidiaries
"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% as at the Latest Practicable Date and immediately 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 held indirectly by the Target Company as to 85% as at the Latest Practicable Date and immediately upon completion of the Reorganisation
"Mr. Chan"	means Mr. Chan Man Fai Joe, an executive Director and controlling shareholder of the Company
"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

"Previous Acquisition Agreement"	the sale and purchase agreement dated 24 January 2020 entered into between the Company and the Vendor in relation to the acquisition of the Sale Share and all obligations, liabilities and debts owing or incurred by Metropolitan Group (BVI) Limited and its subsidiaries at an aggregate consideration of HK$420,000,000, details of which are set out in the announcement of the Company dated 24 January 2020 and the circular of the Company dated 27 March 2020
"Reorganisation"	the reorganization of the Existing Target Group conducted prior to Completion, comprising (i) the acquisition of the Crystal Cay Group by the Target Company; and (ii) the assignment of the Sale Loan to the Target Company
"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 and 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 Acquisition Agreement and as at Completion
"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)
"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
"Tack Lee Project"	our property development project situated at Nos. 107-111 Tung Chau Street, Tai Kok Tsui, Kowloon, Hong Kong
"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 and the Metropolitan Lifestyle Holdings (BVI) Group, and a "Target Group Company" shall mean any of them
"Tenancy Agreement"	the tenancy agreement dated 10 June 2020 entered into by Noble Empire (as tenant) and an independent third party (as landlord) in respect of the property situated at Unit No. 2 on 4th Floor of Block A, Sea View Estate, No. 2 Watson Road, Hong Kong for a term of 3 years commencing from 1 March 2020 to 28 February 2023
"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

"Yuen Long Site Project"	our property development project situated at No. 21, Wang Yip Street West, Yuen Long, New Territories, Hong Kong
"Warranties"	the representations, warranties and undertakings of the Vendors as set out in the Acquisition Agreement
"%"	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

15 September 2020

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION 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

Reference is made to the announcements of the Company dated 24 January 2020 and 30 June 2020 and the circular of the Company dated 27 March 2020 in relation to the Previous Acquisition Agreement and the transactions contemplated thereunder.

As disclosed in the announcement of the Company dated 30 June 2020, as certain condition(s) under the Previous Acquisition Agreement have not been fulfilled or waived by the long stop date of 30 June 2020, the Previous Acquisition Agreement has lapsed on 30 June 2020 pursuant to the terms thereof and shall cease to be of any effect and neither party shall have any obligations and liabilities thereunder. The refund of the deposit paid under the Previous Acquisition Agreement has been made by the Vendor to the Company on the same day.

The Board considers that it will be in the interest of the Company and its Shareholders as a whole, if, upon the termination of the Previous Acquisition Agreement, the Company and the Vendor could enter into the Acquisition Agreement as soon as possible because:

(a) the Company has formulated its business strategy for the forthcoming second half of 2020 and the next few years on the assumption that the transactions contemplated under the Previous Acquisition Agreement having been completed by 30 June 2020. The Company considers that the proposed Acquisition would help to minimize the disruption and adjustment of the business plan and strategy of the Group (as the disruption and adjustment of the business plan and strategy of the Group may result in the Group incurring extra operation costs);

(b) with a view to implementing the transactions contemplated under the Previous Acquisition Agreement, the Group negotiated with various banks for the release of certain personal guarantees and new facilities (the "**New Facilities**") with revised terms have been granted by the banks which originally would become effective upon/after the completion of the transactions contemplated under the Previous Acquisition Agreement. The New Facilities were available to the Group for only a specified term. The Group has further negotiated with the banks and the relevant facility letter(s) for the New Facilities has to be executed by mid-October. The existing personal guarantees are expected to be released upon Completion. Entering into the Acquisition Agreement and the transactions contemplated thereunder as soon as possible can help to avoid incurring extra costs by the parties to the Previous Acquisition Agreement for renegotiating for the approval of the grant of the New Facilities by the banks; and

(c) if completion of the proposed Acquisition is further delayed, the auditors to the Group will be required to adopt new reference date for the determination of the financial information of the Group to be disclosed in the circular in compliance of the Listing Rules for which the Company will need to incur extra professional charges and fees.

On 21 July 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$460,000,000, 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.

Principal terms of the Acquisition Agreement are set out below.

2. THE ACQUISITION AGREEMENT

Date: 21 July 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 represent 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 and payable on Completion. The outstanding unaudited indebtedness owing by the Target Group to the Vendor as at 31 March 2020 was approximately HK$259,177,000.

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$460,000,000 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) the Deposit, being HK$42,000,000, shall be paid by the Company as deposit and part payment of the Consideration upon the signing of the Acquisition Agreement; and

(ii) the sum of HK$418,000,000, 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

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$930.2 million as at 31 March 2020 based on the 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 31 March 2020.

As disclosed in the circular of the Company dated 27 March 2020, 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 under the Previous Acquisition Agreement would be approximately HK$203.8 million, representing a discount of HK$31 million or 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 taken into account of the adjustment of the market value of the property interest of the Target Group).

Since the outstanding audited indebtedness owing by the Target Group to the Vendor as at 31 March 2020 was approximately HK$259.2 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$200.8 million, representing a discount of HK$4.6 million or approximately 2.24% to the unaudited adjusted combined net asset value of the Target Group as at 31 March 2020 of approximately HK$205.4 million (after taken into account the adjustment of the market value of the property interest of the Target Group).

The drop of 2.7% in the assessed market values of the properties as at 31 March 2020 against that of 30 September 2019 was the overall result of the valuation by the independent property valuer (Jones Lang LaSalle Corporate Appraisal and Advisory Limited) during the valuation period.

From market evidence and the analysis of the independent property valuer, different property sectors react differently despite the whole Hong Kong economy is affected by the pandemic.

The independent property valuer observed that the industrial property market was still performing well and the achieved unit rate of the sale transactions was maintained at similar levels during this valuation period while there were downward price adjustments for office and retail premises. The valuation amount of these office and retail premises in the properties portfolio of the Target Group contributed more than 50% of the total valuation sum and the independent property valuer has cut the valuation by 4.4% from 30 September 2019 to 31 March 2020, individually dropped ranged from 3% to 7%.

The market value of the properties decreased by HK$0.5 million from HK$930.2 million as at 31 March 2020 to HK$929.7 million as at 30 June 2020 which was solely due to the property located in Korea. The adjusted net asset value of the Target Group as at 31 March 2020 was approximately HK$204.9 million, after taking into account the market value of the properties of HK$929.7 million as at 30 June 2020. The purchase price for the Sale Share of approximately HK$200.8 million would be with a discount of approximately 2.00% to the adjusted net asset value of the Target Group of approximately HK$204.9 million.

Based on the market research and analysis by independent property valuer, from 31 December 2019 to 31 May 2020, the total market value of the Hong Kong properties of the Target Group decreased due to the worsening economic environment and market sentiment in these few months. However, with the gradual recovery of economy with signs of normalization of business activities in May and June 2020, the market situation become stable. The valuer has conducted further research and analysis of market comparables and market trend and noted that the real estate market is rather stable in late May to June 2020. In this regard, the market value of the Hong Kong properties of the Target Group remain unchanged between 31 May 2020 and 30 June 2020.

The market value of the property in Korea ("**Korean Property**") is attributable to approximately 6.1% of the total market value of the properties held by the Target Group as at 31 May 2020. Based on the preliminary communication with the independent property valuer, the value of Korean Property in Korean Won ("**KRW**") remained unchanged from 31 May 2020 to 31 July 2020. Whilst the exchange rate of Korean Won (KRW) to HK Dollars (HKD) appreciated from HKD1 to approximately KRW160 as at 31 May 2020 to HKD1 to approximately KRW154 as at 31 July 2020, which represents appreciation of approximately 3.8%. Hence, the Korean Property in HKD increased by approximately HK$2.2 million from approximately HK$56.8 million as at 31 May 2020 to approximately HK$59.0 million as at 31 July 2020, which is due to the appreciation of the KRW to HKD during this period. According to property valuation report set out in Appendix V, the market value of Korean Property as at 30 June 2020 is HK$58,600,000 (as at 31 May 2020: HK$56,800,000).

In the view of the recent surge of COVID-19 cases since early July 2020, there may be further impact to the market value of the properties held by the Target Group, since the market value of properties may be affected by the market conditions at the relevant time. On the other hand, in August 2020, the Hong Kong Monetary Authority has adjusted upward the applicable loan-to-value ratio cap for mortgage loans on non-residential properties by 10%. As a result, the market value of the properties held by the Target Group, which are non-residential properties, may benefit from such policy adjustment. Besides, the number of new COVID-19 infections in Hong Kong has significantly dropped since the end of August 2020, and the Hong Kong Government has started the relaxation of the social distancing rules step by step. In addition, in view of the anticipated launch of vaccine in early 2021 and the continuous inflow of capital into Hong Kong (as reflected by the expenditure of The Hong Kong Monetary Authority of approximately HK$119 billion in intervening through numerous market actions during April 2020 to August 2020 to dampen the effects of urging capital inflows), it is expected that the market sentiment will be slowly rebound and the property market would remain stable.

To further enhance the position of the Company, the Directors further requested the initial Conversion Price with a premium of approximately 25% to the closing price of the Shares on the date of the Acquisition Agreement which is further explained under the section headed "3. Issue of the Convertible Bonds".

Based on the above (including potential growth of the properties held by the Target Group and the prospect of the businesses of the Target Group), it is expected that the Target Group will be able to maintain stability in the midst of social events and surge in COVID-19.

A larger discount (i.e. approximately 13.2%) was applied in the purchase price of the Sale Share under the Previous Acquisition Agreement, as compared to a smaller discount (i.e. approximately 2.24%) in relation to the purchase price of the Sale Share under the Acquisition Agreement, when comparing to the adjusted combined net asset value of the Target Group, mainly due to the uncertainty of the impact of COVID-19 when the Previous Acquisition Agreement was entered into, details of which are set out as follows:

(a) the market value of the property interests held by the Target Group of HK$956 million was based on the valuation conducted by an independent property valuer as at 30 September 2019 based on market approach adopting a direct comparison method. The Board considered that there would likely be a decline of around 3.2% on the market value of the property interests held by the Target Group after 30 September 2019 due to the outbreak of COVID-19. In the weeks following the first confirmed case of COVID-19 in Hong Kong on 23 January 2020, comprehensive testing and quarantine rules were imposed in Hong Kong. Having taken the potential impact of COVID-19 into account, the Company negotiated a discount of HK$31 million to the market value of the property interests held by the Target Group as at 30 September 2019, which was reflected by the discount of approximately 13.2% to the adjusted combined net asset value of the Target Group as at 30 September 2019.

The market value of the property interests held by the Target Group of HK$930 million was based on the valuation conducted by an independent property valuer as at 31 March 2020 based on market approach adopting a direct comparison method. As at late May 2020, the number of new COVID-19 cases was around zero or single digit every day in Hong Kong and the businesses of the Target Group had recovered considerably (details of which are set out in the section headed "information on the Target Group" below). Further, based on the valuation conducted by an independent property valuer, the market value of the property interests held by the Target Group as at 30 June 2020 remained relatively stable at approximately HK$929.7 million, which is more or less the same as compared to the market value of the property interests held by the Target Group as at 31 March 2020. It demonstrates that the effect of the outbreak of COVID-19 in Hong Kong has been fully reflected in the market value of the property interests held by the Target Group as at 31 March 2020. Therefore, no significant discount was applied on the Sale Share based on the market value of the property interests held by the Target Group as at 31 March 2020. A discount of HK$4.6 million was applied based on rounding issue only; and

(b) the Target Group recorded a loss of approximately HK$31.7 million for the three months ended 31 March 2020, which was mainly attributable to the net valuation loss on investment properties of approximately HK$32.7 million. After excluding the net valuation loss on investment properties of approximately HK$32.7 million, the Target Group recorded a profit of approximately HK$1.0 million for the three months ended 31 March 2020. The revenue of the Target Group recorded an increase by 12.8%, to approximately HK$13.2 million, for the three months ended 31 March 2020, as compared to the unaudited revenue of approximately HK$11.7 million for the three months ended 31 March 2019.

The Directors considered that the Consideration (with 2.24% discount of the purchase price of the Sale Share to the adjusted net asset value of the Target Group as at 31 March 2020) is fair and reasonable and in the interest of the Company and its shareholders as a whole because of (i) the overall properties portfolio of the Target Group and (ii) that the Target Group recorded a profit (excluding the net valuation loss on the investment properties) for the three months ended 31 March 2020. To further enhance the position of the Company, the Directors further requested the initial Conversion Price with a premium of approximately 25% to the closing price of the Shares on the date of the Acquisition Agreement which is further explained under section headed "3. Issue of the Convertible Bonds".

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

Conditions precedent

Completion 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.

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.

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 fulfilled 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$418,000,000
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$0.50 per Conversion Share subject to adjustments, 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$0.50 per Conversion Share, a maximum of 836,000,000 new Shares will be issued upon conversion of the Convertible Bonds (subject to adjustments), which represent (i) approximately 130.32% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 56.58% 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 its 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, 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.

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 Bonds 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 with 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$0.50 per Conversion Share represents:

(i) a premium of approximately 25.00% to the closing price of HK$0.40 per Share as quoted on the Stock Exchange on the date of the Acquisition Agreement;

(ii) a premium of approximately 23.76% to the average closing price of approximately HK$0.404 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 premium of approximately 23.00% to the average closing price of approximately HK$0.407 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 54.75% to the net assets value per Share attributable to the Shareholders of the Company of approximately HK$1.105 as at 31 December 2019;

(v) a discount of approximately 70.11% to the net asset value per share attributable to the Shareholders of the Company of approximately HK$1.673 as at 31 March 2020;

(vi) a discount of approximately 69.61% to the net asset value per share attributable to the Shareholders of the Company of approximately HK$1.645 as at 30 June 2020; and

(vii) a premium of approximately 11.11% to the closing price of the Company's shares at 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 initial Conversion Price of HK$0.5 per Conversion Share represents that the Conversion Price is at a premium of approximately 25.00%, 23.76%, 23.00% and 19.05% of the market price on the date of the Acquisition Agreement, average trading price for the last five consecutive trading days immediately prior to the date of the Acquisition Agreement, for the last ten consecutive trading days immediately prior to the date of the Acquisition Agreement and on the Latest Practicable Date respectively, which is within the range with the market comparable. The conversion price of HK$0.65 per conversion share represents a discount of approximately 7.14%, 7.67% and 7.67% of the market price on the date of the Previous Acquisition Agreement, average trading price for the last five consecutive trading days immediately prior to the date of the Previous Acquisition

Agreement and for the last ten consecutive trading days immediately prior to the date of the Previous Acquisition Agreement. To enhance the position of the Company, the Directors requested the initial Conversion Price with a premium to the closing price of the Shares. The initial Conversion Price of the Acquisition Agreement is at premium over the trading price of the Shares while it was at discount to the trading price of the Shares in the previous transaction.

The initial Conversion Price represents a discount of 54.75% to the net asset value of the Company as at 31 December 2019, which is higher than the discount of 40.42% of the conversion price of the previously proposed convertible bonds to the net asset value of the Company as at 31 December 2019. First, by comparing to other companies principally engaging in the property development business 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. 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. Hence, the Conversion Price is more correlated to the share price of the Shares than the net asset value of the Shares.

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 its name into Shares, provided that, among other things, 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 operate 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$169,100,000 as at 30 June 2020.

The occupancy rate of the serviced apartments operated by Metropolitan Apartment were almost over 85.0% each year from 2012 to 2018. From the third quarter of 2019, due to the social unrest in Hong Kong and the outbreak of COVID-19, the occupancy rate of the serviced apartments has dropped approximately 70% in February 2020. However, the occupancy rate of the serviced apartments has gradually rebounded to approximately 78.2%, 78.2% and 79.4% as at 31 March 2020, 30 April 2020 and 31 May 2020, respectively, but slightly decreased to 77.0% as at 31 July 2020 respectively. 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 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 COVID-19 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% in December 2019 to 90.5% in July 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 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.

In respect of the wine cellar and wine trading businesses of the Target Group, the turnover for the 2nd quarter of 2020 amounted to HK$4,361,942, which is approximately 34% higher than the turnover for the 2nd quarter of 2019 (which amounted to HK$3,247,161), in which (a) the wine trading business contributed to an increase of approximately 22% (from HK$2,114,903 for the 2nd quarter of 2019 to HK$2,574,164 for the 2nd quarter of 2020), and it keeps the turnover in July 2020 at approximately HK$653,000, which is slightly higher than the turnover in June 2020 (approximately HK$648,000); and (b) the storage contributed to an increase of approximately 58% (from HK$1,132,258 for the 2nd quarter of 2019 to HK$1,787,778 for the 2nd quarter of 2020).

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 30 June 2020.

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 6 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 fulfill 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 fulfill its obligations under the agreements with the client. Since the beginning of 2019, the occupancy rate of Metropolitan Storage is on an upward trend. The average increasing rate is around 1.5% per month from 51.9% in January 2019 to 69.7% in December 2019. In 2020, the occupancy rate has further increased from approximately 70.11% as at 31 January 2020 to approximately 75.53%, 77.91% and 79.84% as at 31 May 2020, 30 June 2020 and 31 July 2020, respectively. The occupancy rate is expected to reach over 80% at the end of 2020.

The recent outbreak of COVID-19 had no impact on Metropolitan Storage in 2020. The occupancy rate had increased by over 10% in 2020. After Lunar New Year, there is a huge demand for storage space because many retails business will trend to online market. Metropolitan Storage Group has entered into a provisional agreement for tenancy in June 2020 to rent premises in Chai Wan to further expand its coverage in Chai Wan.

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 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 2019 to 74% and 72% in January 2020 and February 2020, respectively. Subsequently, the average of overall occupancy rate as at 31 May 2020 has increased to 75%, and further increased to 79% as at July 2020, indicating that the business is rebounding back to normal. 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 would be launching new workspace in Yuen Long, which is called "Always on my mind", offering 44 new work desks at the end of September 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$649,200,000 as at 30 June 2020.

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 collaboration with Star Properties, since "Memories Hong Kong" promotes particular locations with 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 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.

The economic structure and business trend has been changed after the midst of social events and the surge in COVID-19 cases in Hong Kong. The storage and workshop business (accounting for over 70% of segment revenue in the Target Group) are experiencing a demand surge. Although supply chains have been upended due to the virus' spread, logistics is a sector that has experienced a crisis and a boost at the same time as food deliveries and online shopping come to the rescue of people who cannot leave their homes. Also, more demand for contract services could result from corporations downsizing and reducing permanent payrolls and may lead to more demand for small working spaces, which is beneficial to Metropolitan Workshop business.

Based on the above (including the prospect of the businesses of the Target Group), it is expected that the Target Group will be able to maintain stability in the midst of social events and surge in COVID-19.

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 leasee for the period from 1 March 2020 to 31 May 2020 and 20% rent concession was offered to the lease for the period from 1 June 2020 to 30 September 2020. During the above rent concession periods, the monthly rent shall be HK$40,500 and HK$36,000 respectively. 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$78,375,000 as at 30 June 2020.

Reorganisation

The purpose of the Reorganisation is to procure the Target Group Companies to become members of the Target Group. Under this objective, the Reorganisation would involve the following steps:

Stage 1: Acquisition of the entire issued share capital of Crystal Cay by the Target Company

The Target Company will acquire the entire issued share capital of Crystal Cay from Galaxy Properties (BVI) Limited at a consideration of US$2 for the total number of issued shares of Crystal Cay to be transferred (i.e. 2 shares).

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

Stage 2: Acquisition of the Target Company by the Company

Step 1 - The Target Group Companies will assign loans to the Target Company

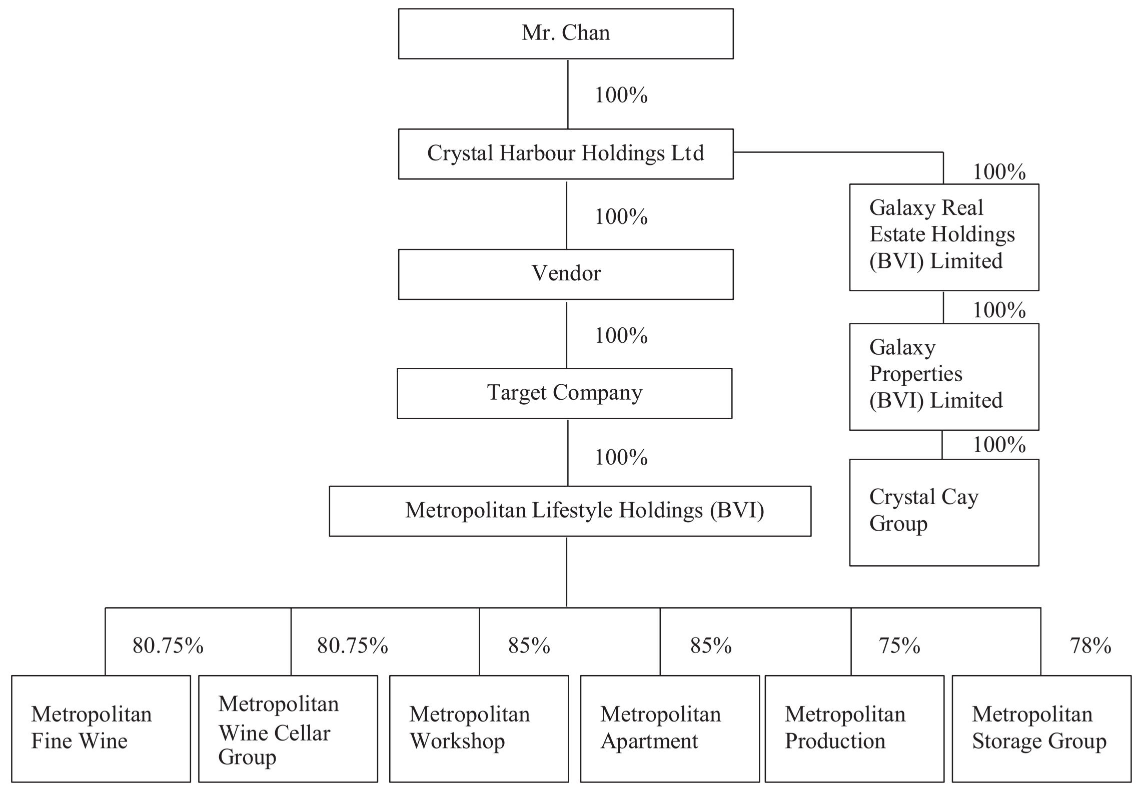
Immediately before Completion, the Target Group Companies will assign all the loans owing by the Target Group Companies to the Vendor as at the Completion Date to the Target Company.

Step 2 - The Company will acquire the Sale Share and the Sale Loan

The Company will acquire the Sale Share and the Sale Loan pursuant to Acquisition Agreement on Completion.

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



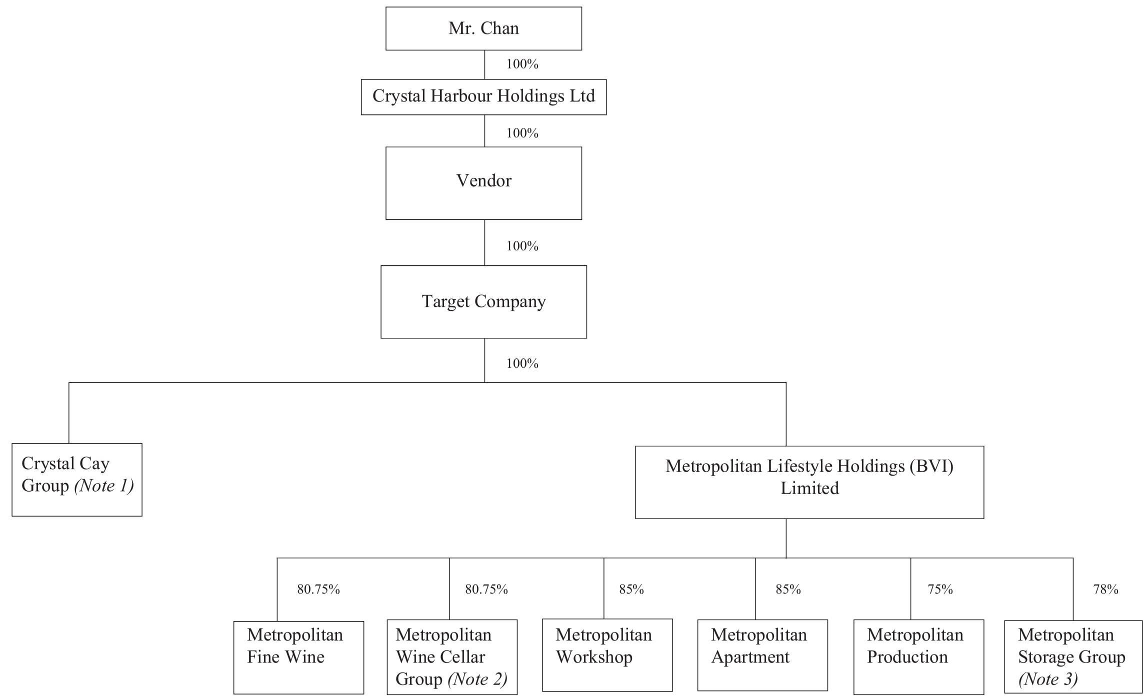
Notes:

(1) Crystal Cay Group refers to Crystal Cay 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 and its subsidiaries, including Noble Empire, and Seaview Empire Investments Limited.

(3) Metropolitan Storage Group refers to Metropolitan Storage 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.

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



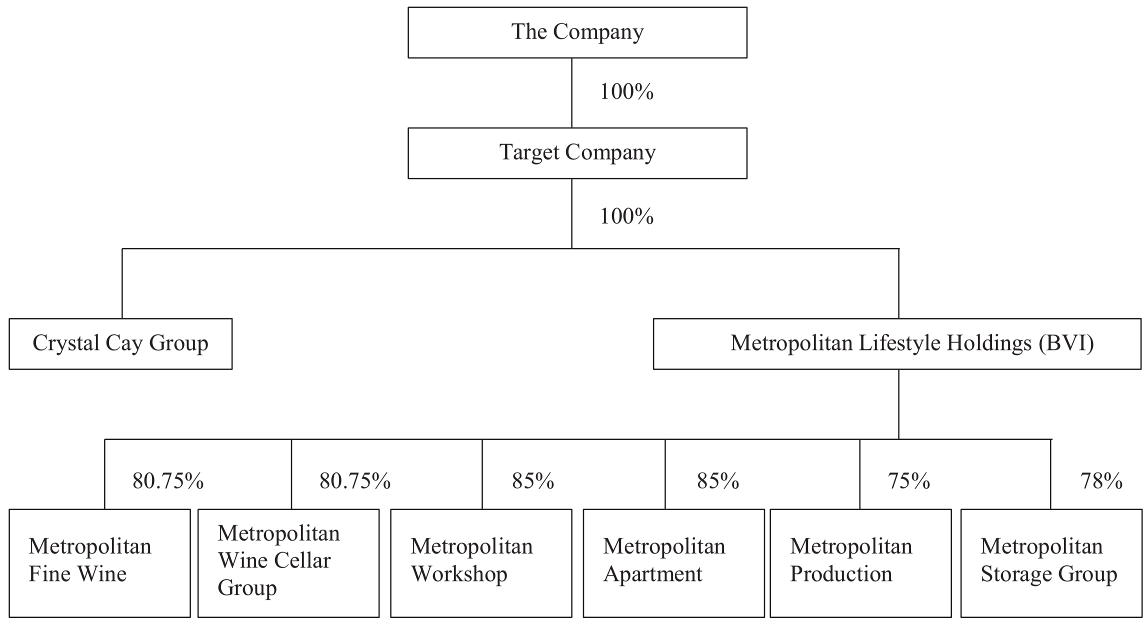
Notes:

(1) Crystal Cay Group refers to Crystal Cay 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 and its subsidiaries, including Noble Empire, and Seaview Empire Investments Limited.

(3) Metropolitan Storage Group refers to Metropolitan Storage 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 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 and its subsidiaries, including Noble Empire, and Seaview Empire Investments Limited.

(3) Metropolitan Storage Group refers to Metropolitan Storage 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 for the financial years ended 31 December 2017, 2018 and 2019; and for the three months ended 31 March 2020 (assuming that the members of the Target Group have been consolidated throughout the relevant periods):

	For the year ended 31 December			For the three months ended 31 March
	2017	**2018**	**2019**	**2020**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Profit/(Loss) before taxation and extraordinary items	48,314	23,951	21,694	(36,810)
Profit/(Loss) after taxation and extraordinary items	43,656	17,539	15,609	(31,659)

According to the audited financial information of the Target Group, the net asset value of the Target Group as of 31 March 2020 was approximately HK$205,395,000. The original acquisition cost of the Target Group Companies, in aggregate, was approximately HK$618,000,000.

The Target Group was on a decreasing trend of the profitability from FY2017 to FY2019, which was mainly attributable to the decreasing trend of net valuation gains on investment properties of approximately HK$56.3 million, HK$41.9 million and HK$38.6 million for FY2017, FY2018 and FY2019, respectively. The revenue was on an increasing trend from HK$35.0 million in FY2017 to HK$55.6 million in FY2019. As the Target Group has started several business expansion plans in FY2017, the early operating costs from new expansion have decreased the profitability of the Target Group from FY2017 to FY2018, but the continuous growth in revenue due to the expansion has improved the profitability of the Target Group from FY2018 to FY2019. The revenue improved from HK$45 million for FY2018 to HK$56 million for FY 2019 and the gross profit margin ratio also improved from 73% for FY 2018 to 84% for FY 2019.

The Target Group recorded a loss of approximately HK$31.7 million for the three months ended 31 March 2020, which was mainly attributable to the net valuation loss on investment properties of approximately HK$32.7 million. After excluding the net valuation loss on investment properties of approximately HK$32.7 million, the Target Group recorded a profit of approximately HK$1.0 million for the three months ended 31 March 2020. By excluding the net valuation loss which is not directly related to the business operation of the Target Group, the profitability has showed further improvement for the three months ended 31 March 2020. The gross profit margin ratio improved from 82% for the three months ended 31 March 2019 to 92% for the three months ended 31 March 2020.

In view of the continuous improvement on the profitability of the Target Group's business operation, by excluding the net valuation gains of losses on investment properties, as illustrated above, the Directors consider that the Acquisition is fair and reasonable, and in the interest of the shareholders (including the independent shareholders) of the Company.

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 2020 to 28 February 2023 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.

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; and (ii) upon Completion but prior to the exercise of conversion rights under the Convertible Bonds and the allotment and issue of the Conversion 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$0.5 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 *(Note 5)*	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
Mr Chan and his close associates						
Mr. Chan	2,500,000	0.39	2,500,000	0.39	2,500,000	0.17
Star Properties Holdings (BVI) Limited *(Note 1)*	432,140,800	67.36	432,140,800	67.36	432,140,800	29.25
Vendor *(Note 6)*	—	—	—	—	836,000,000	56.58
Subtotal	434,640,800	67.75	434,640,800	67.75	1,270,640,800	86.00
Others						
Ms. Cheung Wai Shuen *(Note 3)*	300,000	0.05	300,000	0.05	300,000	0.02
Ms. Chan Wah Man *(Note 4)*	156,000	0.02	156,000	0.02	156,000	0.01
Mr. Lam Kin Kok	1,558,000	0.24	1,558,000	0.24	1,558,000	0.11
Eagle Trend (BVI) Limited *(Note 2)*	38,259,200	5.96	38,259,200	5.96	38,259,200	2.59
Public Shareholders	166,584,000	25.97	166,584,000	25.97	166,584,000	11.27
Total	**641,498,000**	**100**	**641,498,000**	**100**	**1,477,498,000**	**100**

Notes:

(1) (a) 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.

(b) As Star Properties Holdings (BVI) Limited is directly held as to 100% by Mr. Chan, it is a close associate of Mr. Chan.

(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) 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.

(6) As the Vendor is indirectly held as to 100% by Mr. Chan, the Vendor is a close associate of Mr. Chan.

(7) The authorised share capital of the Company is HK$10,000,000. As at the Latest Practicable Date, there are 641,498,000 issued Shares and the issued share capital of the Company is HK$6,414,980.

The shareholding of the existing public Shareholders will decrease from approximately 25.97% to approximately 11.27% 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 14.70% (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). 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 172.5% to 166.3% on a pro forma basis as per the information from Appendix IV, the Director considered that the issue of Convertible Bond and the Acquisition are fair and reasonable, and in the interest of the Company and its shareholders (including the independent 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

Upon completion of the Reorganisation, the Target Company will have acquired 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 its 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 31 December 2019, the Group's portfolio of investment properties comprised car parking spaces and an industrial unit located in Hong Kong with a total carrying value of approximately HK$52.0 million. Revenue amounting to approximately HK$474,000 was generated from property investment segment for the year ended 31 December 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. The revenue from lease income generated from the Target Group in FY2017, FY2018, FY2019 and the three months ended 31 March 2020 were approximately HK$25.6 million, HK$31.0 million, HK$44.9 million and HK$12.1 million respectively, representing strong growth of lease income by more than 20% per year since FY2017. 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 31 March 2020, the Target Group's portfolio of investment properties located in Hong Kong and Korea is with a total carrying value of approximately HK$930.2 million. Revenue from lease income amounting to approximately HK$12.1 million was generated from the Target Group's portfolio of investment properties for the three months ended 31 March 2020.

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. 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.

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 and shareholder's loan from Mr. Chan to the Company (with an interest rate of 4.5%) where the relevant finance costs are much higher.

Other alternative settlement methods considered

The Board has considered alternative settlement method such as issuance of other types of debt securities. However, 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, resulting 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 (i.e. HK$418,000,000), 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 2020 (assuming that the placing or subscription price is equal to the Conversion Price of the Convertible Bonds under the Acquisition).

The Directors, after approaching four 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$418,000,000, 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 lower than 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 of the Company. 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 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 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.

The Board considers that the Acquisition is fair and reasonable, and in the interest of the Company and its shareholders as a whole. Please refer to the section headed "Reasons For and Benefits of the Acquisition" of this circular in relation to:

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

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

(iii) opportunities of the future development.

The Board considers that the issue of the Convertible Bonds is fair and reasonable, and in the interest of the Company and its shareholders as a whole. Please refer to the section headed "Determination of the settlement method of the Consideration — Issue of the Convertible Bonds".

Although there is coupon rate of 3% per annum of the Convertible Bonds, it is the best financing way to the Company comparing to other financing methods as disclosed in the section headed "Determination of the settlement method of the Consideration — Other alternative settlement methods considered".

In addition, the Sale Loan of approximately HK$259.2 million at 31 March 2020 would be settled by the Convertible Bonds upon the completion of the Acquisition. Taking into account of the relevant finance cost including the interest rate of the short-term loan to the Company advanced by Mr. Chan of 4.5% per annum and the interest rate from 3.5% to 7% per annum of the bank loans of the Company, the Sale Loan of approximately HK$259.2 million at 31 March 2020 will be settled by the issue of Convertible Bonds with a lower interest rate of 3%.

To conclude, having considered that (i) the issue of the Convertible Bonds will not have adverse impact to the gearing ratio of the Company; and (ii) the interest rate of the Convertible Bonds is lower than other available financing methods, although the annual interest expenses is higher than the annualised profit of the Target Group (excluding the valuation gain/losses), the Board considered the issue of the Convertible Bonds is fair and reasonable, and in the interest of the Company and its shareholders as a whole as the Acquisition is fair and reasonable, and in the interest of the Company and its shareholders as a whole.

The Directors consider that the Acquisition is fair and reasonable and in the interests of the Company and its shareholders (including the independent shareholders) as a whole in the light of below reasons:

(1) the impact of COVID-19 on the market value of the properties held by the Target Group has been taken into account in determining the Consideration as explained under the section headed "Basis of the Consideration" of this circular;

(2) there are strong synergy between the Group's property development business and business of the Target Group. The Acquisition will bring in a regular income to the Group's portfolio of investment properties and opportunities for future redevelopment as explained under the section headed "Reasons for and Benefits of the Acquisition" of this circular;

(3) alterative settlement methods and fund raising methods have been taken into consideration but 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 Convertible Bonds is fair and reasonable as explained under the section headed "Determination of settlement method of the consideration" of this circular;

(4) the Target Group shows an improvement of its business operation profitability after excluding the net valuation gains or loss on investment properties which are not directly related to the business operation of the Target Group as explained under the section headed "Financial Information of the Target Group" of this circular: (i) the decreasing trend of the profitability of the Target Group from 2017 to 2019 and the loss recorded for the three months ended 31 March 2020 were mainly due to decreasing of net valuation gains or loss on investment properties; (ii) by excluding the net valuation gains, the profitability had dropped from 2017 to 2018 during the business expansion period but showed improvement from 2018 to 2019; (iii) the Target Group recorded a profit of approximately HK$1.0 million for the three months ended 31 March 2020 after excluding the net valuation loss on investment properties;

(5) the economic structure and business trend has been changed after the midst of social events and surge in COVID-19 cases in Hong Kong, the storage and workshop business (accounting for over 70% of segment revenue in the Target Group) are experiencing a demand surge. Although supply chains have been upended due to the virus' spread, logistics is a sector that has experienced a crisis and a boost at the same time as food deliveries and online shopping come to the rescue of people who cannot leave their homes. Also, more demand for contract services could result from corporations downsizing and reducing permanent payrolls and may lead to more demand for small working spaces, which is beneficial to Metropolitan Workshop business. In light of the prospect of the businesses of the Target Group, it is expected that the Target Group will be able to maintain stability in the midst of social events and surge in COVID-19 as disclosed in page 27 of this circular;

(6) as for the valuation of properties portfolio of the Target Group, as explained in page 12 of this circular, the drop of 2.7% in the assessed market values of the properties as at 31 March 2020 against that of 30 September 2019 was the overall result of the valuation of properties portfolio of the Target Group. In view of the recent surge of COVID-19 cases since early July 2020, there may be further impact to the market value of the properties held by the Target Group, since the market value of properties may be affected by the market conditions at the relevant time. On the other hand, in August 2020, the Hong Kong Monetary Authority has adjusted upward the applicable loan-to-value ratio cap for mortgage loans on non-residential properties by 10%. As a result, the market value of the properties held by the Target Group, which are non-residential properties, may benefit from such policy adjustment. Besides, the number of new COVID-19 infections in Hong Kong has significantly dropped since end of August 2020, and the Hong Kong Government has started the relaxation of the social-distancing rules step by step. In addition, in view of the anticipated launch of vaccine in early 2021 and the continuous inflow of capital into Hong Kong (as reflected by the expenditure of The Hong Kong Monetary Authority of approximately HK$119 billion in intervening through numerous market actions during April 2020 to August 2020 to dampen the effects of urging capital inflows), it is expected that the market sentiment will be slowly rebound and the property market would remain stable; and

(7) in view of the growing and sustainable business of the Target Group and there was no capital commitment of the Target Group as at 31 March 2020, the Target Group is not expected to have any foreseeable capital need. Though the outstanding unaudited indebtedness owing by the Target Group to the Vendor increased from HK$216.2 million as at 30 September 2019 to approximately HK$259.2 million as at 31 March 2020, it is mainly due to the repayment of bank borrowings of HK$31.7 million and cash injection by the Vendor. After considering the continuous growth of the business of the Target Group and working capital forecast of the Enlarged Group, the Directors are of the view that the Enlarged Group would have sufficient working capital upon completion of the Acquisition. Please refer to the section headed "Financial effects of the Acquisition" of this circular for details.

Based on the above, the Directors (excluding Mr. Chan who is required to abstain from voting and the independent non-executive Directors who will express their views after considering the advice from the Independent Financial Adviser) are of the view that the terms of the Acquisition Agreement are on normal commercial terms, fair and reasonable, and the Transactions are 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 30 June 2020, the total assets of the Group would have increased from approximately HK$2,947.9 million to approximately HK$4,022.1 million on a pro forma basis, the total liabilities of the Group would have increased from approximately HK$1,892.5 million to approximately HK$2,603.1 million on a pro forma basis, and the net assets of the Group would have increased from approximately HK$1,055.4 million to approximately HK$1,419.0 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 1 January 2019, the net profit attributable to shareholders of the Group for the year ended 31 December 2019 would have increased by approximately HK$24.2 million from approximately HK$5.3 million to HK$29.5 million on a pro forma basis.

The outstanding indebtedness owing by the Target Group to the Vendor increased from HK$216.2 million as at 30 September 2019 to approximately HK$259.2 million as at 31 March 2020. The increase was mainly due to the repayment of bank borrowings of HK$31.7 million and the increase in the cash position of the Target Group.

There was no capital commitment of the Target Group as at 31 March 2020 as set out in Note 32 in Appendix II of the draft Circular and the business of the Target Group is growing and sustainable with profit generating (excluding the net valuation loss of the investment properties) for the three months ended 31 March 2020, assuming that there is no additional capital needs of the Target Group subsequent to 31 March 2020. The Target Group will be financed by its own operating cash flow and the financing by revolving loans upon Completion.

After considering the continuous growth of the business of Target Group and reviewing the working capital forecast of the Enlarged Group prepared by the management, the Directors are of the view that the Enlarged Group would have sufficient working capital upon completion of the Acquisition.

After considering the reasons for and benefits of the Acquisition, the potential growth of the Target Group business and the fairness and reasonableness of the Consideration, the Board considers that the Acquisition is fair and reasonable, and in the interest of the Company and its shareholders as a whole.

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. 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 exceed 100%, the Transactions constitute a very substantial acquisition 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.

12. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee, comprising all the independent non-executive Directors, 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) Co. Ltd. has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

13. 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 30 September 2020 at 3:00 p.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.

14. 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.

15. 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)

15 September 2020

To the Independent Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION 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 15 September 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 96 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

15 September 2020

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

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION 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 15 September 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.

Reference is made to the announcement of the Company dated 24 January 2020 and 30 June 2020 and the circular of the Company dated 27 March 2020 in relation to the Previous Acquisition Agreement and the transactions contemplated thereunder.

As disclosed in the announcement of the Company dated 30 June 2020, as certain condition(s) under the Previous Acquisition Agreement have not been fulfilled or waived by the long stop date of 30 June 2020, the Previous Acquisition Agreement has lapsed on 30 June 2020 pursuant to the terms thereof and shall cease to be of any effect and neither party shall have any obligations and liabilities thereunder. The refund of the deposit paid under the Previous Acquisition Agreement has been made by the Vendor to the Company on the same day.

The Board considers that it will be in the interest of the Company and its Shareholders as a whole, if, upon the termination of the Previous Acquisition Agreement, the Company and the Vendor could enter into the Acquisition Agreement as soon as possible because:

(a) the Company has formulated its business strategy for the forthcoming second half of 2020 and the next few years on the assumption that the transactions contemplated under the Previous Acquisition Agreement having been completed by 30 June 2020. The Company considers that the proposed Acquisition would help to minimize the disruption and adjustment of the business plan and strategy of the Group (as the disruption and adjustment of the business plan and strategy of the Group may result in the Group incurring extra operation costs);

(b) with a view to implementing the transactions contemplated under the Previous Acquisition Agreement, the Group negotiated with various banks for the release of certain personal guarantees and new facilities (the "**New Facilities**") with revised terms have been granted by the banks which originally would become effective upon/after the completion of the transactions contemplated under the Previous Acquisition Agreement. The New Facilities were available to the Group for only a specified term. The Group has further negotiated with the banks and the relevant facility letter(s) for the New Facilities has to be executed by mid-October. The existing personal guarantees are expected to be released upon Completion. Entering into the Acquisition Agreement and the transactions contemplated thereunder as soon as possible can help to avoid incurring extra costs by the parties to the Previous Acquisition Agreement for renegotiating for the approval of the grant of the New Facilities by the banks; and

(c) if completion of the proposed Acquisition is further delayed, the auditors to the Group will be required to adopt new reference date for the determination of the financial information of the Group to be disclosed in the circular in compliance of the Listing Rules for which the Company will need to incur extra professional charges and fees.

On 21 July 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$460,000,000, 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 exceed 100%, the Acquisition constitutes a very substantial 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. In the past two years, we have acted as the independent financial adviser to the Company in relation to the major and connected transaction in relation to the acquisition under the Previous Acquisition Agreement. Apart from normal advisory fee and expenses payable to us in connection with the aforementioned appointment and 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 Group's annual report for the years ended 31 December 2017, 2018 and 2019 (the "**Annual Reports**") and the Group's interim result announcement for the six months ended 30 June 2020 (the "**Interim Result Announcement**");

(ii) the Acquisition Agreement;

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

(iv) the valuation report dated 30 June 2020 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 21 July 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$460,000,000, 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 and the unaudited consolidated financial information of the Group for the six months ended 30 June 2019 and 2020, as extracted from the Interim Result Announcement:

Summarised financial results of the Group

	For the year ended 31 December			For the six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Revenue					
Sales of properties and provision of property management services	729,215	668,212	112,473	22,572	2,438
Rental income from leasing of investment properties	2,029	735	474	212	648
Interest income from provision of finance	1,146	2,720	7,032	3,596	3,184
Total Revenue	732,390	671,667	119,979	26,380	6,270
Profit/(loss) before tax	122,261	241,576	12,241	(2,053)	352,003
Profit/(loss) for the period	95,814	191,827	5,297	(3,464)	349,871

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 Annual Report, 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.

For the six months ended 30 June 2020

The revenue of the Group for the six months ended 30 June 2020 was approximately HK$6.3 million, which was mainly generated from provision of finance in the amount of approximately HK$3.2 million and provision of construction and fitting out works in the amount of approximately HK$1.4 million. It represented a decrease of approximately HK$20.1 million as compared to the revenue in the amount of approximately HK$26.4 million generated during the six months ended 30 June 2019, which was mainly due to no revenue was recognised for the property development segment during the six months ended 30 June 2020. However, the Group recorded a profit of approximately HK$349.9 million for the six months ended 30 June 2020 due to the gain on disposal of a subsidiary of approximately HK$383.2 million during the period.

As at 30 June 2020, the Group had three completed projects, namely, (a) The Galaxy; (b) The Star and (c) The Rainbow; and five projects under development, namely, (d) Yuen Long site; (e) Kwun Tong site; (f) Tack Lee Project; (g) Seongsu Project and (h) Sausage Project. The Group 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 Disposal**"). The Disposal was completed and a gain on the Disposal of approximately HK$383.2 million which was recognized for the six months ended 30 June 2020.

Summarised financial position of the Group

	As at 31 December			As at 30 June
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(unaudited)
Non-current assets	86,418	219,617	225,036	204,457
Current assets	2,377,089	3,103,673	3,264,727	2,739,756
Current liabilities	1,821,292	2,530,372	2,780,467	1,892,329
Non-current liabilities	249	305	177	177
Net assets	641,966	792,613	709,119	1,055,367

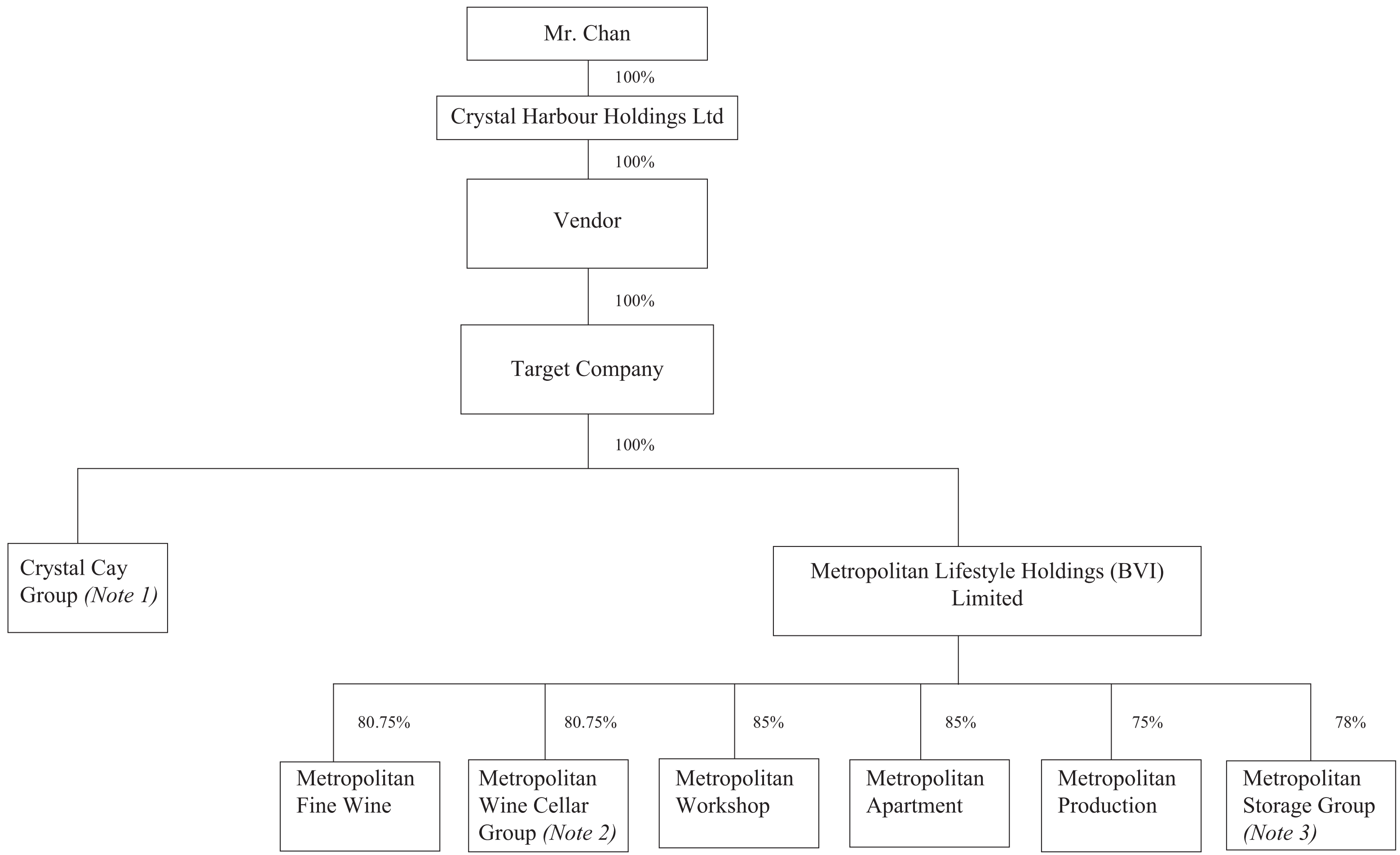
As at 31 December 2019, the non-current assets of the Group amounted to approximately HK$225.0 million, of which approximately HK$164.8 million were loan receivables, approximately HK$52.0 million were investment properties and approximately HK$6.1 million were financial assets at fair value through 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.

As at 30 June 2020, the non-current assets of the Group amounted to approximately HK$204.5 million, of which approximately HK$149.6 million were loan receivables, approximately HK$47.0 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$2,739.8 million as at 30 June 2020, representing a decrease of 16.0% as compared to 31 December 2019. The decrease in current assets was mainly due to the decrease in properties under development. The current assets as at 30 June 2020 mainly consisted of properties held for sale of approximately HK$2,622.1 million; bank balances and cash of approximately HK$73.7 million; trade and other receivables of approximately HK$25.3 million; and stakeholder's accounts of approximately HK$6.1 million. As at 30 June 2020, the current liabilities of the Group amounted to approximately HK$1,892.3 million, which represented a decrease of approximately 32.0% as compared to approximately HK$2,780.5 million as at 31 December 2019. The decrease of current liabilities was mainly due to the decrease of borrowing, trade and other payables and amount due to a director during the six months ended 30 June 2020. The non-current liabilities as at 30 June 2020 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$1,055.4 million as at 30 June 2020, representing an increase of approximately 48.8% as compared to approximately HK$709.1 million as at 31 December 2019. The increase in net assets was mainly due to the decrease of borrowings and increase of 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 HK$169,100,000 as at 30 June 2020. 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 30 June 2020. 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$649,200,000 as at 30 June 2020. 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 (i) a 10% rent discount to the leasee from the period from 1 March 2020 to 31 May 2020; and (ii) a 20% rent discount from 1 June 2020 and 30 September 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$78,375,000 as at 30 June 2020.

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 2017, 2018 and 2019; (ii) for the three months ended 31 March 2019 and 2020 of the Target Group (assuming the Reorganisation had been completed):

Summarised financial results of the Target Group

	Year ended 31 December			Three months ended 31 March	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Revenue	35,044	45,255	55,581	11,735	13,226
Profit before income tax	48,314	23,951	21,694	(7,577)	(36,810)
Profit for the year/period	43,656	17,539	15,609	(7,711)	(31,659)

The revenue of the Target Group for the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2019 and 2020 was mainly derived from storage and workshop operations and wine operations.

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. The revenue of the Target Group for the year ended 31 December 2019 amounted to approximately HK$55.6 million, representing an increase of approximately 22.8% as compared to the year ended 31 December 2018. The increase was mainly attributable to the more stable operation and good reputation built by the storage and workshop business. The profit for the year ended 31 December 2018 amounted to approximately HK$17.5 million, representing a decrease of approximately HK$26.1 million 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 profit for the year ended 31 December 2019 amounted to approximately HK$15.6 million, representing a decrease of approximately 11.0% as compared to the year ended 31 December 2018, which was not in line with the increase of revenue for the year ended 31 December 2019. This was mainly due to (i) the Target Group recorded net valuation gain of approximately HK$38.6 million for the year ended 31 December 2019, represented a decrease of approximately 8.0% as compared to the year ended 31 December 2018; and (ii) the increase in administrative and other operating expenses of approximately 17.2% as compared to the year ended 31 December 2018 due to further expansion of storage and workshop business in Chai Wan and Fo Tan which incurred additional expenses during the period.

The revenue of the Target Group for the three months ended 31 March 2020 amounted to approximately HK$13.2 million, representing an increase of approximately 12.7% as compared to the three months ended 31 March 2019, which was mainly due to the increasing occupancy rate of those sites of storage business newly operated for the year ended 31 December 2019. The Target Group recorded net loss in the amounts of approximately HK$31.7 million for the three months ended 31 March 2020, representing a decrease of approximately 310.6% as compared to the three months ended 31 March 2019, which was mainly due to the Target Group recorded net valuation loss of approximately HK$32.7 million for the three months ended 31 March 2020, which was mainly due to the general downward of Hong Kong's property market after the outbreak of COVID-19. After excluding the net valuation loss on investment properties of approximately HK$32.7 million, the Target Group recorded a profit of approximately HK$1.0 million for the three months ended 31 March 2020.

Summarised financial position of the Target Group

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	779,498	976,954	1,047,695	1,015,329
Current assets	74,132	41,534	54,907	55,000
Current liabilities	567,668	696,974	776,081	780,489
Non-current liabilities	71,576	93,316	90,301	84,445
Net assets	214,386	228,198	236,220	205,395

As at 31 March 2020, the non-current assets of the Target Group amounted to approximately HK$1,015.3 million, which mainly consisted of investment properties in the amount of approximately HK$930.2 million and property, plant and equipment in the amount of approximately HK$82.5 million. The non-current assets as at 31 March 2020 decrease mainly due to the decrease value of investment properties of approximately HK$32.1 million. The current assets of the Target Group as at 31 March 2020 was amounted to approximately HK$55.0 million, which mainly included inventories of approximately HK$8.7 million; deposits, prepayments and other receivables of approximately HK$18.0 million; and cash and bank balances of approximately HK$26.1 million. The Target Group recorded current liabilities in the amount of approximately HK$780.5 million as at 31 March 2020, which mainly consisted 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$476.8 million; and amounts due to an equity owner which are repayable on demand in the amount of approximately HK$259.2 million. The net current liabilities of the Target Group is approximately HK$725.5 million as at 31 March 2020. For details of the liquidity of the Enlarged Group after the Completion, please refer to "6. Financial effects of the Acquisitions". The increase of total current liabilities as at 31 March 2020 as compared to as at 31 December 2019 was mainly due to increase in amount due to an equity owner. The non-current liabilities of the Target Group as at 31 March 2020 was amounted to approximately HK$84.4 million, which mainly consisted approximately HK$35.6 million of lease liabilities and approximately HK$48.9 million of deferred tax liabilities. The net assets value of the Target Group was approximately HK$205.4 million as at 31 March 2020.

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, the occupancy rate of the serviced apartments has gradually rebounded to approximately 78.2%, 78.2% and 79.4% as at 31 March 2020, 30 April 2020 and 31 May 2020, respectively, but slightly decreased to 77% as at 31 July 2020 due to its surge in COVID-19 cases in Hong Kong since July 2020. However, The Directors believe that 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 90.5% in July 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. Subsequently, the average of overall occupancy rate as at 31 May 2020 has rebounded back to 75% and further increased to 79% as at July 2020. Metropolitan Workshop is seeing a market recovery at the beginning of April 2020. After Lunar New Year, there is a huge demand for storage space because many retails business tend to online market. Metropolitan Storage Group has entered provisional agreement in June 2020 to rent premises in Chai Wan to further expand its coverage in Chai Wan. 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 no impact on the storage business, as the occupancy rate increased approximately 5.9% to 75.53%, 77.91% and 79.84% as at 31 May 2020, 30 June 2020 and 31 July 2020 as compared to December 2019 with an occupancy rate of 69.7%. The occupancy rate is expected to over 80% at the end of 2020.

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 Date.

The Directors believe that the economic structure and business trend has been changed after the midst of social events and the surge in COVID-19 cases in Hong Kong. The storage and workshop business (accounting for over 70% of segment revenue in the Target Group) are experiencing a demand surge. Although supply chains have been upended due to the virus's spread, logistics is a sector that has experienced a crisis and a boost at the same time as food deliveries and online shopping come to the rescue of people who cannot leave their homes. Also, more demand for contract services could result from corporations downsizing and reducing permanent payrolls and may lead to more demand for small working spaces, which is beneficial to Metropolitan Workshop business.

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 2019 and from three months ended 31 March 2019 to 31 March 2020. 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, increase in finance costs due the expansion of workshop and storage business and one-off net valuation loss on investment properties. 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

21 July 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$460.0 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 approximately HK$259.2 million as at 31 March 2020 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$200.8 million. The Consideration will be payable by the Company to the Vendor as (i) the Deposit, being HK$42.0 million, shall be paid by the Purchaser as deposit and part payment of the consecution upon signing of the Acquisition Agreement and (ii) the sum of HK$418.0 million, 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$930.2 million as at 31 March 2020 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$205.4 million as at 31 March 2020 (after taken into account the adjustment of the market value of the property interest of the Target Group). 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 March 2020 increased to approximately HK$259.2 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$200.8 million, representing a discount of approximately 2.24% to the unaudited adjusted combined net asset value of the Target Group as at 31 March 2020 of approximately HK$205.4 million (after the adjustment of the market value of the property interest of the Target Group).

The adjusted net asset value of the Target Group as at 31 March 2020 would be approximately HK$204.8 million (after the adjustment of the market value of the property interest of the Target Group of approximately HK$929.7 million as at 30 June 2020). The purchase price for the Sale Share of approximately HK$200.8 million would be with a discount of approximately 2.0% to the adjusted net asset value of the Target Group of approximately HK$204.8 million.

The market value of the property interests held by the Target Group decreased from HK$956 million as at 30 September 2019 to HK$930.2 million as at 31 March 2020, representing a slight decrease of 2.7% only, and the market value of the properties held by the Target Group further dropped approximately HK$0.5 million to HK$929.7 million as at 30 June 2020. Given that the recent surge of COVID-19 since July 2019 and social unrest in Hong Kong, the Independent Valuer confirmed that they carried the valuation taking into account of comparable transactions with reference to the Price Indices Report on the private factories, private offices, private domestic and retail published by the Rating and Valuation Department. It is observed that the industrial property market remained relatively stable; however, the office and retail premises in the portfolio experienced downward price adjustment ranged from 2% to 7%, which was mainly due to the disruption of economic activities caused by the COVID-19. In addition, the value of the property located in Korea appreciated from HK$55.4 million as at 30 September 2019 to HK$57.3 million as at 31 March 2020, which was mainly due to the initial development investment including site improvement cost that the Target Group made and increased the value of the said property during the period. Such appreciation off sets the downward value of the properties located in Hong Kong, which resulted the decrease of approximately 2.7% of the property portfolio value of the Target Group from 30 September 2019 to 31 March 2020.

The Directors are of the view that there may be a further impact on the market value of the properties held by the Target Group depends on the situation of the COVID-19 pandemic. The number of new COVID-19 infections in Hong Kong has significantly dropped since end of August 2020, and the Hong Kong Government started relaxing the social-distancing rules step by step. On the other hand, in view of the expected launch of vaccine in early 2021 and the continuous inflow of capital into Hong Kong (reflected by The Hong Kong Monetary Authority spending approximately HK$119 billion intervening through numerous market actions during April 2020 to August 2020 to dampen the effects of surging capital inflows), the Directors are of the view that the market sentiment will be slowly rebound and the property market could remain stable. Between the date of the Previous Acquisition Agreement and the date of the Acquisition, and as mentioned under "3.3 The outbreak of recent social events and COVID-19", the business of the Target Group remained stable during this period, which was able to demonstrate that the business activities of the Target Group are sustainable. Given that (i) the benefits that the Acquisition will bring to the Group, as mentioned under "7. Reasons for and benefits of the acquisition" in the Letter from the Board; (ii) the positive financial impact to the Enlarged Group after the Acquisition; and (iii) the Directors had requested the initial Conversion Price with a premium of approximately 25% to the closing price of the Share on the date of the Acquisition Agreement; we are of the view that the Consideration with 2.24% discount of the purchase price of the Sales Share to the adjusted net asset value of the Target Group as at 31 March 2020 is still fair and reasonable.

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$929.7 million as at 30 June 2020. 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 26 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 2020, 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 30 June 2020. 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 31 March 2020 amounted to approximately HK$204.8 million (after taking into account the market value of the property interests of the Target Group of approximately HK$929.7 million as at 30 June 2020). The purchase price for the Sale Share of approximately HK$200.8 million would be a discount of approximately 2.0% to the adjusted net asset value of the Target Group 204.8 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 21 April 2020 and 20 July 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 % *(note 1)*
China Tangshang Holdings Limited	674	9-Apr-20	Acquisition of the target group which indirectly holds 35% equity interest in a company owning a land in Dongguan	With reference to the land in Dongguan original bidding price and the 35% equity interest in the project company held by the target company	9.9
Chuang's China Investments Limited	298	3-May-20	Disposal of a wholly-owned subsidiary which is principally engaged in property investment with its property located at London	With reference to the aggregate of the completion net asset value of the target company adjusting with the property value, together with the bank indebtedness and shareholder's loan of the target company	(2.4)
Ta Yang Group Holdings Limited	1991	11-May-20	Disposal of the properties which comprise an aggregate of 88 rooms with a total gross floor area of approximately 7,717.55 sq.m. from two of the five hotel buildings	With reference to the financial position of the target company, the agreed valuation of the property based on a unit price of RMB32,000 per sq.m. and prevailing market price	41.6
Golden Faith Group Holdings Limited	2863	8-Jun-20	Acquisition of the target company which holds properties situated at Hong Kong, car parking space, the club membership and the legal ownership of a vehicle	With reference to the indication valuation of the properties, indication calculation of the club membership, unaudited net asset value of the target company	(1.8)

Company Name	Stock code	Date of announcement	Nature of transaction	Basis of consideration	Premium/ (discount) of consideration over/(to) the net asset value % *(note 1)*
China Water Industry Group Limited	1129	10-Jun-20	Disposal of the entire equity interest in Huizhou Swan Heng Chang Property Development Company Limited which established in the PRC with limited liability which owns the land with a total site area of approximately 35,725 sq.m. and is engaged in the project	With reference to the unaudited net asset value of approximately RMB32.4 million as at 30 April 2020, the preliminary valuation under market approach, the expected unaudited gain on disposal, and the total liabilities of the disposed company	(24.2)
				Minimum	(24.2)
				Maximum	41.6
				Average	4.6
The Company	**1560**	**21-Jul-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 June 2020 and adjusted net assets value of the Target Group as at 31 March 2020**	**(2.0)**

Note 1: The adjusted net asset value is market/valuer valuation less total liabilities as state in the announcement

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 properties. We noted that the consideration of the Transactions ranged from a discount of approximately 24.2% to a premium of approximately 41.6% to/over the respective net asset value of the target company with an average premium of approximately 4.6%. The discount of approximately 2.0% 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 2.0% 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 17 to 21 of the Letter from the Board for details:

Issuer:	The Company
Principal amount:	HK$418,000,000
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$0.50 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$0.50 per Conversion Share, a maximum of 836,000,000 new Shares will be issued upon conversion of the Convertible Bonds (subject to adjustments), which represent (i) approximately 130.32% of the existing issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 56.58% 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).
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$0.50 per Conversion Share represents:

(i) a premium of approximately 25.00% to the closing price of HK$0.40 per Share as quoted on the Stock Exchange on the date of the Acquisition Agreement;

(ii) a premium of approximately 23.76% to the average closing price of approximately HK$0.404 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 premium of approximately 23.00% to the average closing price of approximately HK$0.407 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 54.75% to the net assets value per Share attributable to the Company of approximately HK$1.105 as at 31 December 2019; and

(v) a discount of approximately 70.11% to the net asset value per share attributable to the Shareholders of the Company of approximately HK$1.673 as at 31 March 2020;

(vi) a discount of approximately 69.61% to the net asset value per share attributable to the Shareholders of the Company of approximately HK$1.645 as at 30 June 2020; and

(vii) a premium of approximately 11.11% to the closing price of the Company's shares at the Latest Practicable Date.

In assessing the fairness and reasonableness of the terms of the Convertible Bonds, we have reviewed and identified 9 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 (%)(a)	Premium/ (Discount) of market price over/(to) the net asset value (%)(b)	(a)-(b)	Conversion price being subject to adjustment? (Yes/No)
China Dili Group	1387	27-Apr-20	10	0	(8.4)	N/A	(4.0)	4.2	(8.2)	Yes
Hong Kong Finance Investment Holding Group Limited	7	6-Apr-20	3	0	31.6	30.2	24.9	(5.1)	30.0	Yes
TL Natural Gas Holdings Limited	8536	3-Apr-20	3	0	6.7	3.2	7.9	(1.1)	9.0	Yes
Hao Tian Development Group Limited	474	5-Mar-20	3	0	28.2	25.5	(45.0)	(57.1)	12.1	Yes
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	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
		Maximum	10	5	31.6	30.2	239.8	233.4	30.0	
		Minimum	3	0	(8.4)	(3.8)	(45.0)	(57.1)	(8.2)	
		Average	4	1	10.8	12.5	56.9	44.0	12.9	
		Median	3	0	7.9	8.7	16.4	1.6	10.6	
		The Company	**Perpetual**	3	25.0	23.8	(54.8)	(63.8)	9	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 8.4% and 3.8% to a premium of approximately 31.6% and 30.2% 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 premium of approximately 25.0% and 23.8% 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 within the range of the CB/CN Comparables.

In addition, if we compare the conversion price to the net asset value of the Company of a discount of 54.8% with the comparable companies ranging from the discount of 45.0% to premium of 239.8%, with an average of 56.9% 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. The higher the differences (if positive), the higher the premium is the Conversion Price to the market price, which is favorable to the existing shareholders. Based on the above, the difference between the Conversion Price Ratio of the Company is at a premium of 9% to the Market Price Ratio, which is within the range of discount of 8.2% to premium of 30.0% and close to the median of 10.6.

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.

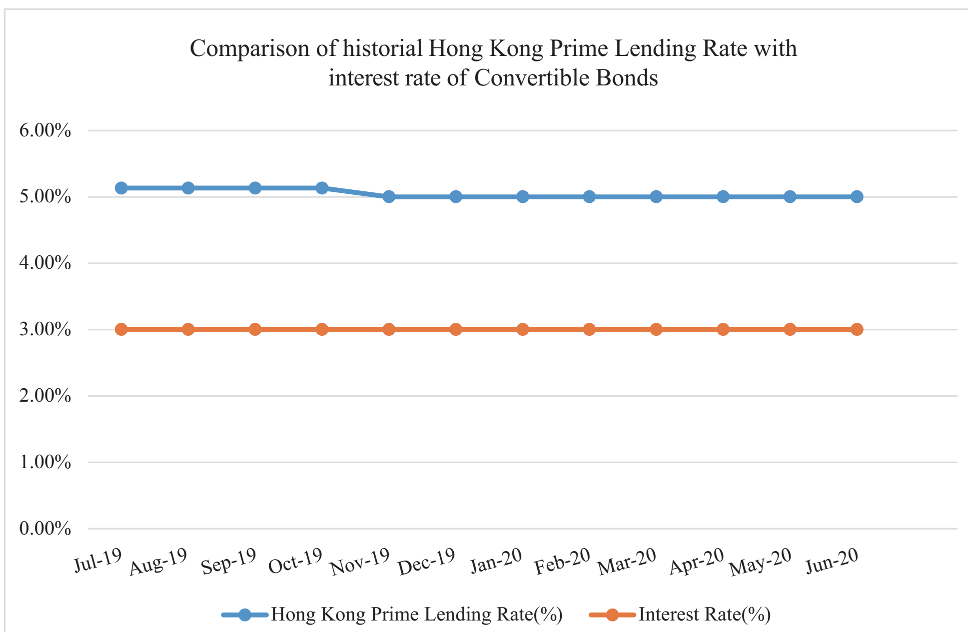
Our analysis on other major terms of the Convertible Bonds/Note

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 0 to 5% 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 July 2019 and June 2020 in the range of 5.0% to 5.13%. According to the 2019 Annual Report, the range of the ranges of the effective interest rates of the Group's borrowings are 3.5% and 2.25-4.6% for fixed-rate borrowings and variable-rate borrowings for the year ended 31 December 2019, 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 July 2019 and June 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 July 2019 and June 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 2019 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 *(Note 5)*	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
Mr Chan and his close associates						
Mr. Chan	2,500,000	0.39	2,500,000	0.39	2,500,000	0.17
Star Properties Holdings (BVI) Limited *(Note 1)*	432,140,800	67.36	432,140,800	67.36	432,140,800	29.25
Vendor *(Note 6)*	—	—	—	—	836,000,000	56.58
Subtotal	434,640,800	67.75	434,640,800	67.75	1,270,640,800	86.00
Others						
Ms. Cheung Wai Shuen *(Note 3)*	300,000	0.05	300,000	0.05	300,000	0.02
Ms. Chan Wah Man *(Note 4)*	156,000	0.02	156,000	0.02	156,000	0.01
Mr. Lam Kin Kok	1,558,000	0.24	1,558,000	0.24	1,558,000	0.11
Eagle Trend (BVI) Limited *(Note 2)*	38,259,200	5.96	38,259,200	5.96	38,259,200	2.59
Public Shareholders	166,584,000	25.97	166,584,000	25.97	166,584,000	11.27
Total	**641,498,000**	**100**	**641,498,000**	**100**	**1,477,498,000**	**100**

Notes:

(1) (a) 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.

(b) As Star Properties Holdings (BVI) Limited is directly held as to 100% by Mr. Chan, it is a close associate of Mr. Chan.

(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) 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.

(6) As the Vendor is indirectly held as to 100% by Mr. Chan, the Vendor is a close associate of Mr. Chan.

(7) The authorised share capital of the Company is HK$10,000,000. As at the Latest Practicable Date, there are 641,498,000 issued Shares and the issued share capital of the Company is HK$6,414,980.

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 noted that the shareholding of the existing Public Shareholders will decrease from approximately 25.97% to approximately 11.27%, 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 14.70%. The net asset value is approximately HK$1.65 per share of the Group as at 30 June 2020. Assuming the Acquisition is completed by 30 June 2020 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$0.96 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; and (v) issuance of convertible bonds is considered as the best option as mentioned in the Letter from the Board and '4.5 Other alternatives settlement methods considered' as compared to other alternative methods; and (vi) although the allotment and issue of Conversion Shares might dilute the shareholding interests of the existing public Shareholders in future, which may be seen as a disadvantage to the existing Shareholders, the Conversion Price is set at a 25% premium to the share price at the date of the Acquisition Agreement, which means that despite the dilution, the value of the shares held by existing Shareholders will actually increase by this 25% premium as the holder of the Conversion Shares converts. In addition, the conversion of Convertible Bonds are subject to restriction and the controlling shareholder shall never reach more than 75%. As such, 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.

Based on the above, 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$41.8 million per annum, while the finance cost of the Convertible Bonds with 3% per annum will be HK$12.5 million, which is much lower than using debt securities. Also, if the Consideration is settled by debt securities, the borrowing will increase by HK$418.0 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$418.0 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 2020 (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; (iii) completing the fund raising exercises due to the relatively complicated and time consuming trading arrangements involved; and (iv) the difficulty for the Company to obtain favorable terms on right issue for the Acquisition in relation to low trading volume and liquidity of the Shares of the Company during the past twelve months. The Directors, after approaching four securities firms in early June 2020, 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$418.0 million, the potential investors normally require a substantial placing discount to the trading price of the Shares as advised by the placing agents.

The annual interest expense with the coupon rate of 3% per annum of the Convertible Bonds is approximately HK$12.5 million. 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; (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; (iii) the benefits that the Acquisition will bring to the Group, as mentioned under "7. REASONS FOR AND BENEFITS OF THE ACQUISITION" in the Letter from the Board; (iv) analysis of other fund raising methods as stated in "4.5 Other alternative settlements methods considered" of this letter; (v) analysis of the interest rate of the Convertible Bond as stated in "4.3 Convertible Bonds" in this letter; and (vi) comparing the interest rate of the short-term loan to the Company advanced by Mr. Chan of 4.5% per annum; 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 2019 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 Annual Report, the revenue generated from property investment segment for the year ended 31 December 2019 was approximately HK$474,000. 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 revenue generated from lease income increase more than 20% per year since 2017, from approximately HK$25.6 million for the year ended 31 December 2017 to approximately HK$31.0 million for the year ended 31 December 2018 and further increased to approximately HK$44.9 million for the year ended 31 December 2019. 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 1 January 2019, the profit for the year ended 31 December 2019 would have increased by approximately HK$24.2 million from approximately HK$5.3 million to HK$29.5 million.

Cash flow

The total cash consideration is HK$42.0 million. The consideration of HK$418.0 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$43.8 million (including the estimated professional fees and transaction costs directly attributable to the Acquisition of approximately HK$1.8 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 30 June 2020, the unaudited pro forma consolidated total assets and total liabilities of the Enlarged Group would have increased to approximately to HK$4,022.1 million and HK$2,603.1 million, respectively. The unaudited net asset value of the Enlarged Group would be approximately HK$1,419.0 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 30 June 2020, the unaudited pro forma gearing ratio of the Enlarged Group would have decreased from approximately 172.5% of the gearing ratio of the Group as at 30 June 2020 to approximately 166.3% (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$725.5 million as at 31 March 2020, which was mainly due to (i) the long-term bank borrowings due for repayment within one year or after one year but contains a repayable on demand clause and; and (ii) the amounts due to an equity owner which were repayable on demand clause. 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 30 June 2020, the current ratio of the Enlarged Group will decrease from approximately 1.45 of the Group as at 30 June 2020 to approximately 1.14 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$367.0 million) and (ii) amounts due to the equity owner which amounts to approximately HK$259.2 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 June 2020) should be illustrated as follow:

	As at 31 March 2020 *(HK$'000)*
Net current assets of the Group (as at 30 June 2020)	851,087
Current assets of the Target Group	55,000
LESS: Current liabilities of the Target Group	780,489
ADD: Long term bank borrowings due for repayment after one year	367,000
ADD: Amounts due to the equity owner	259,177
	751,775

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 31 March 2020 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 2017, 31 December 2018 and 31 December 2019 respectively and the unaudited consolidated financial statements of the Group for the six months ended 30 June 2020, 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 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 annual report of the Company for the year ended 31 December 2019 published on 26 March 2020 (pages 62-149)
  https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0326/2020032601243.pdf

- the interim results announcement of the Company for the six months ended 30 June 2020 published on 31 August 2020 (pages 1-23)
  https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0831/2020083101747.pdf

2. INDEBTEDNESS OF THE ENLARGED GROUP

As the close of business on 31 July 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$2,585.0 million, and comprised (i) secured bank borrowings amounted to HK$1,990.4 million; (ii) unsecured bank borrowings amounted to HK$288.8 million; (iii) amounts due to a director amounted to HK$264.2 million and (iv) lease liabilities amounted to HK$41.6 million.

(i) Secured bank borrowings

Certain bank borrowings amounted to HK$1,960.4 million which were secured by the pledge of the Enlarged group's investment properties, properties held for sale and properties under development and a bank borrowing amount to HK$30.0 million were secured by the pledged bank deposits of a subsidiary of the Company; and certain of such secured bank borrowings amounted to HK$1,817.5 million were guaranteed by entities within the Group and/or the director, and the remaining secured bank borrowings amounted to HK$172.9 million were not guaranteed.

(ii) Unsecured bank borrowings

All the unsecured bank loans amounted to HK$288.8 million were guaranteed by entities within Enlarged Group and/or the director.

(iii) Amount due to a director

All the amount due to a director amounted to HK$264.2 million were unsecured and unguaranteed.

(iv) Lease liabilities

Lease liabilities of the Enlarged Group amounted to HK$41.6 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 July 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 result announcement of the Company for the six months ended 30 June 2020, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, 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

Save for the transactions contemplated under the Acquisition Agreement (details of which are disclosed in this circular), since 31 December 2019 (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 acquire 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.

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

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$52.0 million to approximately HK$982.2 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-5 to II-74, which comprises the statement of financial position of the Target Company as at 31 March 2020, the combined statements of financial position of the Target Group as at 31 December 2017, 2018 and 2019 and 31 March 2020, 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 2017, 2018 and 2019 and the three months ended 31 March 2020 (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-5 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 15 September 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-5, 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 Company's financial position as at 31 March 2020, of the Target Group's financial position as at 31 December 2017, 2018 and 2019 and 31 March 2020 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 three months ended 31 March 2019 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-5 have been made.

DIVIDENDS

We refer to Note 12 to the Historical Financial Information which contains information about the dividends declared and paid by group entities comprising the Target Group in respect of the Track Record Periods and no dividend was declared or paid by the Target Company in respect of the Track Record Periods and state that no dividend was declared or paid by the Target Company since its incorporation.

NO HISTORICAL FINANCIAL STATEMENTS OF THE TARGET COMPANY

No financial statements have been prepared for the Target Company since its date of incorporation.

BDO Limited
Certified Public Accountants

PAK Tak Lun
Practising Certification Number: P06170

Hong Kong
15 September 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			Three months ended 31 March	
		2017	2018	2019	2019	2020
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Revenue	7	35,044	45,255	55,581	11,735	13,226
Cost of sales		(7,620)	(12,419)	(8,691)	(2,147)	(1,017)
Gross profit		27,424	32,836	46,890	9,588	12,209
Other income and gains, net	7	1,060	4,497	777	170	122
Net valuation gain/(loss) on investment properties		56,309	41,901	38,555	(1,052)	(32,700)
Administrative and other operating expenses		(28,506)	(39,740)	(46,588)	(11,237)	(11,539)
Finance costs	10	(7,973)	(15,543)	(17,940)	(5,046)	(4,902)
Profit/(loss) before income tax	8	48,314	23,951	21,694	(7,577)	(36,810)
Income tax (expense)/credit	11	(4,658)	(6,412)	(6,085)	(134)	5,151
Profit/(loss) for the year/period		43,656	17,539	15,609	(7,711)	(31,659)
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)	(4,157)	(4,654)	833
Total comprehensive income for the year/period		43,656	13,812	11,452	(12,365)	(30,826)
Attributable to:						
Profit/(loss) for the year/period attributable to:						
Owners of the Target Company		44,623	19,833	16,201	(7,576)	(31,747)
Non-controlling interest		(967)	(2,294)	(592)	(135)	88
		43,656	17,539	15,609	(7,711)	(31,659)
Total comprehensive income for the year/period attributable to:						
Owners of the Target Company		44,623	16,106	12,044	(12,230)	(30,914)
Non-controlling interest		(967)	(2,294)	(592)	(135)	88
		43,656	13,812	11,452	(12,365)	(30,826)

COMBINED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 31 March
		2017	2018	2019	2020
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	*13*	59,904	92,580	82,690	82,545
Investment properties	*15*	708,775	861,555	962,305	930,186
Deferred tax assets	*21*	1,658	2,451	2,700	2,598
Prepayment for acquisition of investment properties		9,161	20,368	—	—
Total non-current assets		779,498	976,954	1,047,695	1,015,329
Current assets					
Inventories	*17*	4,295	7,446	9,319	8,662
Account receivables	*16*	2,028	2,241	2,441	2,196
Deposits, prepayments and other receivables	*18*	13,330	16,723	17,664	18,042
Cash and bank balances		54,479	15,124	25,483	26,100
Total current assets		74,132	41,534	54,907	55,000
Current liabilities					
Trade and other payables	*20*	(13,093)	(17,946)	(27,193)	(29,210)
Amount due to an equity owner	*19*	(196,575)	(175,123)	(194,590)	(259,177)
Lease liabilities	*26*	(6,475)	(14,594)	(14,068)	(15,165)
Borrowings	*25*	(351,434)	(489,196)	(540,049)	(476,756)
Income tax payable		(91)	(115)	(181)	(181)
Total current liabilities		(567,668)	(696,974)	(776,081)	(780,489)
Net current liabilities		(493,536)	(655,440)	(721,174)	(725,489)
Total assets less current liabilities		285,962	321,514	326,521	289,840

COMBINED STATEMENTS OF FINANCIAL POSITION *(Continued)*

		As at 31 December			As at 31 March
		2017	**2018**	**2019**	**2020**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities					
Lease liabilities	*26*	(30,576)	(45,597)	(36,182)	(35,579)
Borrowings	*25*	(435)	—	—	—
Deferred tax liabilities	*21*	(40,565)	(47,719)	(54,119)	(48,866)
Total non-current liabilities		(71,576)	(93,316)	(90,301)	(84,445)
Net assets		214,386	228,198	236,220	205,395
Equity attributable to owners of the Target Company					
Share capital	*22*	20	20	20	20
Reserves	*23*	216,902	233,008	242,638	211,780
Total equity attributable to owners of the Target Company		216,922	233,028	242,658	211,800
Non-controlling interest		(2,536)	(4,830)	(6,438)	(6,405)
Total equity		214,386	228,198	236,220	205,395

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 2017	20	—	202,765	202,785	(2,053)	200,732
Profit for the year	—	—	44,623	44,623	(967)	43,656
Dividend paid	—	—	(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)	19,833	16,106	(2,294)	13,812
At 31 December 2018 and 1 January 2019	20	(3,727)	236,735	233,028	(4,830)	228,198
Profit for the year	—	—	16,201	16,201	(592)	15,609
Other comprehensive income for the year: Exchange differences on translation of financial statements of foreign operation	—	(4,157)	—	(4,157)	—	(4,157)
Total comprehensive income for the year	—	(4,157)	16,201	12,044	(592)	11,452
Dividend paid	—	—	(3,430)	(3,430)	—	(3,430)
Change in non-controlling interests without change in control	—	—	1,016	1,016	(1,016)	—
At 31 December 2019 and 1 January 2020	20	(7,884)	250,522	242,658	(6,438)	236,220
Loss for the period	—	—	(31,747)	(31,747)	88	(31,659)
Other comprehensive income for the period: Exchange differences on translation of financial statements of foreign operation	—	833	—	833	—	833
Total comprehensive income for the period	—	833	(31,747)	(30,914)	88	(30,826)
Change in non-controlling interests without change in control	—	—	56	56	(55)	1
At 31 March 2020	20	(7,051)	218,831	211,800	(6,405)	205,395

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 1 January 2019	20	(3,727)	236,735	233,028	(4,830)	228,198
Loss for the period (unaudited)	—	—	(7,576)	(7,576)	(135)	(7,711)
Other comprehensive income for the period (unaudited): Exchange differences on translation of financial statements of foreign operation	—	(4,654)	—	(4,654)	—	(4,654)
Total comprehensive income for the period	—	(4,654)	(7,576)	(12,230)	(135)	(12,365)
At 31 March 2019 (unaudited)	20	(8,381)	229,159	220,798	(4,965)	215,833

COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Cash flows from operating activities					
Profit/(loss) before income tax	48,314	23,951	21,694	(7,577)	(36,810)
Adjustments for:					
Depreciation of property, plant and equipment	2,987	4,336	5,535	1,287	1,398
Amortisation of right-of-use assets	5,811	10,882	15,825	4,280	3,860
(Gain)/loss on change in fair value on investment properties	(56,309)	(41,901)	(38,555)	1,052	32,700
Gain on disposals of investment properties	(275)	(2,774)	—	—	—
Gain on disposal of property, plant and equipment	—	—	(156)	—	—
(Reversal of)/provision for expected credit losses	(469)	(420)	372	—	594
Provision for impairment of inventories	132	85	—	—	—
Finance costs	7,973	15,543	17,940	5,046	4,902
Operating profit before working capital changes	8,164	9,702	22,655	4,088	6,644
(Increase)/decrease in inventories	(32)	(3,236)	(1,873)	(1,587)	657
(Increase)/decrease in account receivables	(345)	207	(572)	1,160	(349)
(Increase)/decrease in deposits, prepayments and other receivables	(5,863)	(3,273)	(941)	1,885	(378)
Increase in trade and other payables	3,915	4,853	9,247	1,737	2,017
Cash generated from operations	5,839	8,253	28,516	7,283	8,591
Tax paid	(190)	(27)	—	—	—
Net cash generated from operating activities	5,649	8,226	28,516	7,283	8,591

COMBINED STATEMENTS OF CASH FLOWS *(Continued)*

	Year ended 31 December			Three months ended 31 March	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Cash flows from investing activities					
Purchase of investment properties	(131,201)	(143,838)	(41,827)	(41,104)	(581)
Proceeds from disposals of investment properties	47,275	44,774	—	—	—
Purchase of property, plant and equipment	(18,206)	(15,690)	(6,129)	(866)	(858)
Proceeds from disposals of property, plant and equipment	—	—	320	—	—
Increase in prepayment for acquisition of investment property	(9,161)	(20,368)	—	—	—
Net cash used in investing activities	(111,293)	(135,122)	(47,636)	(41,970)	(1,439)
Cash flows from financing activities					
Borrowings raised	127,101	163,175	331,904	69,414	48,619
Repayment of borrowings	(2,259)	(25,848)	(281,051)	(36,090)	(111,912)
Capital element of lease rental paid	(4,901)	(9,064)	(15,446)	(4,133)	(3,761)
Interest element of lease rental paid	(1,184)	(1,915)	(2,111)	(599)	(477)
Interest paid	(6,789)	(13,628)	(15,829)	(4,447)	(4,425)
Advance from an equity owner	111,851	130,876	167,625	25,273	84,589
Repayment to an equity owner	(72,420)	(152,328)	(151,588)	(13,517)	(20,002)
Net cash generated from/(used in) financing activities	151,399	91,268	33,504	35,901	(7,369)
Net increase/(decrease) in cash and cash equivalents	45,755	(35,628)	14,384	1,214	(217)
Cash and cash equivalents at beginning of year/period	8,724	54,479	15,124	15,124	25,483
Effect of foreign exchange rate changes	—	(3,727)	(4,025)	(4,657)	834
Cash and cash equivalents at end of year/period	54,479	15,124	25,483	11,681	26,100

STATEMENTS OF FINANCIAL POSITION OF THE TARGET COMPANY

	Note	**As at 31 March 2020** *HK$'000*
Non-current assets		
Investment in subsidiaries		1
Total non-current assets		1
Current assets		
Amount due from an equity owner		19
Total current assets		19
Net current assets		19
Total assets less current liabilities		20
Net assets		20
Equity		
Share capital	22	20
Reserves		—
Total equity		20

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, the Target Company became the holding company of the companies now comprising the Target Group but excluding other subsidiaries ("Excluded Subsidiaries") upon completion of the reorganisation. Please refer to Note 2 for the particulars of the subsidiaries of the Target Group included in the preparation of the combined financial statements..

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 21 July 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 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 became the holding company of the Target Group.

The business of the Target Group has formed a part of the larger group of the Target Company and its subsidiaries ("**Overall Group**") during the Track Record Period. For the purpose of preparation of the financial information of the Target Group, the assets and liabilities, and the results of the Target company and its subsidiaries as listed below are combined and those of the Excluded Subsidiaries are excluded (i.e. a "carve-out" basis), as compared with the assets and liabilities, and the results of the Overall Group prepared on a consolidation basis.

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

The Director of the Company is of the view that it is more appropriate to present the financial information of the Target Group during the Track Record Period on a "carve-out" basis, rather than to present the financial information of the Overall Group prepared on a consolidated basis, due to the following reasons:

- The Excluded Subsidiaries that is being disposed of are carrying businesses that are dissimilar to the remainder of the Target Group;
- There are clearly identifiable assets, liabilities, revenue and expenditures of the Target Group and of the Excluded Subsidiaries respectively;
- It is practicable to identify the historical financial information attributable to the Target Group's businesses given that the accounting books and records of the Target Group are maintained separately from the accounting books and records of the Excluded Subsidiaries; and
- The Excluded Subsidiaries does not form part of the assets to be acquired by the Purchaser under the proposed acquisition and hence its historical financial information is not relevant to the trading records of the businesses proposed to be acquired. The Director believes that presenting the consolidated financial information of the Overall Group, which would include the results of the Excluded Subsidiaries that is not the subject of the proposed acquisition, would provide irrelevant and potentially misleading financial information to the users of the financial information.

No significant adjustments or allocations of expenses for adoption of a "carve-out" basis were made in the financial information.

For the purpose of the proposed acquisition, the financial information of the Target Group has been prepared and presented on "carve-out" basis as if the Excluded Subsidiaries was excluded in preparing the financial information throughout the Track Record Period.

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.

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

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 2017, 2018, 2019 and 31 March 2020 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.

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 up capital	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		88%	Operation of storage service	(d)
Cheer Luck International Industrial Limited	Hong Kong	HK$1		88%	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		88%	Operation of storage service	(d)
East Luck Properties Limited	Hong Kong	HK$1		88%	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		88%	Operation of storage service	(d)
Far Orient International Limited	BVI	US$1		100%	Property holding	(b)
FTIII Luck Limited	Hong Kong	HK$1		88%	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)

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

Name of company	Place of incorporation/ operation	Issued and fully paid up capital	Proportion of ownership interest		Principal activity	Statutory auditors
			Held by the Target Company	*Held by a subsidiary*		*(a)/(b)/(c)/(d)/(e)*
Kowloon Luck Limited	Hong Kong	HK$1		88%	Operation of storage service	(d)
LCKI Luck Limited	Hong Kong	HK$1		88%	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		88%	Operation of storage service	(d)
Metro Storage Limited	Hong Kong	HK$1		88%	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		86%	Wine Trading	(d)
Metropolitan Production Limited	Hong Kong	HK$100		75%	Media production	(e)
Metropolitan Storage Limited	Hong Kong	HK$100		88%	Operation of storage service	(d)
Metropolitan Wine Cellar Limited	Hong Kong	HK$10,000		86%	Wine storage service	(d)
Metropolitan Workshop Limited	Hong Kong	HK$100		90%	Workshop	(d)
Nice Luck Enterprise Limited	Hong Kong	HK$1		88%	Operation of storage service	(a)
Noble Empire Investments Limited	Hong Kong	HK$1		86%	Wine storage service	(a)
NT Luck Limited	Hong Kong	HK$1		88%	Operation of storage service	(d)
NTII Luck Limited	Hong Kong	HK$1		88%	Operation of storage service	(d)
Numeric City Limited	Hong Kong	HK$1		100%	Property holding	(a)
Rainbow Luck Limited	Hong Kong	HK$1		88%	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		88%	Operation of storage service	(d)
Seaview Empire Investments Limited	Hong Kong	HK$1		100%	Dormant	(a)
Seongsu Vision Co Limited	South Korea	KRW510,000,000		100%	Property holding	(b)
Sunny Generation Limited	Hong Kong	HK$2		100%	Property holding	(c)
Well Sure Corporation Limited	Hong Kong	HK$1		100%	Property holding	(c)
Wise City Holdings Limited	Hong Kong	HK$1		100%	Property holding	(c)

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.

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

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 HK$725,489,000, of which approximately HK$367 million was reclassified from non-current borrowings to current borrowings because of demand clause in borrowing agreements, as at 31 March 2020. The sole director of the Target Company has considered the Target Group will have sufficient working capital to finance its operations and financial obligations as and when they fall due after taking into consideration of the followings:

- the cash inflow generated from operating activities of the Target Group for the next twelve months from the end of the reporting period;
- the equity owner of the Target Company has agreed not to demand for any repayment of amount due to an equity owner of HK$259,177,000 as at 31 March 2020 until the Target Group has sufficient resources to repay;
- the equity owner of the Target Company has agreed to provided financial support to the Target Company to meet its obligation, if necessary;
- the Target Group can utilise its internal cash resource available including cash and bank balances and unutilised banking facilities granted; and
- to dispose of or refinance with certain pledged and unpledged properties owned by the Target Group, if necessary.

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.

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 2020 throughout the Track Record Period, including HKFRS 9, Financial instruments, HKFRS 15, Revenue from contracts with customers and HKFRS 16, Lease.

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 2017 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.

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 16	COVID-19-Related Rent Concession[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[3]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[3]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2020
4 Effective for annual periods beginning on or after 1 June 2020

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.

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

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

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 Target Group are eliminated in full on consolidation.

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.

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

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

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.

(c) 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.

(d) 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)*

(d) 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.

(e) Impairment of non-financial 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.

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).

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

(e) **Impairment of non-financial assets** *(Continued)*

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.

(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.

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(d)) and impairment losses (see Note 4(e)), except for the following types of right-of-use asset:

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

(f) Leased assets *(Continued)*

(i) As a lessee *(Continued)*

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

(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.

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

(g) Financial instruments *(Continued)*

(i) Financial assets (Continued)

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.

(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.

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

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

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

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.

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.

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

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.

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 loss or reversal of an impairment loss in profit or loss. The Target Group recognises an impairment loss or reversal of an impairment loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

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

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

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

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) 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.

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

(g) Financial instruments *(Continued)*

(iv) Financial liabilities *(Continued)*

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.

(v) 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.

(vi) 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) Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

— they are available for immediate sale;

— management is committed to a plan to sell;

— it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;

— an active programme to locate a buyer has been initiated;

— the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and

— a sale is expected to complete within 12 months from the date of classification.

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

(h) Non-current assets held for sale and disposal groups *(Continued)*

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

— their carrying amount immediately prior to being classified as held for sale in accordance with the Target Group's accounting policy; and

— fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

The results of operations disposed of during the year are included in profit or loss up to the date of disposal.

(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.

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

(i) Inventories and other contract costs *(Continued)*

(ii) Other contract costs *(Continued)*

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 4(r)). 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)).

(k) Contract assets

A contract asset is recognised when the Target 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 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.

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

(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 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.

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(c), 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.

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

(o) Income tax *(Continued)*

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.

(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.

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

(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.

(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.

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

(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.

(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.

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

(t) Related parties *(Continued)*

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.

(u) 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.

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.

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

(c) Investment properties

As described in Note 15, the fair value of the Target Group's investment properties situated in Hong Kong and Seoul 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 2017, 2018, 2019 and 31 March 2020 were arrived at based on income approach and direct comparison approach.

At 31 December 2017, 2018, 2019 and 31 March 2020, 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 South Korea. 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.

(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.

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

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.

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

	Year ended 31 December			**Three months ended 31 March**	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Revenue from lease income:					
Serviced apartment	5,285	4,860	4,945	1,246	1,055
Storage and workshop	14,575	19,883	33,200	6,875	9,325
Wine operations					
— wine cellar	4,722	5,198	5,978	1,060	1,492
Production and investment holding					
— investment properties	1,006	1,027	752	203	228
	25,588	30,968	44,875	9,384	12,100
Revenue from contracts with customers:					
Type of goods or services by segment					
Wine operations					
— trading of fine wine	6,567	11,459	8,468	2,275	1,082
Others	2,889	2,828	2,238	76	44
Total	35,044	45,255	55,581	11,735	13,226

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

a. **Reportable segments**

Year ended 31 December 2017/At 31 December 2017

	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	5,285	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 losses, 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 *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	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 losses, 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 31 March 2019 (Unaudited)

	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	1,246	6,875	3,335	279	11,735
Inter-segment revenue	473	3,158	198	—	3,829
Reportable segment revenue	1,719	10,033	3,533	279	15,564
Elimination of inter-segment sales					(3,829)
Combined revenue					11,735
Segment results					
Reportable segment profit/(loss)	789	(3,150)	(158)	(12)	(2,531)
Finance costs					(5,046)
Combined loss before tax					(7,577)
Other segment information					
Change in fair value of investment properties, net	—	(1,052)	—	—	(1,052)
Depreciation and amortisation	(32)	(5,234)	(277)	(24)	(5,567)
Capital expenditure	1,246	6,941	4,276	279	12,742

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

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

Year ended 31 December 2019/At 31 December 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	4,945	33,200	14,446	2,990	55,581
Inter-segment revenue	1,722	12,945	792	168	15,627
Reportable segment revenue	6,667	46,145	15,238	3,158	71,208
Elimination of inter-segment sales					(15,627)
Combined revenue					55,581
Segment results					
Reportable segment profit	6,079	29,662	3,059	834	39,634
Finance costs					(17,940)
Combined profit before tax					21,694
Segment assets and liabilities					
Reportable segment assets	175,780	759,676	58,507	80,456	1,074,419
Deferred tax assets					2,700
Unallocated cash and bank balances					25,483
Combined total assets					1,102,602
Reportable segment liabilities	(1,207)	(61,245)	(13,970)	(1,202)	(77,624)
Borrowings					(540,049)
Amount due to an equity owner					(194,590)
Deferred tax liabilities					(54,119)
Combined total liabilities					(866,382)
Other segment information					
Change in fair value of investment properties, net	3,200	33,055	2,000	300	38,555
Gain on disposal of property, plant and equipment	—	—	—	156	156
Expected credit losses, net	—	—	(177)	(195)	(372)
Depreciation and amortisation	(131)	(19,984)	(1,144)	(101)	(21,360)
Capital expenditure	—	66,994	1,230	100	68,324

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

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

Period ended 31 March 2020/At 31 March 2020

	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	1,055	9,325	2,574	272	13,226
Inter-segment revenue	430	3,094	198	28	3,750
Reportable segment revenue	1,485	12,419	2,772	300	16,976
Elimination of inter-segment sales					(3,750)
Combined revenue					13,226
Segment results					
Reportable segment (loss)/profit	(5,255)	(25,262)	97	(1,488)	(31,908)
Finance costs					(4,902)
Combined loss before tax					(36,810)
Segment assets and liabilities					
Reportable segment assets	169,815	734,414	58,481	78,921	1,041,631
Deferred tax assets					2,598
Unallocated cash and bank balances					26,100
Combined total assets					1,070,329
Reportable segment liabilities	(1,435)	(62,221)	(15,381)	(1,098)	(80,135)
Borrowings					(476,756)
Amount due to an equity owner					(259,177)
Deferred tax liabilities					(48,866)
Combined total liabilities					(864,934)
Other segment information					
Change in fair value of investment properties, net	(5,900)	(25,800)	—	(1,000)	(32,700)
Expected credit losses, net	—	—	(498)	(96)	(594)
Depreciation and amortisation	(33)	(4,928)	(290)	(7)	(5,258)
Capital expenditure	—	1,405	—	34	1,439

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			Three months ended 31 March	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Hong Kong	35,044	45,255	55,581	11,735	13,226

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

Non-Current Assets

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	777,840	954,135	983,865	953,765
South Korea	—	20,368	61,130	58,966
	777,840	974,503	1,044,995	1,012,731

c. **Information about major customers**

During the years ended 31 December 2017, 2018 and 2019 and the three months ended 31 March 2020, no individual customer accounted for 10% or more of the Target Group's revenue.

7. REVENUE, OTHER INCOME AND GAINS

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	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	6,567	11,459	8,468	2,275	1,082
Income from services	2,889	2,828	2,238	76	44
Total revenue from contracts with customers	9,456	14,287	10,706	2,351	1,126
Revenue from other sources					
Rental income	25,588	30,968	44,875	9,384	12,100
Total revenue	35,044	45,255	55,581	11,735	13,226
Other income and gains					
Gain on disposal of investment properties	275	2,774	—	—	—
Others	785	1,723	777	170	122
	1,060	4,497	777	170	122

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			Three months ended 31 March	
	2017	2018	2019	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Timing of revenue recognition					
At a point in time	6,567	11,459	8,468	2,275	1,082
Transferred over time	2,889	2,828	2,238	76	44
	9,456	14,287	10,706	2,351	1,126

8. PROFIT/(LOSS) BEFORE INCOME TAX

This is arrived at after charging/(crediting):

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Auditor's remuneration	204	261	27	—	—
Carrying amount of inventories sold	7,488	12,334	8,691	2,147	1,017
Inventories written off	132	85	—	—	—
Cost of inventories recognised as expense	7,620	12,419	8,691	2,147	1,017
Depreciation of property, plant and equipment	2,987	4,336	5,535	1,287	1,398
Amortisation of right-of-use assets	5,811	10,882	15,825	4,280	3,860
(Reversal of)/provision for expected credit losses	(469)	(420)	372	—	594
Gain on disposal of property, plant and equipment	—	—	(156)	—	—
Staff costs (including director's remuneration):					
Salaries and other benefits	985	1,136	584	147	168
Contributions to defined contribution retirement plan	31	39	29	7	8
	1,016	1,175	613	154	176

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 2017, 2018, 2019 and the three months ended 31 March 2019 and 2020	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.

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			Three months ended 31 March	
	2017	2018	2019	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Salaries and bonuses	903	984	564	147	168
Contributions to defined contribution retirement plan	31	33	29	5	8
	934	1,017	593	152	176

Their emoluments were within the following bands:

	Number of employees				
	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019 (Unaudited)	2020
HK$ Nil to HK$500,000	4	5	3	3	2
HK$500,001 to HK$1,000,000	—	—	—	—	—
	4	5	3	3	2

10. FINANCE COSTS

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Interest on bank loans	6,789	13,628	15,829	4,447	4,425
Interest expenses on lease liabilities	1,184	1,915	2,111	599	477
	7,973	15,543	17,940	5,046	4,902

11. INCOME TAX EXPENSE/(CREDIT)

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

	Year ended 31 December			Three months ended 31 March	
	2017	2018	2019	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Hong Kong profits tax	210	51	(66)	(25)	—
Deferred tax expense/(credit)	4,448	6,361	6,151	159	(5,151)
	4,658	6,412	6,085	134	(5,151)

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.

11. INCOME TAX EXPENSE/(CREDIT) *(Continued)*

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

	Year ended 31 December			Three months ended 31 March	
	2017	**2018**	**2019**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Profit(loss) before income tax	48,314	23,951	21,694	(7,577)	(36,810)
Income tax calculated at Hong Kong profits tax rate of 16.5%	7,972	3,952	3,580	(1,250)	(6,074)
Effect of different tax rates of subsidiaries operating in another jurisdiction	—	14	18	5	(13)
Tax effect of deductible temporary difference not recognised	4,591	6,393	6,114	57	(5,120)
Tax effect of non-taxable income	(18,231)	(13,282)	(7,147)	(160)	(84)
Tax effect of non-deductible expenses	9,340	4,218	3,785	3,000	5,770
(Utilisation)/tax effect of tax losses not recognised	1,061	5,220	(200)	(1,597)	370
Other	(30)	(103)	(65)	79	—
Income tax expense/(credit)	4,658	6,412	6,085	134	(5,151)

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			Three months ended 31 March
	2017	**2018**	**2019**	**2020**
	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 if the company's profit be declared and paid to its shareholder by way of current account settlement.

12. DIVIDENDS *(Continued)*

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 shareholder 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	Leasehold improvement	Furniture and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:					
At 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	5,505	5,352	777	—	11,634
Disposals	—	—	—	(819)	(819)
At 31 December 2019 and 1 January 2020	82,511	57,584	5,904	—	145,999
Additions	4,255	823	35	—	5,113
At 31 March 2020	86,766	58,407	5,939	—	151,112
Accumulated depreciation:					
At 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 year	15,825	4,878	657	—	21,360
Disposal	—	—	—	(655)	(655)
At 31 December 2019 and 1 January 2020	36,454	22,799	4,056	—	63,309
Charge for the period	3,860	1,254	144	—	5,258
At 31 March 2020	40,314	24,053	4,200	—	68,567
Net book value:					
At 31 March 2020	46,452	34,354	1,739	—	82,545
At 31 December 2019	46,057	34,785	1,848	—	82,690
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

14. RIGHT-OF-USE ASSETS

		Year ended 31 December			Three months ended 31 March
		2017	**2018**	**2019**	**2020**
	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)*	35,055	56,377	46,057	46,452
Included in "Investment properties", at fair value:					
Ownership interests in leasehold investment properties		708,775	861,555	962,305	930,186
		743,830	917,932	1,008,362	976,638

Note:

(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 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	62,195
Fair value gain	38,555
At 31 December 2019 and 1 January 2020	962,305
Addition	581
Fair value loss	(32,700)
31 March 2020	930,186

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 Target Group's investment properties as at 31 December 2017, 2018, 2019 and 31 March 2020 are a level 3 recurring fair value measurement, which uses significant unobservable inputs in arriving the fair value. In the opinion of the director, 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 as at 31 December 2017, 2018, 2019 and 31 March 2020 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$5,200 to HK$164,000 (2019:HK$6,000 to HK$164,000)(2018: HK$5,000 to HK$164,000) (2017: HK$6,000 to HK$181,000) 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$43 to HK$57 (2019: HK$44 to HK$61) (2018: HK$44 to HK$63) (2017: HK$44 to HK$63) which have been then capitalised to determine the market value at an appropriate capitalisation rate, range from 2.37% to 2.80% (2019: 2.45% to 2.80%)(2018: 2.56% to 2.80%) (2017: 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
	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 (2019: HK$16,000 to HK$29,000) (2018: HK$21,000 to HK$26,000) (2017: HK$19,000 to HK$23,000) 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$400 to HK$839 (2019: HK$408 to HK$718) (2018: HK$335 to HK$718) (2017: HK$300 to HK$564) 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 for details.

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

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	459	415	938	938
After 1 year but within 2 years	300	390	529	295
After 2 years but within 5 years	458	195	—	—
	1,217	1,000	1,467	1,233

16. ACCOUNT RECEIVABLES

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Account receivables	2,638	2,431	3,003	3,352
Less: allowance for doubtful debts	(610)	(190)	(562)	(1,156)
	2,028	2,241	2,441	2,196

(a) Ageing analysis

As at 31 December 2017, 2018 and 2019 and 31 March 2020, the ageing analysis of account receivables based on the date of revenue recognition, is as follows:

	As at 31 December			As at 31 March
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0-30 days	1,655	2,094	2,429	1,668
31-60 days	121	115	10	89
61-90 days	73	11	2	59
91-120 days	127	7	—	380
More than 120 days	52	14	—	—
	2,028	2,241	2,441	2,196

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 2017, 2018 and 2019 and 31 March 2020, 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 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of the year/period	1,079	610	190	562
Provision for expected credit losses	—	—	372	594
Reversal of expected credit losses	(469)	(420)	—	—
At the end of the year/period	610	190	562	1,156

17. INVENTORIES

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Finished goods	4,295	7,446	9,319	8,662

Provisions of impairment of inventories of HK$132,000, HK$85,000, HK$Nil, HK$Nil and HK$Nil were recognised in profit or loss during the years ended 31 December 2017, 2018 and 2019 and three months ended 31 March 2019 and 2020 respectively.

18. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposits	4,262	7,872	6,950	6,676
Prepayments	373	329	227	120
Paid in advance of wine products	8,695	8,522	10,487	11,246
	13,330	16,723	17,664	18,042

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. AMOUNTS DUE TO AN EQUITY OWNER

Amount due to an equity owner as at 31 December 2017, 2018 and 2019 and 31 March 2020 was unsecured, interest-free and repayable on demand.

Amount due to an equity owner as at 31 December 2017, 2018 and 2019 and 31 March 2020 represented a loan with principal amount of HK$196,575,000, HK$175,123,000, HK$194,590,000 and HK$259,177,000 which were unsecured and repayable on demand. The amount due to an equity owner was interest-free during the year ended 31 December 2017, 2018, 2019 and the three months ended 31 March 2020.

20. TRADE AND OTHER PAYABLES

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	331	608	650	700
Other payables	2,102	4,311	13,172	15,345
Deposits received	4,113	2,299	4,445	3,416
Receipt in advance of rental income	3,266	6,877	3,270	3,818
Contract liabilities	3,281	3,851	5,656	5,931
Classified under current liabilities	13,093	17,946	27,193	29,210

(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 the respective period ends is as follows:

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0-30 days	—	12	102	51
31-60 days	—	—	—	—
61-90 days	—	—	—	—
91-120 days	12	—	—	101
More than 120 days	319	596	548	548
	331	608	650	700

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 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at beginning of year/period	2,673	3,281	3,851	5,656
Decrease in contract liabilities as a result of recognising revenue during the year/period that was included in the contract liabilities at the beginning of the year/period	(940)	(4,945)	(5,811)	(206)
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	1,548	5,515	7,616	481
Balance as at end of year/period	3,281	3,851	5,656	5,931

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 2017	(36,256)	327	1,470	(34,459)
(Credited)/charge 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)
(Credited)/charge 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)
(Credited)/charge to profit or loss *(Note 11)*	(6,400)	480	(231)	(6,151)
At 31 December 2019 and 1 January 2020	(54,119)	1,226	1,474	(51,419)
Charged/(credited) to profit or loss *(Note 11)*	5,253	(80)	(22)	5,151
At 31 March 2020	(48,866)	1,146	1,452	(46,268)

21. DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

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 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax assets	1,658	2,451	2,700	2,598
Deferred tax liabilities	(40,565)	(47,719)	(54,119)	(48,866)
	(38,907)	(45,268)	(51,419)	(46,268)

Deferred tax assets not recognised

As at 31 December 2017, 2018 and 2019 and 31 March 2020, the Target Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$6,430,000, HK$31,636,000, HK$Nil and HK$2,242,000 respectively as it is not probable that future taxable income against which the losses can be utilised 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 2017, 31 December 2017, 31 December 2018, 31 December 2019 and 31 March 2020 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

Foreign exchange reserve

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

24. PLEDGE OF ASSETS

As at 31 March 2020, saved 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 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Investment properties	634,700	671,800	827,500	796,000

25. BORROWINGS

	As at 31 December			As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Secured bank loans:				
Current	351,434	489,196	540,049	476,756
Non-current	435	—	—	—
	351,869	489,196	540,049	476,756

The bank loans are secured by the Target Group's investment properties as further detail in Note 24.

As at 31 December 2017, 2018 and 2019 and 31 March 2020, 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 + 2.50%, HIBOR+1.20% to HIBOR + 2.50% per annum and HIBOR+1.20% to HIBOR + 2.50% per annum, respectively.

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 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
On demand or within one year	351,434	489,196	540,049	476,756
More than one year, but not exceeding two years	435	—	—	—
More than two year, but not exceeding five years	—	—	—	—
After five years	—	—	—	—
	351,869	489,196	540,049	476,756

26. LEASE LIABILITIES

		As at 31 December		As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Minimum lease payments due				
Lease of right-of-use assets				
— Within 1 year	7,779	16,616	15,719	16,814
— Between 1 to 2 years	7,685	13,840	12,088	11,967
— Between 2 to 5 years	13,670	23,936	24,350	24,418
— Later than 5 years	13,153	12,321	2,835	2,055
	42,287	66,713	54,992	55,254
Less: future finance charges	(5,236)	(6,522)	(4,742)	(4,510)
Present value of lease liabilities	37,051	60,191	50,250	50,744
Current	6,475	14,594	14,068	15,165
Non-current	30,576	45,597	36,182	35,579

The 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 2017, 2018, 2019 and the three months ended 31 March 2020 were HK$6,085,000, HK$10,979,000,HK$17,557,000 and HK$4,238,000.

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	For the year ended 31 December 2017 HK$'000	2018 HK$'000	2019 HK$'000	For the three months ended 31 March 2020 HK$'000
Equity owner	Rental expense(i)	148	148	153	38
Galaxy Real Estate Investment Management Limited	Management fee (iii)	487	537	432	108
M&M Kitchen Limited	Management fee income (iv)	204	105	—	—
	Facilities rental expense (vi)	120	80	—	—
Metropolitan Lifestyle (H.K.) Limited	Management fee (iii)	4,460	4,921	6,652	1,755
	Rental income (ii)	240	252	12	—
	Service fees (iv)	1,601	1,776	1,833	451
	Purchase of motor vehicle (v)	450	—	—	—
Lala Eat Company Limited	Rental income (ii)	175	420	175	—
Spring Moon Investments Limited	Service fees (iv)	—	—	896	—
Cafe 52	Rental income (ii)	—	—	300	75

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 Group purchased a motor vehicle from Metropolitan Life Style (H.K.) Limited.

(vi) The Group leased 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 director 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 2017, 2018 and 2019 and 31 March 2020, 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 director 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 2017, 2018 and 2019 would decrease/increase by HK$3,519,000, HK$4,892,000 and HK$5,400,000 respectively and the profit after tax for the three months ended 31 March 2020 would decrease/increase by HK$4,768,000.

In the opinion of the director, 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 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 liabilities	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 liabilities	60,191	66,713	16,616	13,840	23,936	12,321
	742,456	762,606	712,509	13,840	23,936	12,321

	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 2019						
Trade and other payables	27,193	27,193	27,193	—	—	—
Borrowings	540,049	558,434	558,434	—	—	—
Amount due to an equity owner	194,590	194,590	194,590	—	—	—
Lease liabilities	50,250	54,992	15,719	12,088	24,350	2,835
	812,082	835,209	795,936	12,088	24,350	2,835

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 31 March 2020						
Trade and other payables	29,210	29,210	29,210	—	—	—
Borrowings	476,756	492,800	492,800	—	—	—
Amount due to an equity owner	259,177	259,177	259,177	—	—	—
Lease liabilities	50,744	55,254	16,814	11,967	24,418	2,055
	815,887	836,441	798,001	11,967	24,418	2,055

(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 director 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 31 March
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	775	6,854	16,391	15,164
Deposits and other receivables	—	20,912	131	34
Other payables	—	(9)	(13)	(906)
Borrowings	—	—	(37,274)	(35,778)
	775	27,757	(20,765)	(21,486)

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 2017, 2018, 2019 and the three months ended 31 March 2020 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 profit after tax for the year ended 31 December			Effect on profit after tax for the three months ended 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Korean Won	39	1,388	(1,038)	(1,074)

In the opinion of the director, 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

30. FINANCIAL RISK MANAGEMENT *(Continued)*

(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 31 March
	2017	**2018**	**2019**	**2020**
Amount due from the largest debtor as a percentage to total trade receivables	33%	34%	37%	24%
Total amount due from the five largest debtors as a percentage to total trade receivables	52%	63%	50%	36%

Other than the above, the Target Group does not have significant concentration of credit risk.

(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 2017, 2018, 2019 and 31 March 2020:

31 December 2017	**Expected loss rate** *(%)*	**Gross carrying amount** *HK$'000*	**Loss allowance** *HK$'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)

30. **FINANCIAL RISK MANAGEMENT** *(Continued)*

(d) **Credit risk** *(Continued)*

(i) ***Credit risk of account receivables*** *(Continued)*

31 December 2018	Expected loss rate *(%)*	Gross carrying amount *HK$'000*	Loss allowance *HK$'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)

31 December 2019	Expected loss rate *(%)*	Gross carrying amount *HK$'000*	Loss allowance *HK$'000*
Neither past due nor impaired	0%	1,371	—
0-30 days past due	4%	1,100	(42)
31-60 days past due	21%	13	(3)
61-90 days past due	55%	4	(2)
Over 90 days past due	100%	515	(515)
		3,003	(562)

31 March 2020	Expected loss rate *(%)*	Gross carrying amount *HK$'000*	Loss allowance *HK$'000*
Neither past due nor impaired	0%	1,197	—
0-30 days past due	7%	507	(36)
31-60 days past due	27%	123	(34)
61-90 days past due	53%	125	(66)
Over 90 days past due	73%	1,400	(1,020)
		3,352	(1,156)

(ii) ***Credit risk of other receivables and amounts 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.

30. **FINANCIAL RISK MANAGEMENT** *(Continued)*

(d) **Credit risk** *(Continued)*

(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:

		As at 31 December		As at 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	13,093	17,946	27,193	29,210
Amount due to an equity owner	196,575	175,123	194,590	259,177
Lease liabilities	37,051	60,191	50,250	50,744
Borrowings	351,869	489,196	540,049	476,756
Less: Cash and cash equivalents	(54,479)	(15,124)	(25,483)	(26,100)
	544,109	727,332	786,599	789,787
Equity attributable to owners of the parent	216,922	233,028	242,658	211,800
Total capital and net debt	761,031	960,360	1,029,257	1,001,587
Gearing ratio	28%	24%	24%	21%

The Target Group targets to maintain a gearing ratio to be in line with the expected changes in economic and financial conditions. The 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 31 March
	2017	2018	2019	2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at amortised costs				
Financial assets measured at amortised cost:				
Account receivables	2,028	2,241	2,441	2,196
Deposits	4,262	7,872	6,950	6,676
Cash and bank balances	54,479	15,124	25,483	26,100
	60,769	25,237	34,874	34,972
Financial liabilities at amortised costs				
Financial liabilities measured at amortised cost:				
Trade and other payables	6,546	7,218	18,267	19,461
Amount due to an equity owner	196,575	175,123	194,590	259,177
Lease liabilities	37,051	60,191	50,250	50,744
Borrowings	351,869	489,196	540,049	476,756
	592,041	731,728	803,156	806,138

Financial instruments not measured at fair value

Management has assessed that the fair values of cash and bank balances, account receivables, deposits, 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 31 March
	2017	2018	2019	2020
	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	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 31 March
	2017	**2018**	**2019**	**2020**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	54,479	15,124	25,483	26,100
Significant non-cash transactions are as follows:				
Dividend declare	30,000	—	3,430	—

(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 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
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

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 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	167,625	—	—	—	167,625
Repayment to an equity owner	(151,588)	—	—	—	(151,588)
Proceeds from new bank loans	—	331,904	—	—	331,904
Repayment of bank loans	—	(281,051)	—	—	(281,051)
Capital element of lease rental paid	—	—	—	(15,446)	(15,446)
Interest element of lease rental paid	—	—	—	(2,111)	(2,111)
Interest paid	—	—	(15,829)	—	(15,829)
Other changes:					
Addition of right-of-use assets	—	—	—	7,616	7,616
Interest expense	—	—	15,829	—	15,829
Dividend declare	3,430	—	—	—	3,430
As at 31 December 2019 and 1 January 2020	194,590	540,049	—	50,250	784,889
Changes from financing cash flows:					
Advance from an equity owner	84,589	—	—	—	84,589
Repayment to an equity owner	(20,002)	—	—	—	(20,002)
Proceeds from new bank loans	—	48,619	—	—	48,619
Repayment of bank loans	—	(111,912)	—	—	(111,912)
Capital element of lease rental paid	—	—	—	(3,761)	(3,761)
Interest element of lease rental paid	—	—	—	(477)	(477)
Interest paid	—	—	(4,425)	—	(4,425)
Other changes:					
Addition of right-of-use assets	—	—	—	4,732	4,732
Interest expense	—	—	4,425	—	4,425
As at 31 March 2020	259,177	476,756	—	50,744	786,677

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 2019	175,123	489,196	—	60,191	724,510
Changes from financing cash flows:					
Advance from an equity owner	25,273	—	—	—	25,273
Repayment to an equity owner	(13,517)	—	—	—	(13,517)
Proceeds from new bank loans	—	69,414	—	—	69,414
Repayment of bank loans	—	(36,090)	—	—	(36,090)
Capital element of lease rental paid	—	—	—	(4,133)	(4,133)
Interest element of lease rental paid	—	—	—	(599)	(599)
Interest paid	—	—	(4,447)	—	(4,447)
Other changes:					
Addition of right-of-use assets	—	—	—	2,014	2,014
Interest expenses	—	—	4,447	—	4,447
As at 31 March 2019 (unaudited)	186,879	522,520	—	57,473	766,872

34. NOVEL CORONAVIRUS OUTBREAK

Since January 2020, the outbreak of COVID-19 has impact on the business environment in the Hong Kong. Up to the date of this report, COVID-19 has not resulted in material impact to operating activities or financial performance and financial position of the Target Group. The leasing activities and the wine trading businesses are operating normally during the pandemic. However, as COVID-19 continue to evolve, depending on the subsequent development and spread of COVID-19, it may have significant impact to the Target Group. Given the dynamic nature of these circumstances, the director of the Target Company will continue to closely monitor the situation and continue to assess and react actively to the impact of COVID-19 outbreak on the Target Group's operations, financial position and financial performance accordingly. The related impact on the Target Group's consolidated results of operations, cash flows and financial conditions will be reflected in the Target Group's 2020 annual financial statements.

D. SUBSEQUENT FINANCIAL INFORMATION

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 31 March 2020.

The following management discussion and analysis should be read in conjunction with the accountants' report of Target Group for the year ended 31 December 2017, 31 December 2018, 31 December 2019 and the three months ended 31 March 2020 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 2019 and the three months ended 31 March 2020 (collectively, the "**Reporting Period**"). All references to "FY2017", "FY2018" and "FY2019" mean the financial years ended 31 December 2017, 31 December 2018 and 31 December 2019, 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 FY2017, FY2018, FY2019 and the three months ended 31 March 2019 and 2020 were approximately HKD5.3 million, HKD4.9 million, HKD4.9 million, HKD1.2 million and HKD1.1 million, respectively. The revenue from serviced apartment business decreased from HK$5.3 million in FY2017 to HK$4.9 million in FY2018 due to termination of leased term with certain customers during FY2018. The revenue from serviced apartment business remained stable at HK$4.9 million in FY2018 and FY2019. The rental income slightly decreased from HKD1.2 million for three months ended 31 March 2019 as compared to HKD1.1 million for the three months ended 31 March 2020.

(ii) Wine cellar and fine wine business

The revenue generated from wine cellar and fine wine business in FY2017, FY2018, FY2019 and the three months ended 31 March 2019 and 2020 were approximately HKD11.3 million, HKD16.7 million, HKD14.4 million, HKD3.3 million and HKD2.6 million, respectively. 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 HKD16.7 million for FY2018 to HKD14.4 million for FY2019, which was mainly 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. The revenue from wine cellar and fine wine business decreased from HKD3.3 million for the three months ended 31 March 2019 to HKD2.6 million for the three months ended 31 March 2020, which was due to the outbreak of COVID-19 that slightly slowed down the segment of fine wine trading.

(iii) Storage and workshop business

The revenue generated from storage and workshop business in FY2017, FY2018, FY2019 and the three months ended 31 March 2019 and 2020 were approximately HKD14.6 million, HKD19.9 million, HKD33.2 million, HKD6.9 million and HKD9.3 million, respectively.

The revenue from storage and workshop business increased significantly from HKD14.6 million for FY2017 to HKD19.9 million for FY2018, 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 HKD19.9 million for FY2018 to HKD33.2 million for FY2019, 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 from HKD6.9 million for the three months ended 31 March 2019 to HKD9.3 million for the three months ended 31 March 2020, which was mainly due to the increasing occupancy rate of those sites of storage business newly operated in FY2019.

(iv) Production and other investment holding business

The revenue generated from production and other investment holding business in FY2017, FY2018, FY2019 and the three months ended 31 March 2019 and 2020 were approximately HKD3.9 million, HKD3.9 million, HKD3.0 million, HKD0.3 million and HKD0.3 million, respectively. 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 HKD3.9 million for FY2018 to HKD3.0 million for FY2019, which was mainly due to decrease of revenue from media production projects during the year. The revenue from production and other investment holding business remained stable at HKD0.3 million for the three months ended 31 March 2019 and for the three months ended 31 March 2020.

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 HKD7.6 million, HKD12.4 million, HKD8.7 million, HKD2.1 million and HKD1.0 million, respectively in FY2017, FY2018, FY2019 and the three months ended 31 March 2019 and 2020. The cost of sales increased 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 HKD12.4 million for FY2018 to approximately HKD8.7 million for FY2019 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. The decrease from HKD2.1 million for the three months ended 31 March 2019 to HKD1.0 million for the three months ended 31 March 2020, which was mainly due to reduction of sales volume in the retail segment of the fine wine business 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 HKD1.1 million, HKD4.5 million, HKD0.8 million, HKD0.2 million and HKD0.1 million, respectively in FY2017, FY2018, FY2019 and the three months ended 31 March 2019 and 2020. The increase from approximately HKD1.1 million for FY2017 to approximately HKD4.5 million for FY2018 was mainly due to a gain on disposal of investment properties located in Macau of approximately HKD5.2 million, which is offset by a loss of approximately HKD2.4 million on disposal of a subsidiary which held properties for other business.

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 2017, 2018 and 2019 and three months ended 31 March 2019 and 2020 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 gains on investment properties of approximately HKD56.3 million, HKD41.9 million and HKD38.6 million in FY2017, FY2018 and FY2019 respectively. 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 HKD26.2 million of fair value gain from an investment property in Admiralty Centre in Hong Kong. The fair value gain of approximately HKD38.6 million for FY2019 was mainly contributed by the significant fair value gain of investment properties held for storage and workshop business, amounted to approximately HKD33.1 million, which was mainly contributed by approximately HKD20.0 million of fair value gain from an investment property in Admiralty Centre in Hong Kong.

The Target Group recorded net valuation losses on investment properties of approximately HKD1.1 million and HKD32.7 million for the three months ended 31 March 2019 and 2020. The fair value loss of HKD32.7 million for the three months ended 31 March 2020 was mainly due to the general downward of Hong Kong's property market after the outbreak of COVID-19.

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 HKD28.5 million, HKD39.7 million, HKD46.6 million, HKD11.2 million and HKD11.5 million, respectively in FY2017, FY2018, FY2019 and the three months ended 31 March 2019 and 2020. 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 HKD28.5 million for FY2017 to HKD39.7 million for FY2018, 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 HKD39.7 million for FY2018 to HKD46.6 million for 2019, which was mainly due to the further expansion of storage and workshop business in Chai Wan and Fo Tan during FY2019 which incurred significant increase in rental expense and higher consultancy fee. The administrative and other operating expenses slightly increased from approximately HKD11.2 million for the three months ended 31 March 2019 to HKD11.5 million for the three months ended 31 March 2020, which was mainly due to stable and similar operating scale of storage and workshop business over the two periods since after the new sites being newly operated in the first quarter of FY2019.

Finance costs

The finance costs incurred by the Target Group mainly represented interest from borrowings. The Target Group recorded finance cost of approximately HKD8.0 million, HKD15.5 million, HKD17.9 million, HKD5.0 million and HKD4.9 million, respectively in FY2017, FY2018, FY2019 and the three months ended 31 March 2019 and 2020. 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/Loss for the year/period

The Target Group recorded profit for the year of approximately HKD43.7 million, HKD17.5 million, HKD15.6 million in FY2017, FY2018 and FY2019 respectively, and loss of approximately HKD7.7 million and HKD31.7 million for three months ended 31 March 2019 and 2020.

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/loss on investment properties. 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 loss for the period of the Target Group increased significantly from approximately HKD7.7 million for three months ended 31 March 2019 to approximately HKD31.7 million for three months ended 31 March 2020, which was mainly due to an increase in net valuation loss on investment properties of approximately HKD31.6 million, net off with an increase in revenue of approximately HKD1.5 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 2017, 31 December 2018 and 31 December 2019 and 31 March 2020, the Target Group had cash and cash equivalents of approximately HKD54.5 million, HKD15.1 million, HKD25.5 million and HKD26.1 million respectively, ii) borrowings of approximately HKD351.9 million, HKD489.2 million, HKD540.0 million and HKD476.8 million as at 31 December 2017, 2018 and 2019 and 31 March 2020 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 196.6 million, HKD175.1 million, HKD194.6 million and HKD259.2 million as at 31 December 2017, 2018 and 2019 and 31 March 2020 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 2017, 31 December 2018 and 31 December 2019 and 31 March 2020, the Target Group recorded net current liabilities of approximately HKD493.5 million, HKD655.4 million, HKD721.2 million and HKD725.5 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 2017, 2018 and 2019 and 31 March 2020, the Target Group's gearing ratio ("Gearing Ratio", represented by total interest-bearing borrowings as a percentage of total equity) were approximately 164.1%, 214.4%, 228.6% and 232.1% respectively.

Employee and Remuneration Policies

As at 31 December 2017, 2018 and 2019 and 31 March 2020, the Target Group had, in aggregate, 4, 3, 2 and 2 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 FY2017, FY2018, FY2019 and for the three months ended 31 March 2020, the total staff costs including director's remuneration amounted to approximately 0.9 million, HKD 1.0 million, HKD 0.6 million and HKD 0.2 million, respectively.

Future plans for material investments or capital assets

As at 31 March 2020, 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 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 June 2020 were approximately HKD97,000,000, HKD123,000,000, HKD195,000,000 and HKD150,300,000 respectively (details of which are set out in the valuation report in Appendix V), representing approximately 9.1%, 11.5%, 18.2% and 14.0% respectively, of the total assets of the Target Group as at 31 March 2020.

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 FY2017, FY 2018, FY2019 and the three months ended 31 March 2020 were approximately HK$329,000, HK$1,972,000, HK$1,972,000 and HK$493,000, respectively.

The rental income generated from the Wellington Street Property for FY2017, FY 2018, FY2019 and the three months ended 31 March 2020 were approximately HK$nil, HK$879,000, HK$2,638,000 and HK$660,000, respectively.

The rental income generated from the Admiralty Properties for FY2017, FY 2018, FY2019 and the three months ended 31 March 2020 were approximately HK$2,132,000, HK$3,926,000, HK$3,824,000 and HK$850,000, respectively. The rental income generated from the Causeway Bay Properties for FY2017, FY 2018, FY2019 and the three months ended 31 March 2020 were approximately HK$2,209,000, HK$2,254,000, HK$2,254,000 and HK$564,000, 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 2017, 2018 and 2019 and 31 March 2020, the Target Group has capital expenditure contracted in respect of acquisition of investment properties amounted to approximately HKD11.7 million, HKD38.2 million, nil and nil.

Charges on assets

As at 31 December 2017, 2018 and 2019 and 31 March 2020, the Target Group had pledged the investment properties with a carrying amount of approximately HKD634.7 million, HKD671.8, HKD827.5 million and HKD796.0 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 2017, 2018 and 2019 and 31 March 2020.

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, HKD27.8 million as at 31 December 2017 and 31 December 2018 respectively, and net liabilities were HKD20.8 million and HKD21.5 million as at 31 December 2019 and 31 March 2020 respectively.

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.

The information set out in this appendix does not form part of the accountants' report prepared by the reporting accountants of the Company, BDO Limited, Certified Public Accountants, Hong Kong, set out in Appendix II to this circular, and is included herein for illustrative purpose only.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. INTRODUCTION

The accompanying unaudited pro forma financial information 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 Target Group, as defined in the Circular (the "**Acquisition**") as if the Acquisition had been completed. The unaudited pro forma financial information presented below is prepared to illustrate (i) the consolidated statement of financial position of the Enlarged Group as at 30 June 2020 as if the Acquisition had been completed on 30 June 2020; and (ii) the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows of the Enlarged Group for the year ended 31 December 2019 as if the Acquisition had been completed on 1 January 2019.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2020 has been prepared based on: (i) the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020, which was extracted from the unaudited interim report of the Company for the six months ended 30 June 2020; and (ii) the audited statement of financial position of the Target Group as at 31 March 2020, 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 30 June 2020.

The unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group for the year ended 31 December 2019 has been prepared based on: (i) the audited consolidated statement of profit or loss and other comprehensive income and audited consolidated statement of cash flows of the Group for the year ended 31 December 2019, which was extracted from the annual report of the Company for the year ended 31 December 2019; and (ii) the audited statement of profit or loss and other comprehensive income and audited consolidated statement of cash flows of the Target Group for the year ended 31 December 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 1 January 2019.

The Unaudited Pro Forma Financial Information are 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, results of operation and cash flows of the Enlarged Group that would have been attained had the Acquisition been completed as of the specified dates 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 unaudited interim report of the Group for the six months ended 30 June 2020, 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 STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE ENLARGED GROUP

	The Group for the year ended 31 December 2019 HK'000 (Note 1)	The Target Group for the year ended 31 December 2019 HK'000 (Note 2)	Pro forma adjustments Notes	HK'000	Unaudited pro forma Enlarged Group for the year ended 31 December 2019 HK'000
Revenue	**119,979**	**55,581**	9	**(896)**	**174,664**
Cost of sales and services	(50,843)	(8,691)	9	896	(58,638)
Gross profit	**69,136**	**46,890**			**116,026**
Other income and gains, net	8,315	777			9,092
(Loss)/gain on change in fair value of investment properties	(2,597)	38,555			35,958
(Loss)/gain on change in fair value of financial assets at fair value through profit or loss	(1,027)	—	6	15,268	14,241
Selling expenses	(6,970)	—			(6,970)
Administrative expenses and other operating expenses	(35,372)	(46,588)	7	(1,823)	(83,783)
Finance costs	(19,244)	(17,940)	8	(4,882)	(42,066)
Profit before tax	**12,241**	**21,694**			**42,498**
Income tax expense	(6,944)	(6,085)			(13,029)
Profit for the year	**5,297**	**15,609**			**29,469**
Other comprehensive expense for the year					
Item that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operations	(1,808)	(4,157)			(5,965)
Total comprehensive income for the year	**3,489**	**11,452**			**23,504**
Profit/(loss) for the year attributable to:					
Owners of the Company	5,724	16,201	6	15,268	30,488
			7	(1,823)	
			8	(4,882)	
Non-controlling interests	(427)	(592)			(1,019)
	5,297	15,609			29,469
Total comprehensive income/(expense) attributable to:					
Owners of the Company	4,007	12,044	6	15,268	24,614
			7	(1,823)	
			8	(4,882)	
Non-controlling interests	(518)	(592)			(1,110)
	3,489	**11,452**			**23,504**

3. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

	The Group as at 30 June 2020	The Target Group as at 31 March 2020	Pro forma adjustments		Unaudited pro forma Enlarged Group as at 30 June 2020
	HK'000	*HK'000*		*HK'000*	*HK'000*
	(Note 1)	*(Note 2)*	*Notes*		
NON-CURRENT ASSETS					
Property, plant and equipment	1,821	82,545			84,366
Investment properties	47,000	930,186			977,186
Loan receivables	149,558	—			149,558
Financial assets at fair value through profit or loss	6,078	—			6,078
Deferred tax assets	—	2,598			2,598
Total non-current assets	**204,457**	**1,015,329**			**1,219,786**
CURRENT ASSETS					
Properties held for sale	2,622,146	—			2,622,146
Inventories	—	8,662			8,662
Trade and other receivables	25,326	20,238	*9*	(800)	44,764
Financial assets at fair value through profit or loss	2,169	—	*4(ii)*	4,665	6,834
Stakeholder's accounts	6,104	—			6,104
Pledged bank deposits	10,324	—			10,324
Bank balances and cash	73,687	26,100			99,787
	2,739,756	55,000			2,798,621
Assets classified as held for sale	3,660	—			3,660
Total current assets	**2,743,416**	**55,000**			**2,802,281**
CURRENT LIABILITIES					
Trade and other payables	(68,727)	(29,210)	*7*	(1,823)	(98,960)
			9	800	
Amount due to an equity owner	—	(259,177)	*4(ii)*	259,177	—
Consideration payable	—	—	*4(i)*	(42,000)	(42,000)
Lease liabilities	—	(15,165)			(15,165)
Contract liabilities	(1,061)	—			(1,061)
Tax liabilities	(2,127)	(181)			(2,308)
Borrowings	(1,820,414)	(476,756)			(2,297,170)
Total current liabilities	**(1,892,329)**	**(780,489)**			**(2,456,664)**
NET CURRENT ASSETS/(LIABILITIES)	**851,087**	**(725,489)**			**345,617**
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,055,544**	**289,840**			**1,565,403**

3. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP *(Continued)*

	The Group as at 30 June 2020 *HK'000* *(Note 1)*	The Target Group as at 31 March 2020 *HK'000* *(Note 2)*	Pro forma adjustments *Notes*	*HK'000*	Unaudited pro forma Enlarged Group as at 30 June 2020 *HK'000*
NON-CURRENT LIABILITIES					
Lease liabilities	—	(35,579)			(35,579)
Convertible Bonds	—	—	*4(ii)*	(61,823)	(61,823)
Deferred tax liabilities	(177)	(48,866)			(49,043)
Total non-current liabilities	**(177)**	**(84,445)**			**(146,445)**
Net assets	**1,055,367**	**205,395**			**1,418,958**
CAPITAL AND RESERVES					
Share capital	(6,415)	(20)	*5*	20	(6,415)
Reserves	(1,046,553)	(211,780)	*4(ii)*	120,292	(1,416,549)
			4(ii)	(280,311)	
			5	(20)	
			7	1,823	
Equity attributable to owners of the Company	**(1,052,968)**	**(211,800)**			**(1,422,964)**
Non-controlling interests	(2,399)	6,405			4,006
Total Equity	**(1,055,367)**	**(205,395)**			**(1,418,958)**

4. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP

	The Group for the year ended 31 December 2019 HK'000 (Note 1)	The Target Group for the year ended 31 December 2019 HK'000 (Note 2)	Pro forma adjustments Notes	HK'000	Unaudited pro forma Enlarged Group for the year ended 31 December 2019 HK'000
OPERATING ACTIVITIES					
Profit before tax	12,241	21,694	6	15,268	42,498
			7	(1,823)	
			8	(4,882)	
Adjustments for:					
Depreciation of plant and equipment	358	5,535			5,893
Depreciation of right-of-use assets	455	15,825			16,280
Finance costs	19,244	17,940	8	4,882	42,066
Gain on disposal of plant and equipment	(4)	(156)			(160)
Loss/(gain) on change in fair value of financial assets at fair value through profit or loss	1,027	—	6	(15,268)	(14,241)
Loss/(gain) on change in fair value of investment properties	2,597	(38,555)			(35,958)
Provision of expected credit loss	—	372			372
Interest income earned on bank balances	(434)	—			(434)
Operating profit before movements in working capital	35,484	22,655			56,316
Increase in inventories	—	(1,873)			(1,873)
Decrease in loan receivables	30,215	—			30,215
Increase in trade and other receivables	(2,370)	(1,513)	9	800	(3,083)
Decrease in contract costs	301	—			301
Increase in properties held for sale	(171,434)	—			(171,434)
Decrease in stakeholder's accounts	32,811	—			32,811
Increase in trade and other payables	8,453	7,442	7	1,823	16,918
			9	(800)	
(Decrease)/increase in contract liabilities	(399)	1,805			1,406
Cash (used in)/generate from operations	(66,939)	28,516			(38,423)
Income tax paid	(24,148)	—			(24,148)
NET CASH (USED IN)/GENERATE FROM OPERATION ACTIVITIES	**(91,087)**	**28,516**			**(62,571)**
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	(680)	(6,129)			(6,809)
Proceeds from disposal of property, plant and equipment	17	320			337
Cash outflow from acquisition of a subsidiary	(49,380)	—			(49,380)
Purchase of investment properties	—	(41,827)			(41,827)

4. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP *(Continued)*

	The Group for the year ended 31 December 2019	The Target Group for the year ended 31 December 2019	Pro forma adjustments	Unaudited pro forma Enlarged Group for the year ended 31 December 2019
	HK'000	*HK'000*	*HK'000*	*HK'000*
	(Note 1)	*(Note 2)*	*Notes*	
Proceeds from disposal of investment properties	8,253	—		8,253
Purchase of financial assets at fair value through profit or loss	(1,014)	—		(1,014)
Proceeds from refund of financial assets at fair value through profit or loss	24	—		24
Placement of pledged bank deposits	(142)	—		(142)
Interest received from bank	434	—		434
NET CASH USED IN INVESTING ACTIVITIES	**(42,488)**	**(47,636)**		**(90,124)**
FINANCING ACTIVITIES				
Borrowings raised	675,968	331,904		1,007,872
Repayment of borrowings	(456,111)	(281,051)		(737,162)
Repayment of lease liabilities	(1,822)	—		(1,822)
Advance from a director	79,000	—		79,000
Repayment to a director	(40,000)	—		(40,000)
Advance from an equity owner	—	167,625		167,625
Repayment to an equity owner	—	(151,588)		(151,588)
Capital element of lease rental paid	—	(15,446)		(15,446)
Interest element of lease rental paid	—	(2,111)		(2,111)
Capital contribution from non-controlling interests	1,726	—		1,726
Proceeds from issue of shares	10,723	—		10,723
Interest paid	(95,200)	(15,829)		(111,029)
Dividends paid	(99,432)	—		(99,432)
NET CASH GENERATED FROM FINANCING ACTIVITIES	**74,852**	**33,504**		**108,356**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(58,723)	14,384		(44,339)
Effect of foreign exchange rate changes	(370)	(4,025)		(4,395)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	121,369	15,124		136,493
CASH AND CASH EQUIVALENTS AT END OF THE YEAR represented by bank balances and cash	62,276	25,483		87,759

Notes to the Unaudited Pro Forma Financial Information:

1. The financial information of the Group as at 30 June 2020 and for the year ended 31 December 2019 is extracted from the unaudited condensed consolidated financial statement of the Group as at 30 June 2020 as set out in the unaudited interim report of the Company for the six months ended 30 June 2020 whereas the consolidated statement of profit or loss and other comprehensive and the consolidated statement of cash flows of the Group for the year ended 31 December 2019 are extracted from the audited consolidated statement of profit or loss and other comprehensive and the consolidated statement of cash flows of the Group for the year ended 31 December 2019 as published in the annual report of the Company for the year ended 31 December 2019.

2. The financial information of the Target Group as at 31 March 2020 and for the year ended 31 December 2019 is extracted from the accountants' report of the Target Group as set out in Appendix II to this circular, respectively.

3. 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.

4. Pursuant to the Acquisition Agreement (as defined in the circular) dated 21 July 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$42,000,000 shall be paid by the Company as deposit and partial payment of the consideration upon signing of the Acquisition Agreement; and

   (ii) HK$418,000,000 by way of issue of convertible bonds in the aggregate principal amount of HK$418,000,000 entitling the Vendors (or its nominees) to convert into a maximum of 836,000,000 conversion shares in full based on the initial conversion price of HK$0.50 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 (the "**JLL**"), and for the purpose of preparing the Unaudited Pro Forma Financial Information of the Enlarged Group, the Directors estimated that the fair value of the Convertible Bonds as at 30 June 2020 is approximately HK$337,469,000.

The fair value of the aggregate consideration assuming the Acquisition was completed on 30 June 2020 is as follows:

	HK$'000
Fair value of liability component	61,823
Fair value of redemption derivative component	(4,665)
Fair value of equity component	280,311
Fair value of convertible bonds, at fair value	337,469
Fair value of cash deposit	42,000
Total consideration at fair value	379,469
Less: consideration for the Sales Loan as per current accounts due to equity owner in Target Group	(259,177)
Consideration for the sales shares, at fair value	120,292

Note:

The Convertible Bonds comprise of:

i) liability component amounted to approximately HK$61,823,000;

ii) redemption derivative component, being financial assets at fair value through profit or loss, of debit balance of approximately HK$4,665,000; and

iii) the equity component of approximately HK$280,311,000.

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$0.50, 53.87% volatility, 8.76% 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 8.76% as at 30 June 2020. The discount rate of 8.76% was based on: (i) risk-free rate of 0.67%; credit spread of 8.09%. 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 the preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group.

5. 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 as if the Acquisition had occurred on the date when the combining entities first came under the control of Mr. Joe Chan. By applying the merger accounting, the assets and liabilities of the Group and the Target Group are combined using their existing book values from the perspective of Mr. Joe Chan. The difference arising from the consideration given by the Company for the acquisition of the Sales Shares adjusted for the elimination of the share capital of the Target Company, is accounted for in equity as "Merger reserve".

   Merger reserve of the Enlarged Group arising from the Acquisition is calculated as follows:

	HK$'000
Consideration for the sales shares, at fair value *(Note 4(ii))*	120,292
Elimination of share capital of the Target Company	(20)
Merger reserve	120,272

6. For the purpose of the unaudited pro forma consolidated statement of profit and loss and other comprehensive income, the adjustment represents the fair value change of financial assets at fair value through profit or loss, which representing the redemption option, of approximately HK$15,268,000 during the year 31 December 2019. The amount is arising from the fair value change from remeasurement of the redemption option as at 1 January 2019 amounting to HK$5,121,000 as if the Acquisition had been taken place on 1 January 2019 over the fair value of the redemption option of approximately HK$20,389,000 as at 31 December 2019. The changes in fair value of the redemption option during the year ended 31 December 2019 are recognized directly in profit or loss in the period in which they arise. This adjustment will have continuing effect on the Enlarged Group in the subsequent years.

7. The adjustment represents the estimated professional fees and transaction costs of approximately HK1,823,000 payable by the Group in connection with the Acquisition, which are assumed to be due upon completion. The adjustment is not expected to have a continuing effect on the Enlarged Group's consolidated statement of profit and loss and other comprehensive income and consolidated statement of cash flows.

8. For the purpose of the unaudited pro forma consolidated statement of profit and loss and other comprehensive income, the adjustment represents the annual finance cost for the year of approximately HK$4,882,000, in respect of the liability component of the Convertible Bonds as at 1 January 2019. The fair value of the Convertible Bonds is determined based on the valuation conducted by JLL on the Convertible Bonds as at 1 January 2019. The Company, on its discretion, assumes the payment of coupon interest on the Convertible Bonds be deferred in 10 years time. This adjustment has continuing effect on the financial statements of the Enlarged Group in subsequent years.

9. For the purpose of the unaudited pro forma consolidated statement of profit or loss and other comprehensive income, the adjustment represents the elimination of inter-group transaction in relation to cost of sales of HK$896,000 between the Group and the Target Group. The adjustment is not expected to have a continuing effect on the Enlarged Group's consolidated statement of profit and loss and other comprehensive income in the subsequent years.

   For the purpose of the unaudited pro forma consolidated statement of financial position, the adjustments represent the offset of the Target Group's account receivables of HK$800,000 against the account payables by the Group.

   For the purpose of the unaudited pro forma consolidated statement of cash flows, the adjustment represents effect on over-statement on account receivables of Target Group and over-statement on account payables of the Group after elimination of inter-group balances on of the Enlarged Group. The adjustment is not expected to have a continuing effect on the Enlarged Group's consolidated statement of cash flow in the subsequent years.

10. Other than the adjustments in relation to the acquisition set out in the notes above, no other adjustment has been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group and Target Group entered into subsequent to 30 June 2020.

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.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

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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 financial position as at 30 June 2020 and the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and pro forma consolidated statement of cash flows for the year ended 31 December 2019, and related notes as set out in Part A of Appendix IV to the circular dated 15 September 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 Style (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 30 June 2020 and the Group's financial performance and cash flows for the year ended 31 December 2019 as if the Acquisition had taken place at 30 June 2020 and 1 January 2019, respectively. As part of this process, information about the Group's financial position as at 30 June 2020 has been extracted by the Directors from the Group's unaudited condensed consolidated financial statements as included in the unaudited interim report of the Group for the six months ended 30 June 2020 and the Group's financial performance and cash flows for the year ended 31 December 2019 has been extracted by the Directors from the Group's audited consolidated financial statements as included in the annual report of the Company for the year ended 31 December 2019, on which an auditor's 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 Group 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 30 June 2020 or 1 January 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 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
15 September 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 30 June 2020 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

15 September 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 21 July 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$460,000,000, 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 30 June 2020 (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 interests 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 interests.

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 properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their 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 the 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.

Besides, 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' experience 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, the outbreak of the Novel Coronavirus (COVID-19) since declared Global Pandemic on the 11th March 2020 has caused much disruption to economic activities around the world. As of the report date, Hong Kong's economy is experiencing gradual recovery and it is anticipated that disruption to business activities will steadily reduce. We also note that market activity and market sentiment in these particular market sectors remains stable. However, we remain cautious due to uncertainty for the pace of global economic recovery in the midst of the outbreak which may have future impact on the real estate market. Therefore, we recommend that you keep the valuation of the properties under frequent review.

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	97,000,000
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	123,000,000
4.	3rd Floor, No. 14 Yiu Wa Street, Causeway Bay, Hong Kong	8,300,000
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	63,800,000
7.	3rd Floor, World Trust Tower, No. 50 Stanley Street, Central, Hong Kong	70,000,000
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	10,500,000

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 on 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	195,000,000
14.	Shop No. 94 on 1st Floor of The Podium, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	19,000,000
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	150,300,000

Group II — Property interest to be acquired and held for future development 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	58,600,000
	Grand-total:	929,675,000

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 January 2020 to 31 December 2020 at a monthly license fee of HKD143,815 (inclusive of management fees, Government rent and rates) as at the valuation date.	97,000,000

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 is 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 January 2020 to 31 December 2020 at a monthly license fee of HKD197,865 (inclusive of management fees, Government rent and rates) as at the valuation date.	123,000,000

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 construction 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.	8,300,000

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.

   f. Superseding Order No. "CCSN/TA/001477/11/HK" under Section 24(1) of the Buildings Ordinance with Plan by the Building Authority vide Memorial No. 20032401710133 dated 27 December 2019.

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.

5. The property is subject to an order as mentioned in Note 2. In the course of our valuation, we have not taken into account any cost of remedial measures in complying with such order.

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.).	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)*	63,800,000

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 2020 - 31 Dec 2020	164,805
Workshop 05	1 Jan 2020 - 31 Dec 2020	5,000
Workshop 06	1 Apr 2020 - 31 Dec 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 accommodates 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 2020 to 31 December 2020 at a monthly license fee of HKD127,855 (inclusive of management fees, Government rent and rates) as at the valuation date.	70,000,000

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 agricultural 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 agricultural 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 construction with painted exteriors. Vertical circulation is served by a common staircase. The saleable area of the property as measured from building plans 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.	10,500,000

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.

5. The property is subject to a notice as mentioned in Note 2. In the course of our valuation, we have not taken into account any cost of remedial measures in complying with such notice.

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 12th 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 January 2020 to 31 December 2020 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 Draft Chai Wan Outline Zoning Plan No. S/H20/24 exhibited on 19 June 2020 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 a connected party of Target Group from 1 January 2020 to 31 December 2020 at a monthly license fee of HK$283,240 (inclusive of Government rent, rate and management fee) as at the valuation date.	195,000,000

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.	19,000,000

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 construction 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 building 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 building 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)*	150,300,000

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 notices 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 notices.

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 occupied by the Target Company as at the valuation date.	58,600,000 (equivalent to KRW9,087,705,300)

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 has been permitted of new construction by authorities vide Memorial No. 2019-3030080-1101-60 dated 9th September 2019. According to an investigation, the construction of the new commercial and office building has been commenced in around April 2020.

3. 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.

4. As advised by the Company, the cost already spent for site improvement as at valuation date is KRW364,805,300.

5. The exchange rate adopted in our valuation is approximately HKD1=KRW155 which was approximately the prevailing exchange rate as at the valuation date.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the Group for each of the three years ended 31 December 2017, 2018, 2019 and the six months ended 30 June 2020, details of which are set out in the annual reports of the Company for the years ended 31 December 2017, 2018 and 2019 respectively and the interim result announcement for the six months ended 30 June 2020.

I. For the year ended 31 December 2017

Business review

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 Group's revenue for the year ended 31 December 2017 amounted to approximately HK$732.4 million (2016: approximately HK$40.7 million), which represented a notable increase of approximately HK$691.7 million compared with last year. Profit attributable to owners of the Company for the year ended 31 December 2017 was approximately HK$95.8 million (2016: approximately HK$21.7 million), which represented an increase of approximately HK$74.1 million from last year. The increase in revenue and the profit for the year ended 31 December 2017 was mainly due to (i) the revenue recognition for the completion and delivery of sold units from property development project "The Star" to the buyers during the year; and (ii) the non-recurring expenses of approximately HK$16.9 million in relation to the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited ("**Stock Exchange**") (the "**Listing**") on 13 July 2016 incurred for the year ended 31 December 2016. The basic earnings per share for the period was approximately HK18.9 cents as compared to basic earnings per share of approximately HK5.6 cents as restated after bonus issue on 19 May 2017 for the corresponding period last year. The review of the individual business segment of the Group is set out below.

Property development

Revenue recognised in this business segment during the year amounted to approximately HK$728.2 million (2016: approximately HK$31.9 million). As at 31 December 2017, the Group had two completed projects, namely, (i) The Galaxy and (ii) The Star; and four projects under development, namely, (iii) The Rainbow (previously named as Yue Fung Project); (iv) the CWK Project; (v) Yuen Long site; and (vi) Kwun Tong site. A general summary and update of the property development projects of the Group during the reporting year and as at 31 December 2017 are listed below:

The Galaxy: Revenue recognised for the completion and delivery of three workshop units during the year amounted to HK$14.0 million. (2016: approximately HK$31.9 million). The decrease in revenue for the reporting year was mainly attributable to fewer delivery of completed units compared with last year.

The Star: The Group received the occupation permit from the buildings department of the Government of the Hong Kong Special Administrative Region of the People's Republic of China (the "**Hong Kong Government**") on 16 May 2017. Revenue recognised for the completion and delivery of the 282 pre-sold units during the year was approximately HK$714.2 million.

The Rainbow (previously named as Yue Fung Project): The Board has passed a resolution to change the investment intention of the project from investment property to inventories and classified it as property held for sale as well as to adopt a new development plan with a view to sell after granting approval from the Hong Kong Government on general building plans submission and a special waiver allowing the existing industrial building to be converted into commercial building. The building and the project "Yue Fung Project" has been renamed as "The Rainbow". The Group has launched the pre-sales of the project in November 2017. The total contracted pre-sales amounted to approximately HK$246.1 million which will be recognised (subject to audit) as revenue of the Group upon completion and delivery of units. The project has attracted different age groups including the end users and the investors and making a strong foundation for the Group to achieve sustainable and healthy returns. The Group is currently preparing for the launch of the pre-sale of the remaining units. The alternations and additions works are making good progress and are expected to be completed within 2018.

CWK Project: The Group has paid the land premium of HK$280.0 million in September 2017, which is financed by both bank borrowings and the net proceeds from Open Offer (as defined hereafter). The demolition of the existing building is already completed in April 2017. The Group expects to commence foundation works in the second quarter of 2018.

Yuen Long Site Project: The Group has successfully acquired a property located at Wang Yip Street West, Yuen Long, New Territories in February 2017, through acquisition of subsidiaries. Ocean Bay International Limited, a company incorporated in the BVI and a wholly owned subsidiary of the Group as the purchaser entered into a sale and purchase agreement in relation to the acquisition 100% equity interest of, Canton Glory Limited ("**Canton Glory**"), a company incorporated in BVI, at a cash consideration of HK$339,980,000. Canton Glory wholly owns the entire issued share capital in Sincere Gold Properties Limited, a company incorporated in Hong Kong, which holds the property located at Wang Yip Street West, Yuen Long, New Territories. The Group intends to redevelop it into a residential complex with some shops. The Group is in the progress to submit the building plans to the Building Department of the Hong Kong Government and lease modification application to the Lands Department of the Hong Kong Government. The Group expects to commence hoarding and demolition works in the second quarter of 2018.

Kwun Tong Site Project: The Group has successfully acquired an industrial building located in Kwun Tong, Kowloon in August 2017, through Diamond Ocean Investments Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Group as the purchaser entered into a sale and purchase agreement in relation to the acquisition of the properties located at Wai Yip Street, Kwun Tong, Kowloon, at a cash consideration of HK$760,000,000. The Group intends to redevelop it into a high grade commercial building. The building is currently leasing out to generate temporary rental income from properties held for sale. The Group is in the progress to prepare the submission of lease modification to the Lands Department of the Hong Kong Government.

Ngau Tau Kok Site Project: As disclosed in the 2016 Annual Report and 2017 Interim Report of the Company, the Group has entered into a provisional sale and purchase agreement in January 2017 to acquire an industrial building located in Ngau Tau Kok, Kowloon. Pursuant to a provisional sale and purchase agreement entered into in August 2017 between Star Properties Group (BVI) Limited, a wholly owned subsidiary of the Company, and an independent third party (the "**NTK Purchaser**"), the Group agreed to sell its entire equity interest in Moon Colour Holdings Limited, which was a wholly owned subsidiary of the Group and held a property located at Tai Yip Street, Ngau Tau Kok, Kowloon (the "**NTK Site**"), as at completion to the NTK Purchaser at an aggregate cash consideration of HK$360,000,000 (the "**Disposal**"). On the basis that (i) the consideration offered by the NTK Purchaser was higher than our initial acquisition consideration for the NTK Site; and (ii) after balanced consideration and based on the due diligence review of the NTK Site to date, the Disposal represents an opportunity for the Group to focus on the Yuen Long Site Project and the Kwun Tong Site Project which the Directors believe have more attractive development potentials, the Directors are of the view that the terms of the Disposal are fair and reasonable and in the best interest of the Company and its Shareholders as a whole, and would allow the Group to better allocate resources for the development of the businesses of the Group and improve the financial flexibility of the Group. The Disposal was completed in August 2017 and the resulting gain on Disposal was recognised in the profit or loss.

New development projects: The Group is constantly seeking to increase our land bank for future development and has recently entered into five provisional sale and purchase agreements to acquire an industrial building located in Tung Chau Street, Kowloon in January 2018. The Group expects to complete all of the acquisitions by July 2018.

Moving forward, the Group keeps its continuous proactive participation in the search for land reserve for commercial, industrial and residential use that will give a solid competitive advantage to sustain its operation and return in the long run. The Group has also explored other ways of collaboration with external parties for development opportunities to expand market reach as well as strengthen brand awareness with the portfolio of quality properties.

Property investment

As at 31 December 2017, the Group's portfolio of investment properties comprised of car parking spaces located in Hong Kong with a total carrying value of approximately HK$36.7 million (31 December 2016: approximately HK$574.0 million). The decrease in the total carrying value was mainly due to change of the investment intention of The Rainbow from an investment property to property held for sale as mentioned under Property Development above and disposal of the car parking spaces. Revenue recognised in this business segment during the year amounted to approximately HK$2.0 million (2016: approximately HK$8.8 million), representing a decrease of approximately HK$6.8 million as compared with last year. The decrease in gross rental income was mainly due to the aforesaid change of investment intention of The Rainbow.

Provision of property management services

Currently, the Group is operating in the business segment of property management services to provide the management services for our two completed projects, The Galaxy and The Star. Revenue recognised in this business segment during the year amounted to approximately HK$1.0 million (2016: approximately HK$0.9 million), the Group expects this business segment to be expanded by increasing our completed projects in the coming years.

Provision of finance

This new line of business reflects the Group's strategy for business diversification and creating synergy with the Group's existing segments of property related businesses as well as provides a new source of income to earn a relatively higher and more stable return compared with deposits and securities investments. Currently, the Group is operating in this business segment to provide credit facilities to individuals and corporations for our two completed projects. Revenue generated from this business segment during this year amounted to approximately HK$1.1 million (2016: HK$0 million). The Group expects this business segment will continue to grow healthily under the continuous tightening of mortgage lending policy in Hong Kong and by increasing our completed projects in the coming years.

Liquidity and financial resources

The total equity of the Group as at 31 December 2017 was approximately HK$642.0 million (31 December 2016: approximately HK$450.1 million). As at 31 December 2017, the Group maintained bank balances and cash of approximately HK$63.5 million (31 December 2016: approximately HK$31.8 million). The Group's net current assets of approximately HK$555.8 million as at 31 December 2017 (31 December 2016: net current liabilities approximately HK$136.0 million). The Group had current assets of approximately HK$2,377.1 million (31 December 2016: approximately HK$779.3 million). The increase of current assets was mainly due to increase in property under development. The Group had current liabilities of approximately HK$1,821.3 million (31 December 2016: approximately HK$915.3 million). The increase of current liabilities was mainly due to the increase in borrowings and recognition of the receipts in advance from the units pre-sold of The Star as revenue in the same reporting period. The Group's level of borrowings is disclosed under note 22 which is set out in the annual report of the Company for the year ended 31 December 2017.

The Group generally finances its operations with internally generated cashflow, borrowings and equity financing in Hong Kong. During the year, the Company raised approximately HK$134.4 million before expenses by way of the Open Offer (as defined hereafter). As at 31 December 2017, the Group had outstanding borrowings of approximately HK$1,715.2 million (31 December 2016: approximately HK$741.7 million). The borrowings as at 31 December 2017 were secured by the properties of the Company and the corporate guarantee as well as the personal guarantee from a director.

The Group's gearing ratio (defined as the total interest-bearing borrowings divided by total equity and multiplied by 100%) and net debt-to-equity ratio (defined as total borrowings net of cash and cash equivalents divided by total equity) increased from 164.8% as at 31 December 2016 to 267.2% as at 31 December 2017 and increased from 157.7% as at 31 December 2016 to 257.3% as at 31 December 2017 respectively, mainly due to the increase in borrowings which was partially offset with the issue of shares by way of the Open Offer (as defined hereafter).

The Group's debt-to-assets ratio (defined as total borrowings net of cash and cash equivalents divided by total assets) increased from 52.0% as at 31 December 2016 to 67.0% as at 31 December 2017 due to increase in borrowings and increase in properties held for sale.

The Group's capital commitment as at 31 December 2017 amounted to approximately HK$128.0 million (31 December 2016: approximately HK$320.0 million). The decrease of capital commitment was mainly due to the completion of the acquisition regarding the equity interest of a subsidiary as disclosed under note 25(a) which is set out in the annual report of the Company for the year ended 31 December 2017.

The Group has no significant contingent liabilities as at the end of the reporting period. The Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements.

The Group adopts a financial management policy so that the financial resources are under close monitoring to ensure the Group's smooth operation and loan repayment obligations. Therefore, the management of the Group is of the opinion that the Group's financial structure and resources are healthy and sufficient for meeting its needs on operation, potential investment and to cope with market changes.

Capital structure

Detail of the movements in the Company's share capital are set out in note 29 in the notes to the consolidated financial statements which is set out in the annual report of the Company for the year ended 31 December 2017.

Significant investments and plan for material investments or capital assets

Save for those disclosed in the annual report of the Company for the year ended 31 December 2017, there were no other significant investment held and did not have other plans for material investments and capital assets.

Material acquisition and disposals

Detail of the acquisition and disposals of subsidiaries for the year ended 31 December 2017 are set out in note 25 in the notes to the consolidated financial statements which is set out in the annual report of the Company for the year ended 31 December 2017.

Foreign exchange

The Group's transactions and the monetary assets and liabilities are principally denominated in Hong Kong dollars, while all borrowings are also denominated in Hong Kong dollars. The management of the Group is of the opinion that the Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the reporting period. Therefore, the Group does not engage in any hedging activities.

Pledge of assets

As at 31 December 2017, the Group's investment properties and properties held for sale, as well as pledged banks deposits with carrying value of approximately HK$26.3 million and HK$2,243.1 million as well as HK$10.0 million respectively (31 December 2016: approximately HK$539.4 million and HK$682.4 million, as well as nil respectively) were pledged to secure the Group's banking facilities.

Employees and remuneration policy

As at 31 December 2017, the Group employed 11 employees (31 December 2016: 7) and appointed 8 Directors (31 December 2016: 9). Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to individual performance, working experience, qualification and the current relevant industry practices. Apart from base salary and statutory provident fund scheme, discretionary bonus and share options may be granted to selected staff by reference to the Group's as well as the individual's performances. Other forms of benefits such as medical, on-the-job and external training to staff are also provided. The Group has not experienced any material dispute with its employees or disruption to its operations due to employee dispute and has not experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel. The Group maintains a good relationship with its employees.

Possible risks and uncertainties

The Group has reviewed the possible risks and uncertainties which may affect its businesses, financial condition, operations and prospects, and considered that the major risks and uncertainties that may affect the Group included (i) Hong Kong economic and financial conditions which may directly affect the property market; (ii) availability of suitable sites and/or existing buildings for future property development; (iii) the continuous increase of construction costs in Hong Kong; (iv) business cycle for property under development may be influenced by a number of factors, such as delays in obtaining the Hong Kong Government approvals for our property development projects, and the Group's revenue will be directly affected by the mix of properties available for sale and completion; (v) all construction works are outsourced to independent third parties that they may fail to provide satisfactory services adhering to our quality and safety standards as well as within the timeline required by the Group; (vi) fluctuations of fair value gain or loss incurred on financial assets and investment properties; (vii) all property management services are outsourced to independent third parties that they may fail to provide satisfactory day-to-day onsite management services to users adhering to our quality and standards as required by the Group; and (viii) market risk, credit risk and recoverability of provision of finance which may incur bad debts during the downturn of economy. The Group has a series of internal control and risk management policies to cope with the abovementioned possible risks and uncertainties, and has serious scrutiny over the selection of quality customers and suppliers. The Group has formed various committees to develop and review strategies, policies and guidelines on risk control; which enable the Group to monitor and response to risk effectively and promptly. The Group also actively proposes solutions to lower the impact of the possible risks on the businesses of the Group.

Fund raising activity

The Company raised approximately HK$134.4 million before expenses by way of the Open Offer (as disclosed in the announcement/ prospectus of the Company on 21 August 2017 and 8 September 2017), pursuant to which 179,200,000 offer shares was issued at the subscription price of HK$0.75 per offer share (the "Open Offer"). Net proceeds from the Open Offer were approximately HK$132.8 million (after deduction of the underwriting commission and relevant expenses), which are intended to be applied in the manner as disclosed in the prospectus of the Open Offer dated 21 August 2017. As at 31 December 2017, the net proceeds from the Open Offer were utilised as follows:

	Net proceeds	Amount utilised as at 31 December 2017	Amount unutilised as at 31 December 2017
	HK$ million	*HK$ million*	*HK$ million*
Payment of land premium of CWK Project	56.0	56.0	—
Repayment of interest expenses	62.0	18.0	44.0
General working capital of the Group	14.8	14.8	—
TOTAL	132.8	88.8	44.0

The Company listed its shares on the Main Board of the Stock Exchange on 13 July 2016. All of the net proceeds from the Listing were fully utilised in the manner as disclosed in the interim report as at 30 June 2017.

Prospect

Hong Kong's property market is expected to continue to rise on the basis of a healthy economy, rising confidence in economic growth and continuous inflow of Chinese capital. Driven by strong investment appetite and abundant liquidity, property prices continue to beat market expectation in 2017 and expect to move up moderately in 2018 although buyers' sentiment should be affected by the advent of the U.S. interest rate upcycle. Office market will continue to benefit from a strong GDP growth and optimistic business outlook by major industries while the high rental cost will make the companies look for alternative solutions in emerging business districts. As for the industrial market, the new revitalization policy will further enhance the industrial property values which will attract new investments. The Group expects the rising demand and yet the shortage in the supply of newly built buildings in Hong Kong will continue provide opportunities to the Group. The Group will proactively look for feasible development projects to richen our land bank and launch the property project into the market with an accurate product positioning as well as effective sales and marketing strategy.

Through the fund raising activity in the capital market, the Group has successfully raised fund and utilised in the property development project and general working capital with relatively low financing cost as compared with bank financing as can be obtained by a private company.

The Group remains optimistic about the property market in Hong Kong will grow steadily and place emphasis on strengthening the property development and investment business by enhancing efficiency and diversifying the development project portfolio to include various types of properties and location to ensure our long-term competitiveness in the best interest of the Group and its Shareholders as a whole.

II. For the year ended 31 December 2018

Business review

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 Group's revenue for the year ended 31 December 2018 amounted to approximately HK$671.7 million (2017: approximately HK$732.4 million), which represented a decrease of approximately HK$60.7 million compared with last year. Profit attributable to owners of the Company for the year ended 31 December 2018 was approximately HK$191.8 million (2017: approximately HK$95.8 million), which represented an increase of approximately HK$96.0 million from last year. The decrease in revenue 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. The notable increase in the gross profit was mainly due to profit recognition of "The Rainbow" and we were 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 this project increased. The basic and diluted earnings per share for the period was approximately HK30.6 cents as compared to basic and diluted earnings per share of approximately HK18.9 cents for the corresponding period last year. The review of the individual business segment of the Group is set out below.

Property development

Revenue recognised in this business segment during the year amounted to approximately HK$667.2 million (2017: approximately HK$728.2 million). As at 31 December 2018, the Group had three completed projects, namely, (a) The Galaxy; (b) The Star and (c) The Rainbow; and five projects under development, namely, (d) the CWK Project; (e) Yuen Long site; (f) Kwun Tong site; (g) Tack Lee Project and (h) Seongsu Project. A general summary and update of the property development projects of the Group during the reporting year and as at 31 December 2018 are listed below:

(a) The Galaxy: Completion and delivery of 8 car parking spaces amounted to HK$10.5 million in the year ended 31 December 2018. (2017: Completion and delivery of 3 workshops amounted to HK$14 million). The Group has entered into 2 provisional purchase and sales agreements in December 2018 in respect of two car parking spaces and expects to be completed in February 2019.

(b) The Star: Completion and delivery of 12 car parking spaces on ground floor amounted to HK$14.1 million in the year ended 31 December 2018. (2017: approximately HK$714.2 million for the completion and delivery of 282 units). All units of The Star, except 2 units on ground floor and 7 car parking spaces on first floor, have been sold out and delivered.

(c) The Rainbow: The first phase of alternations and additions works were completed in the year of 2018 and the remaining work is expected to be completed in the first quarter of 2019. Completion and delivery of 108 units amounted to approximately HK$653.1 million for the year of 2018 and was recognized in this current period (2017: nil).

(d) CWK Project: The Group has planned to redevelop the property into a commercial building for general retail and office use. The foundation work was commenced in the second quarter of 2018 and the Group expects the project will be completed in 2021.

(e) Yuen Long Site Project: The Group intends to redevelop it into a residential complex with some shops on ground floor. This project is positioned as a luxury and stylish condominium residential complex targeting at young residents pursuing high quality and design driven lifestyle. The Group is in the progress to submit town planning application to the Town Planning Board, building plans to the Buildings Department and lease modification application to the Lands Department of the Hong Kong Special Administrative Region. The Group has already completed the hoarding work and demolition work. Foundation work for the new redevelopment was started at the end of 2018.

(f) Kwun Tong Site Project: The Group intends to redevelop it into a high end prestigious commercial building. The tenant has been moved out in December 2018 to pave its way for the commencement of redevelopment work. The Group has submitted lease modification to the Lands Department in the fourth quarter of 2017. Hoarding plans and demolition plans have already been approved by the Buildings Department of the Hong Kong Special Administrative Region.

(g) Tack Lee Project: The Group acquired the site in the middle of 2018, and intended to carry out alteration and additions work to upgrade the industrial building. Up to the end of 2018, there is still one tenant residing in the site. In light of the new initiatives of the revitalization of industrial building announced in the Policy Address by the Chief Executive in the fourth quarter of 2018, the Group is exploring the redevelopment option to demolish and reconstruct a new building at the site.

(h) Seongsu Project: The Group acquired a site in Seongsu area of Seoul, South Korea in December 2018 and intends to redevelop the existing two storey building into a high end prestigious commercial building. In the past few years, Seongsu area has been rapidly transformed from an industrial district comprised of old factories and warehouses into a commercial district that attracted the young generation and entrepreneurs. The building was acquired together with one existing tenant and the Group is soliciting the tenant to have an early termination of the tenancy agreement. Upon the completion of the property redevelopment work, the Group intends to sell out the whole building to generate revenue.

The Group has acquired a whole floor of a commercial building located at Shing Yip Street, Kwun Tong in 2018 through a company incorporated in Hong Kong and a wholly-owned subsidiary of the Group as the purchaser. The property is currently under renovation and is regarded as properties held for sale. Part of the property would be used as the principal office of the Group.

The Group has entered into a sale and purchase agreement to acquire another site at Seongsu area of Seoul, South Korea in January 2019 and expected to complete the acquisition in 1st half of 2019.

In the year of 2018, the Group has taken a significant step to expand its geographical exposure to a new property market, Seoul in South Korea market. The Group will continue to pay ongoing attention to the latest property market in Hong Kong and worldwide to source for the best development opportunities to replenish its land reserve. The Group is committed to build up a brand as a property developer that delivers high quality buildings with modern and stylish design to customers.

Property investment

As at 31 December 2018, the Group's portfolio of investment properties comprised of car parking spaces located in Hong Kong with a total carrying value of approximately HK$13.5 million (31 December 2017: approximately HK$36.7 million). Revenue recognised in this business segment during the year amounted to approximately HK$0.7 million (2017: approximately HK$2.0 million), representing a decrease of approximately HK$1.3 million over last year. The decrease in gross rental income was mainly due to vacant The Rainbow for property development after changing the said investment intention.

Provision of property management service

Currently, the Group is operating in the business segment of property management to provide the property management services for our three completed projects, The Galaxy, The Star and The Rainbow. Revenue recognised in this business segment during the year amounted to approximately HK$1.0 million (31 December 2017: approximately HK$1.0 million), the Group expects this segment of business to be expanded as the increase of its upcoming completed projects.

Provision of finance

The Group is operating in this business segment to provide credit facilities to individuals and corporations clients for its own development projects. Revenue generated from this business segment during this year amounted to approximately HK$2.7 million (2017: HK$1.1 million), representing an increase of approximately HK$1.6 million over the corresponding period last year. The increase in revenue was mainly attributable to providing credit facilities for the completed projects, The Star and The Rainbow. The Group expects this business segment will continue to growth healthily under the continuous tightening of mortgage lending policy in Hong Kong and as the increase of our completed projects.

Liquidity and financial resources

The total equity of the Group as at 31 December 2018 was approximately HK$792.6 million (31 December 2017: approximately HK$642.0 million). As at 31 December 2018, the Group maintained bank balances and cash of approximately HK$121.4 million (31 December 2017: approximately HK$63.5 million). The Group's net current assets of approximately HK$573.3 million as at 31 December 2018 (31 December 2017: approximately HK$555.8 million). The Group had current assets of approximately HK$3,103.7 million as at 31 December 2018 (31 December 2017: approximately HK$2,377.1 million). The increase of current assets was mainly due to an increase in property held for sales. The Group had current liabilities of approximately HK$2,530.4 million as at 31 December 2018 (31 December 2017: approximately HK$1,821.3 million). The increase of current liabilities was mainly due to an increase in bank borrowings. The Group's level of borrowings is disclosed hereafter under note 24 of the notes to the consolidated financial statements which is set out in the annual report of the Company for the year ended 31 December 2018.

The Group generally finances its operations with internally generated cashflow and bank borrowings. As at 31 December 2018, the Group had outstanding bank borrowings of approximately HK$2,364.4 million (31 December 2017: approximately HK$1,715.2 million). The bank borrowings as at 31 December 2018 were secured by the Group's properties, pledged bank deposits, corporate guarantee.

The Group's gearing ratio (defined as the total interest-bearing borrowings divided by total equity and multiplied by 100%) and net debt-to-equity ratio (defined as the total borrowings net of cash and cash equivalents divided by total equity) increased from approximately 267.2% as at 31 December 2017 to approximately 298.3% as at 31 December 2018 and increased from approximately 257.3% as at 31 December 2017 to approximately 283.0% as at 31 December 2018 respectively due to the increase in bank borrowings.

The Group's debt-to-assets ratio (total borrowings net of cash and cash equivalents divided by total assets) slightly increased from approximately 67.0% as at 31 December 2017 to approximately 67.5% as at 31 December 2018 due to an increase in bank borrowings and the increase in property held for sale.

The Group's capital commitment as at 31 December 2018 amounted to approximately HK$213.6 million (31 December 2017: approximately HK$128.0 million). The increase of capital commitment was mainly due to project under development.

The Group has no significant contingent liabilities as at the end of the reporting period. The Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements.

The Group adopts a continuing monitoring approach towards financial management policy so that the financial resources are reviewed from time to time to ensure the Group's smooth operation and loan repayment obligations. Therefore, the management of the Group is of the opinion that the Group's financial structure and resources are healthy and sufficient for meeting its needs on operation, potential investment and to cope with market changes.

Foreign exchange

The Group conducts its business primarily in Hong Kong with the related cash flows, assets and liabilities being denominated mainly in Hong Kong dollars. The Group's primary foreign exchange exposure arises from its property developments in South Korea which are denominated in United States dollars and Korean Won. The Group acquired a site in South Korea as disclosed under Property Development section and the foreign currency denomination of commercial transactions, assets and liabilities, and net investments in foreign operations are mainly in US dollars and Korean won.

As at 31 December 2018, offshore borrowings were approximately Korean Won 14 billion, which is approximately HK$98 million, for the acquisition of a site in South Korea and project loan will be acquired in the beginning of 2019 for the construction cost of the property. The offshore borrowings is expected to be repaid after the disposal of South Korea Project is completed. The finance cost remains low at approximately 3.5% as at 31 December 2018.

The Group is not subject to any significant foreign currency risk as the revenue, expenses and borrowings of the Group's foreign operating subsidiaries are denominated in the functional currencies of those operations. Foreign currency funding and deposit exposure are monitored on a continuous basis. Exposure arising from the Group's investments in operating subsidiaries with net assets denominated in foreign currencies is reduced, where practical, by providing funding in the same currency.

The management of the Group is of the opinion that the Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the reporting period. Therefore, the Group does not engage in any hedging activities.

Pledge of assets

As at 31 December 2018, the Group's investment properties and properties held for sale, as well as pledged banks deposits with carrying value of approximately HK$13.5 million and HK$2,904.6 million as well as HK$10.1 million respectively (31 December 2017: approximately HK$26.3 million and HK$2,243.1 million, as well as HK$10.0 million respectively) were pledged to secure the Group's banking facilities.

Compliance with the relevant laws and regulations

As far as the Board and the management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

Significant investments held, material acquisitions and disposals of subsidiaries, and future plans for material investments or capital assets

Save for the acquisition of Seongsu Project as mentioned above, there was no significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the reporting period.

Save as disclosed in the annual report of the Company for the year ended 31 December 2018, the Group did not have other plans for material investments or capital assets as of 31 December 2018.

Employees and remuneration policy

As at 31 December 2018, the Group employed 16 employees (31 December 2017: 11) and appointed 8 Directors. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to individual performance, working experience, qualification and the current relevant industry practices. Apart from base salary and statutory provident fund scheme, discretionary bonus and share options may be granted to selected staff by reference to the Group's as well as the individual's performances. Other forms of benefits such as medical, on-the-job and external training to staff are also provided. The Group has not experienced any material dispute with its employees or disruption to its operations due to employee dispute and has not experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel. The Group maintains a good relationship with its employees.

Possible risks and uncertainties

The Group has reviewed the possible risks and uncertainties which may affect its businesses, financial condition, operations and prospects, and considered that the major risks and uncertainties that may affect the Group included (i) economic conditions which may directly affect the property market; (ii) availability of suitable sites and/or existing buildings for future property development; (iii) the continuous increase of construction costs; (iv) business cycle for property under development may be influenced by a number of factors, such as delays in obtaining the Government approvals for our property development projects, and the Group's revenue will be directly affected by the mix of properties available for sale and completion; (v) all construction works are outsourced to independent third parties that they may fail to provide satisfactory services adhering to our quality and safety standards as well as within the timeline required by the Group; (vi) fluctuations of fair value gain or loss incurred on financial assets and investment properties; (vii) all property management services are outsourced to independent third parties that they may fail to provide satisfactory day-to-day onsite management services to users adhering to our quality and standards as required by the Group; and (viii) credit risk and recoverability of provision of finance which may incur bad debts during the downturn of economy.

The Group has a series of internal control and risk management policies to cope with the abovementioned possible risks and uncertainties, and has serious scrutiny over the selection of quality customers and suppliers. The Group has formed various committees to develop and review strategies, policies and guidelines on risk control; which enable the Group to monitor and response to risk effectively and promptly. The Group also actively proposes solutions to lower the impact of the possible risks on the businesses of the Group.

Use of net proceeds from fund raising activities

The Company raised approximately HK$134.4 million before expenses by way of the open offer (as disclosed in the announcement of the Company on 21 August 2017 and 8 September 2017), pursuant to which 179,200,000 offer shares is issued at the subscription price of HK$0.75 per offer share (the "**Open Offer**"). Net proceeds from the Open Offer were approximately HK$132.8 million (after deduction of the underwriting commission and relevant expenses), which are intended to be applied in the manner as disclosed in the Prospectus of the Open Offer. Save as disclosed in Annual Report 2017, as at 31 December 2018, the net proceeds from the Open Offer were fully utilized as follows:

	Actual net proceeds	**Amount utilised up to 31 December 2018**	**Amount unutilised as at 31 December 2018**
	HK$ million	*HK$ million*	*HK$ million*
Payment of land premium of CWK Project	56.0	56.0	—
Repayment of interest expenses	62.0	62.0	—
General working capital of the Group	14.8	14.8	—
Total	132.8	132.8	—

Prospect

The residential property market in Hong Kong had boomed for more than two years from the beginning of 2016. Reflected by Centra-City Leading Index, the residential market was peaked at 188.64 points in August 2018 and then dropped by almost 10% to 170.19 points in January 2019 in just less than half a year! There are two key factors breaking this long term uptrend, namely, US-China trade war as well as the fear of interest rate hikes.

Nevertheless, these two factors were much alleviated after the speech given by Jerome Powell, Chairman of the Federal Reserve on 28th November 2018, and the meeting between Donald Trump, US President and Xi Jinping, Chinese President on 1st December 2018.

"Interest rates are still low by historical standards, and they remain just below the broad range of estimates of the level that would be neutral for the economy — that is, neither speeding up nor slowing down growth" said Powell on 28th November 2018. There was a clear distinction from remarks he made in October 2018. On the other hand, Donald Trump and Xi Jinping appeared to have reached a trade war truce when they met across dining table at the G20 summit in Buenos Aires, Argentina. Afterwards, US President delivered several positive messages about the progress on the negotiation with China via Twitter. "Just had a long and very good call with President Xi of China. Deal is moving along very well. If made, it will be very comprehensive, covering all subjects, areas and points of dispute. Big progress being made!" tweeted by Donald Trump on 31 December 2018.

The land auction market has reacted favourably to these positive signals in January 2019. One of Hong Kong biggest developers has won a government tender for the fourth plot of residential land on the old airport runway at Kai Tak facing Victoria Harbour at HK$11.26 billion (GFA: HK$17,360 per square foot). In comparison to another piece of land nearby facing seaview between the old runway and Kwun Tong, which was bought by another developer at GFA just $13,523 per square foot) in December of 2018, the unit rate has increased by around 28%.

In addition, first-hand residential market also reacted positively as reflected in the first-hand Residential Properties in January 2019. The total number of first-hand transactions was close to around 2000, which is almost two times the sum of November (720 cases) and December (399 cases) 2018.

Nevertheless, the attitude of Donald Trump and Jerome Powell have been swinging and thus the atmosphere of property market and other investments may not be that stable. Given these uncertainties, we are still prudently optimistic towards the property market in 2019.

III. For the year ended 31 December 2019

Business review

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 Group's revenue for the year ended 31 December 2019 amounted to approximately HK$120.0 million (2018: approximately HK$671.7 million), which represented a decrease of approximately HK$551.7 million compared with last year. Profit attributable to owners of the Company for the year ended 31 December 2019 was approximately HK$5.7 million (2018: approximately HK$191.8 million), which represented a decrease of approximately HK$186.1 million from last year. Both the decrease in revenue and decrease in gross profit were mainly due to decrease of the completion and delivery of sold units during the year. The basic and diluted earnings per share for the period was approximately HK0.9 cents and HK0.9 cents, respectively, as compared to basic and diluted earnings per share of approximately HK30.6 cents and HK30.6 cents, respectively. The review of the individual business segment of the Group is set out below.

Property development

Revenue recognised in this business segment during the year amounted to approximately HK$109.8 million (2018: approximately HK$667.2 million). Segment results for the year amounted to approximately HK$27.1 million (2018: approximately HK$267.2 million). The drop in segment results in property development is mainly due to decrease in number of properties sold in 2019. 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. A general summary and update of the property development projects of the Group during the reporting year and as at 31 December 2019 are listed below:

(a) The Galaxy: Completion and delivery of 2 motorcycle car parking spaces amounted to HK$0.8 million in the year ended 31 December 2019 (2018: Completion and delivery of 8 car parking spaces amounted to HK$10.5 million). All units of The Galaxy, except 1 unit of office, have been sold out and delivered.

(b) The Star: All units of The Star, except 3 car parking spaces which are classified as investment properties, have been sold out and delivered. Revenue amounted to HK$24.3 million was recognised in the year ended 31 December 2019 (2018: approximately HK$14.1 million).

(c) The Rainbow: Major construction work was certified and completed in 2018 and the remaining minor alterations and additions works were completed in 2019. Completion and delivery of 7 units amounted to approximately HK$85.5 million in the year ended 31 December 2019 (2018: approximately HK$653.1 million for the completion and delivery of 108 units).

(d) CWK Project: The Group was planned to redevelop the property into a commercial building for general retail and office use and the foundation work was commenced. In view of the economic uncertainties due to US-China trade war and local political movement in the second quarter of 2019, the Group decided to dispose the CWK Project to reduce the risk exposure. 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 (the "**Disposal**"). A relevant announcement has been made on 31 December 2019. The Disposal was completed on 9 January 2020. Upon reconsideration of the transactions involving change in control of entities instead of transfer of control of assets to customers, the Group decided to treat such disposal as a very substantial disposal and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange. Upon the completion of the Disposal, CWK Project is no longer as one of the development projects of the Group. Details of the Disposal has been disclosed in the circular dated 28 May 2020.

(e) Yuen Long Site Project: The Group intends to redevelop it into a residential complex with some shops on ground floor. This project is positioned as a luxury and stylish condominium residential complex targeting at young residents pursuing high quality and design driven lifestyle. The Group has obtained town planning approval from the Town Planning Board in the second quarter of 2019, has submitted application for lease modification in the third quarter of 2019 to the Lands Department, and has obtained building plans approval in the February 2020 from the Buildings Department of the Hong Kong Special Administrative Region. The Group has completed the hoarding work and demolition work. Foundation work for the new redevelopment was started at the end of 2018. Upon the completion of the property redevelopment work, the Group intends to sell out the property to generate revenue.

(f) Kwun Tong Site Project: The Group intends to redevelop it into a high end prestigious commercial building. Hoarding plans and demolition plans have already been approved by the Buildings Department of the Hong Kong Special Administrative Region, and demolition of the existing building commenced in the third quarter of 2019. The Group has submitted town planning application in the fourth quarter of 2019. Upon the completion of the property redevelopment work, the Group intends to sell out the property to generate revenue.

(g) Tack Lee Project: The Group intended to carry out alteration and additions work to upgrade the industrial building. The Group has entered into a termination agreement to terminate the last tenancy contract of the building in July 2019. In light of the new initiatives of the revitalization of industrial building announced in the Policy Address by the Chief Executive in the fourth quarter of 2018, the Group is going to redevelop and reconstruct a new building at the site. Demolition of the existing building was commenced in the third quarter of 2019 and it is scheduled to be completed in the first quarter of 2020. The Group has submitted town planning application to the Town Planning Board for minor relaxation of plot ratio in the third quarter of 2019. Upon the completion of the property redevelopment work, the Group intends to sell out the property to generate revenue.

(h) Seongsu Project: The site is located in Seongsu area of Seoul, South Korea and the Group intends to redevelop the existing two storey building into a high end prestigious commercial building. In the past few years, Seongsu area has been rapidly transformed from an industrial district comprised of old factories and warehouses into a commercial district that attracted the young generation and entrepreneurs. The building was acquired together with one tenant and the Group has entered into a termination agreement with the tenant to vacant the building in September 2019. Building plan approval has already been obtained from the relevant government department of South Korea. The Group is in the tendering process to finalize the selection of construction company for the project. Upon the completion of the property redevelopment work, the Group intends to sell out the property to generate revenue.

(i) Sausage Project: The Group acquired the site which is located in the Seongsu area of Seoul, South Korea in the first half of 2019. The site does not have any building on it and the Group intends to develop it into a high end prestigious commercial building. Building plan approval has already been obtained from the relevant government departments of South Korea. The Group is in the tendering process to finalize the selection of construction company for the project. Together with Seongsu Project, they would be regarded as a landmark for the Group in the Seongsu area. Upon the completion of the property redevelopment work, the Group intends to sell out the whole building to generate revenue.

In the year of 2019, the Group has taken a more conservative approach to monitor the market condition and concentrate on development of the existing projects. Going forwards, the Group will continue to pay ongoing attention to the latest property market in Hong Kong and worldwide to ensure the Group would be able to capture the best development opportunities.

Property investment

As at 31 December 2019, the total carrying value of the Group's portfolio of investment properties, amounted to approximately HK$52.0 million (31 December 2018: approximately HK$13.5 million), which comprised of 3 car parking spaces located in Hong Kong, under The Star, with a total carrying value of approximately HK$5.0 million (31 December 2018: approximately HK$13.5 million); and 2 units of an industrial building, which was newly acquired in October 2019, located in Hong Kong with a total carrying value of approximately HK$47.0 million (31 December 2018: nil).

Revenue recognised in this business segment during the year amounted to approximately HK$0.5 million (2018: approximately HK$0.7 million), representing a decrease of approximately HK$0.2 million over last year. The decrease in gross rental income was mainly due to sales of car parking spaces during the period. In addition to the 2 newly acquired industrial building units in October 2019 as disclosed above, the Group would continue to increase the proportion of investment property for rental and capital appreciation to generate more stable rental income.

Provision of property management services

The Group used to provide the property management services for our three completed projects, The Galaxy, The Star and The Rainbow, by appointing Jones Lang Lasalle Management Services Ltd. as the management agent. In order to enhance the services quality and better serve the end users, the Group took back the property management services from Jones Lang Lasalle Management Services Ltd. in the third quarter of 2019. Revenue recognised in this business segment during the year amounted to approximately HK$2.7 million (31 December 2018: approximately HK$1.1 million), the Group expects this segment of business to be expanded as the increase of its upcoming completed projects and provision of services to other property owners or developers.

Provision of finance

The Group is operating in this business segment to provide credit facilities to individuals and corporations clients for its own development projects. Revenue generated from this business segment during this year amounted to approximately HK$7.0 million (2018: HK$2.7 million), representing an increase of approximately HK$4.3 million over the corresponding period last year. The increase in revenue was mainly attributable to providing credit facilities for the completed projects, The Star and The Rainbow. Segment results for the year amounted to approximately HK$1.9 million (2018: approximately HK$1.3 million). The Group expects this business segment will continue to growth healthily under the continuous tightening of mortgage lending policy in Hong Kong and as the increase of our completed projects.

Capital structure

Details of the movements in the Company's share capital are set out in note 27 of the notes to the consolidated financial statements of this annual report which is set out in the annual report of the Company for the year ended 31 December 2019.

Liquidity and financial resources

The total equity of the Group as at 31 December 2019 was approximately HK$709.1 million (31 December 2018: approximately HK$792.6 million). As at 31 December 2019, the Group maintained bank balances and cash of approximately HK$62.3 million (31 December 2018: approximately HK$121.4 million). The Group's net current assets of approximately HK$484.3 million as at 31 December 2019 (31 December 2018: approximately HK$573.3 million). The Group had current assets of approximately HK$3,264.7 million as at 31 December 2019 (31 December 2018: approximately HK$3,103.7 million). The increase of current assets was mainly due to an increase in property held for sales under development as well as the new development project disclosed in above Property Development segment. The Group had current liabilities of approximately HK$2,780.5 million as at 31 December 2019 (31 December 2018: approximately HK$2,530.4 million). The increase of current liabilities was mainly due to an increase in bank borrowings and short-term loan from a director. The Group's level of borrowings is disclosed under note 26 of the notes to the consolidated financial statements in the annual report of the Company for the year ended 31 December 2019.

The Group generally finances its operations with internally generated cashflow and bank borrowings. As at 31 December 2019, the Group had outstanding bank borrowings of approximately HK$2,580.2 million (31 December 2018: approximately HK$2,364.4 million). The bank borrowings as at 31 December 2019 were secured by the Group's properties, pledged bank deposits, as disclosed in page 10 under "Pledge of Assets", and corporate guarantee.

The Group's gearing ratio (defined as the total interest-bearing borrowings divided by total equity and multiplied by 100%) and net debt-to-equity ratio (defined as the total borrowings net of cash and cash equivalents divided by total equity) increased from approximately 298.3% as at 31 December 2018 to approximately 369.4% as at 31 December 2019 and increased from approximately 283.0% as at 31 December 2018 to approximately 360.6% as at 31 December 2019 respectively due to the increase in bank borrowings and decrease in equity attributable to owners of the Company.

The Group's debt-to-assets ratio (total borrowings net of cash and cash equivalents divided by total assets) increased from approximately 67.5% as at 31 December 2018 to approximately 73.3% as at 31 December 2019 due to an increase in bank borrowings and short-term loan from a director.

The Group's capital commitment as at 31 December 2019 amounted to approximately HK$99 million (31 December 2018: approximately HK$213.6 million). The decrease of capital commitment was mainly due to the completion of The Rainbow and termination of outstanding contract upon disposal of CWK Project.

The Group has no significant contingent liabilities as at the end of the reporting period. The Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements.

The Group adopts a continuing monitoring approach towards financial management policy so that the financial resources are reviewed from time to time to ensure the Group's smooth operation and loan repayment obligations. Therefore, the management of the Group is of the opinion that the Group's financial structure and resources are healthy and sufficient for meeting its needs on operation, potential investment and to cope with market changes.

Foreign exchange

The Group conducts its business primarily in Hong Kong with the related cash flows, assets and liabilities being denominated mainly in Hong Kong dollars. The Group's primary foreign exchange exposure arises from its property developments in South Korea which are denominated in United States dollars and Korean Won. The Group acquired 2 sites in South Korea as disclosed under Property Development section and the foreign currency denomination of commercial transactions, assets and liabilities, and net investments in foreign operations are mainly in US dollars and Korean won.

As at 31 December 2019, offshore borrowings were approximately Korean Won 17 billion, which is approximately HK$114.3 million (31 December 2018: approximately Korean Won 14 billion, which is approximately HK$98 million), for the acquisition of 2 sites in South Korea. The offshore borrowings of bridging loan will be replaced by offshore construction loan and is expected to be repaid after the completion and disposal of South Korea Project. The finance cost remains low at approximately 3.5% as at 31 December 2019.

The Group is not subject to a significant foreign currency risk as the revenue, expenses and borrowings of the Group's foreign operating subsidiaries are denominated in the functional currencies of those operations. Foreign currency funding and deposit exposure are monitored on a continuous basis. Exposure arising from the Group's investments in operating subsidiaries with net assets denominated in foreign currencies is reduced, where practical, by providing funding in the same currency. The management of the Group is of the opinion that the Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the reporting period. Therefore, the Group does not engage in any hedging activities.

Pledge of assets

As at 31 December 2019, the Group's investment properties and properties held for sale, as well as pledged banks deposits with carrying value of approximately HK$52.0 million and HK$3,150.9 million as well as HK$10.3 million respectively (31 December 2018: approximately HK$13.5 million and HK$2,904.6 million, as well as HK$10.1 million respectively) were pledged to secure the Group's banking facilities.

Compliance with the relevant laws and regulations

Save as disclosed in the annual report of the Company for the year ended 31 December 2019, the Board and the management are not aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

Significant investments held, material acquisitions and disposals of subsidiaries, and future plans for material investments or capital assets

There was no significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the reporting period.

On 3 May 2019, Ritzy Soar Limited, an indirect wholly owned subsidiary of the Company, entered into a provisional sale and purchase agreement with Celinal Limited and West Coast International Limited, pursuant to which Ritzy Soar Limited agreed to acquire, and the Celinal Limited and West Coast International Limited agreed to sell, all the issued shares of Palico Development Limited and the vendors' loan advance owing by Palico Development Limited 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 ("**Palico Development Acquisition**"). 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.

On 31 December 2019, Inventive Rainbow Limited, an indirect wholly-owned subsidiary of the Group, entered into a sale and purchase agreement with an independent third party to dispose of entire equity interest of Rainbow Red Holdings Limited, a property development company, for a consideration of HK$980,000,000. An initial deposit of HK$98,000,000 was received subsequently. The transaction was completed on 9 January 2020. A gain before tax of approximately HK$384,000,000 is expected upon completion.

On 24 January 2020, the Group made an announcement in related to an acquisition of Metropolitan Group (BVI) Limited and its subsidiaries which is principally engaged in serviced apartment business, wine cellar and fine wine business, storage and workshop and production and other investment holding service, from a controlling shareholder of the Company, for a consideration of HK$420,000,000. Initial deposits of HK$42,000,000 were paid to the vendor subsequently and the remaining consideration of HK$378,000,000 will be settled through issuing a convertible bond to the vendor upon completion. The transaction has not yet been completed up to date of the annual report of the Company for the year ended 31 December 2019.

Save as disclosed in this circular and in the annual report of the Company for the year ended 31 December 2019, the Group did not have other plans for material investments or capital assets as of 31 December 2019.

Employees and remuneration policy

As at 31 December 2019, the Group employed 22 employees (31 December 2018: 16) and appointed 8 Directors. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to individual performance, working experience, qualification and the current relevant industry practices. Apart from base salary and statutory provident fund scheme, discretionary bonus and share options may be granted to selected staff by reference to the Group's as well as the individual's performances. Other forms of benefits such as on-the-job and external training to staff are also provided. The Group has not experienced any material dispute with its employees or disruption to its operations due to employee dispute and has not experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel. The Group maintains a good relationship with its employees.

Possible risks and uncertainties

The Group has reviewed the possible risks and uncertainties which may affect its businesses, financial condition, operations and prospects, and considered that the major risks and uncertainties that may affect the Group included (i) economic conditions particularly the property market performance; (ii) availability of suitable sites and/or existing buildings for future property development; (iii) the continuous increase of construction costs; (iv) business cycle for property under development may be influenced by a number of factors, such as delays in obtaining the Government approvals for our property development projects, and the Group's revenue will be directly affected by the mix of properties available for sale and completion; (v) all construction works are outsourced to independent third parties that they may fail to provide satisfactory services adhering to our quality and safety standards as well as within the timeline required by the Group; (vi) a majority part of our revenue principally depends on the sales of properties which may lead to significant fluctuation of profitability in different periods; (vii) fluctuations of fair value gain or loss incurred on financial assets and investment properties; (viii) credit risk and recoverability of provision of finance which may incur bad debts during the downturn of economy; and (ix) we are subject to certain restrictive covenants and risk normally associated with borrowings which may limit or otherwise materially and adversely affect our business, results of operations and financial conditions.

The Group has a series of internal control and risk management policies to cope with the abovementioned possible risks and uncertainties, and has serious scrutiny over the selection of quality customers and suppliers. The Group has formed risk control committees to develop and review strategies, policies and guidelines on risk control; which enable the Group to monitor and response to risk effectively and promptly. The Group has also engaged internal auditor to review the internal operation flow to ensure the compliance with relevant rules and regulations. The Group also actively proposes solutions to lower the impact of the possible risks on the businesses of the Group.

Impact of novel coronavirus (“covid-19”) outbreak to the group

Since late 2019 to the beginning of 2020, a novel coronavirus broke out in Wuhan, China. As the coronavirus rapidly spreads, it became a worldwide concern. It poses challenges across various industries as well as people’s livelihoods. The Group has taken immediate action to minimise the impact of the coronavirus outbreak to our business operation. The Group adopted several precautionary measures to protect our workplace from outbreak by providing clear and timely guidelines to all staffs; daily following up on all staff’s health status, travel history and potentially infectious contacts; providing extra sanitisation products and air purifier machine. Besides, the Group is also closely communicating with the business partners to follow-up different schedules and planning. The outbreak of coronavirus has slowed down most of the economic activities which may indirectly bring impact to the property market in Hong Kong and South Korea. However, we are optimistic that the economic dynamics will be revived after the threat. As mentioned in the Chairman’s Statement set out in the annual report of the Company for the year ended 31 December 2019, the Group will continue to monitor the market conditions while explore any new investment and growth opportunities to improve the cash flow and high fluctuation of business turnover cycle of the Group.

Prospect

In the second half of 2019, US-Sino trade war together with the social actions and unrest took a hit on the business environment and tourism in Hong Kong. As such, the year-end residential price indicated by Centa-City Index had dropped by about 6.8% from the record high in 2019. However, the Hong Kong residential market is resilient fueled by the deal made between America and China coming down to the trade dispute so that about 4% price increase in the residential market is recorded in the whole year of 2019.

Nevertheless, the outbreak of COVID-19 in China and its spreading is further dampening the weakened retail market and economy of Hong Kong, so does the Hong Kong property market, in particular the retail sector. The gloom and mourning in food and beverage as well as tourist industry are widespread. After all, we are not pessimistic about the property market in the following reasons.

First off, according to World Health Organization, this Coronavirus is the same family as SARS-CoV which struck the economy of Hong Kong after its outbreak in 2003. However, the SARS-CoV becomes a very rare disease if not none after the settlement of the epidemic in 2003. As such, we believe the epidemic of this Coronavirus is short term in nature and will be controlled or even ended in couples of months. Secondly, as this epidemic is getting the economy of China burnt, we believe the Government of China will take several measures in both monetary and fiscal policies such as injecting capital into the financial market and increasing government expenditures to help the economy to bounce back from this crisis. Along the way, the pain in Hong Kong arising from this epidemic will be mitigated. Thirdly, the American together with other western countries have a high likelihood to maintain a relatively loosen monetary policies and keep the interest rate low or even lower in the middle of the epidemic happened in China. In turn, the property market in Hong Kong will be benefited and supported in some way.

Despite these uncertainties in the market, the Group is well prepared to face the challenges and try to stabilize the Group's income. We remain optimistic on the commercial and residential market in Hong Kong and will continue to strategically explore appropriate landbanks and related business when strategically possible.

IV. For the six months ended 30 June 2020

Business Review

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 revenue of the Group for the six months ended 30 June 2020 was approximately HK$6.3 million, including revenue mainly from provision of finance and provision of construction and fitting out works of approximately HK$3.2 million and HK$1.4 million, respectively, (for the six months ended 30 June 2019: approximately HK$26.4 million, including revenue mainly from property development and provision of finance of approximately HK$20.9 million and HK$3.6 million, respectively), which represented a decrease of approximately HK$20.1 million as compared with the last period. The profit attributable to owners of the Company for the six months ended 30 June 2020 was approximately HK$350.3 million (for the six months ended 30 June 2019: loss of approximately HK$3.2 million). The decrease in revenue and the increase in profit for the six months ended 30 June 2020 was mainly due to no completion and delivery of units from the property development project and gain on disposal of a subsidiary of approximately HK$383.2 million during the reporting period. The profit per share for the period was approximately HK54.61 cents as compared to loss per share of approximately HK0.51 cents for the corresponding period last year. The review of the individual business segments of the Group is set out below.

Property Development

Development of development sites, redevelopment or enhancement of existing buildings for the purposes of increasing their capital value and realising such increased capital value from sale of properties. No revenue was recognised in this business segment for the six months ended 30 June 2020 (for the six months ended 30 June 2019: HK$20.9 million). As at 30 June 2020, the Group has three completed projects, namely, (a) The Galaxy; (b) The Star and (c) The Rainbow; and five projects under development, namely, (d) the Yuen Long Site Project; (e) the Kwun Tong Site Project; (f) Tack Lee Project; (g) Seongsu Project and (h) Sausage Project.

(a) The Galaxy: The Group has entered into a sales and purchase agreement in June 2020 in respect of sales of the last unit which is expected to be completed in August 2020. No revenue was recognised for the six months ended 30 June 2020 while approximately HK$4.2 million revenue will be recognised upon completion (for the six months ended 30 June 2019: completion and delivery of 2 car parking spaces amounted to approximately HK$0.8 million). After the completion of the said unit, all units of The Galaxy have been sold out and delivered.

(b) The Star: The Group has entered into 3 sales and purchase agreements in respect of sales of last three car parking spaces which are expected to be completed in September 2020. No revenue was recognised for the six months ended 30 June 2020 while approximately HK$3.7 million revenue will be recognised upon completion (for the six months ended 30 June 2019: completion and delivery of 2 car parking spaces amounted to approximately HK$4.0 million). After the completion of the said car parking spaces, all units of The Star have been sold out and delivered.

(c) The Rainbow: In order to enhance the attractiveness of properties held for sales and generate temporary rental income, the Group has entered into several tenancy agreements to rent out some commercial units. Even no revenue was recognized for completion and delivery of the units, the temporary rental income from properties held for sale recognised for the six months ended 30 June 2020 was HK$4.3 million. (for the six months ended 30 June 2019: completion and delivery of 2 units amounted to approximately HK$16.9 million). Subsequently in August 2020, the Group has entered into 2 preliminary sales and purchase agreements in respect of sales of 2 units of The Rainbow. Both transactions are expected to be completed in 2nd half of 2020.

(d) The Yuen Long Site Project: The Group intends to redevelop it into a residential complex with some shops on ground floor. This project is positioned as a luxury and stylish condominium residential complex targeting at young residents pursuing high quality and design driven lifestyle. The Group has obtained town planning approval around the middle of 2019 and building plan approval in February 2020. The hoarding and demolition work were completed and foundation is being laid. Application for lease modification has been lodged to the Lands Department since the fourth quarter of 2019 and we expect the Lands Department to assess the land premium in relation to such lease modification around the end of 2020. Upon the completion of the property redevelopment work, the Group intends to sell out the property to generate revenue.

(e) Kwun Tong Site Project: The Group intends to redevelop it into a high end prestigious commercial building. Hoarding and demolition work of the existing building commenced in the third quarter of 2019. Town planning application was submitted in fourth quarter of 2019, and was approved in the second quarter of 2020 to change the use of the site from industrial to commercial together with an additional plot ratio (about 20%) in accordance with the Government policy in the revitalization of industrial building. Upon the completion of the property redevelopment work, the Group intends to sell out the property to generate revenue.

(f) Tack Lee Project (The Cloud): The project is named as “The Cloud”. The Group intended to redevelop and reconstruct a new building in light of the new initiatives of the revitalization of industrial building announced in the Policy Address by the Chief Executive in the fourth quarter of 2018. The Group has successfully obtained the approval for minor relaxation of plot ratio to increase the plot ratio and all demolition work has been completed in the first quarter of 2020. The marketing campaign of The Cloud is in the progress and the pre-sales of the building is expected to carry out in the 3rd quarter of 2020. It is estimate that the completion and revenue recognition will be at the end of 2021 or in the year of 2022.

(g) Seongsu Project: The site is located in Seongsu area of Seoul, South Korea and the Group intends to redevelop it into a high end prestigious commercial building. The construction company for the project has been concluded and the demolition work was completed in 2nd quarter of 2020. The construction process is expected to be completed in 3rd quarter of 2022. Upon the completion of the property redevelopment work, the Group intends to sell out the whole building to generate revenue.

(h) Sausage Project: The site is located at the same area of Seongsu Project. The Group intends to develop both projects into two high end prestigious commercial buildings as landmark for the Group in the Seongsu area. The construction company has been concluded and the construction process is expected to be completed in 4th quarter of 2021. Upon the completion of the property redevelopment work, the Group intends to sell out the whole building to generate revenue. Together with Seongsu Project, they would be regarded as a landmark for the Group in the Seongsu area. Upon the completion of the property redevelopment work, the Group intends to sell out the whole building to generate revenue.

Disposal of the Entire Issued Share Capital and Shareholder's Loan of the Holding Company of CWK Project

Save as disclosed in Annual Report 2019, the disposal of the entire issued share capital and shareholder's loan of the holding company of CWK Project, which was an indirectly wholly owned subsidiary of the Company (the "Disposal of Subsidiary") was completed. A gain on this Disposal of Subsidiary of approximately HK$383.2 million was recognized for the six months ended 30 June 2020.

For the six months ended 30 June 2020, the Group has focused on planning and development of the existing projects to ensure the scheduled timelines of the projects could be achieved. The Group will continue to pay ongoing attention to the latest property market in Hong Kong and worldwide to source for the best development opportunities.

Property Investment

As at 30 June 2020, the Group's portfolio of investment properties with total carrying value of HK$50.7 million comprised of 2 industrial units with carrying value of HK$47.0 million and 3 car parking spaces under The Star with carrying value of HK$3.7 million all located in Hong Kong. Save as disclosed in the above, these 3 car parking spaces under The Star are expected to be completed and delivered in September 2020 and classified as "assets classified as held for sale" as at 30 June 2020 (31 December 2019: approximately HK$52.0 million). Revenue recognised in this business segment for the six months ended 30 June 2020 amounted to approximately HK$0.6 million (for the six months ended 30 June 2019: approximately HK$0.2 million), representing a stable income over the corresponding period last year.

The Group intended to increase the proportion of investment property for rental and capital appreciation by acquiring new investment properties, and may consider if any of the development properties to have appreciation potential to be converted as investment properties, which allow more stable rental income to be generated by the investment properties.

Provision of Property Management Services

The Group is providing the property management services for the owners of our three completed projects, The Galaxy, The Star and The Rainbow. During the 1st quarter of 2020, the Group has entered into a management agreement to provide property management services for the owners of a residential building located at Happy Valley. Revenue recognised in this business segment for the six months ended 30 June 2020 amounted to approximately HK$1.0 million (for the six months ended 30 June 2019: approximately HK$1.6 million), the Group expects this segment of business to be expanded as the increase of its upcoming completed projects and brand recognition via the quality of services.

Provision of Finance

The Group is operating in this business segment to provide credit facilities to individuals and corporations clients for its own development projects. Revenue generated from this business segment for the six months ended 30 June 2020 amounted to approximately HK$3.2 million (for the six months ended 30 June 2019: HK$3.6 million), representing an decrease of approximately HK$0.4 million over the corresponding period last year. The slightly decrease in revenue was mainly attributable to repayment of loan from borrowers. The Group expects this business segment will continue to generate a stable income for the Group and provide support to enhance sales of property.

Other Business Segments

The Group decides to expand its business scope for generating a stable income and enhance synergy with its existing business segments. During the six months ended 30 June 2020, the Group is in the progress to develop below business segments:

Provision of Construction and Fitting Out Works

The Group decides to develop this business segment to provide construction services for its own projects and fitting out works for the owners of the properties which are currently managing by the Group to enhance the synergy and cost saving as well as quality control. The Group is in the progress to apply the relevant licenses and expected to obtain all necessary licenses by end of 2020.

Provision of Security Services

The Group has successfully obtained the security company license in July 2020 and is preparing to take over the security services from the 3rd quarter of 2020 for all of the sites which it is currently providing property management services. Upon the transition, the Group will be able to provide an all-rounded property management and security services and this new business segment is expected to generate a stable income for the Group.

Capital Structure

Detail of the movements in the Company's share capital are set out in note 16 of the interim result announcement for the six months ended 30 June 2020.

Liquidity and Financial Resources

The total equity of the Group as at 30 June 2020 was approximately HK$1,055.4 million (31 December 2019: approximately HK$709.1 million). As at 30 June 2020, the Group maintained bank balances and cash of approximately HK$73.7 million (31 December 2019: approximately HK$62.3 million). The Group's net current asset was approximately HK$851.1 million (31 December 2019: HK$484.3 million). The Group had current assets of approximately HK$2,739.8 million (31 December 2019: approximately HK$3,264.7 million). The decrease of current assets was mainly due to Disposal of Subsidiary in January 2020 as disclosed in the company announcement in relation to the very substantial disposal dated 27 March 2020. The Group had current liabilities of approximately HK$1,892.3 million (31 December 2019: approximately HK$2,780.5 million). The decrease of current liabilities was mainly due to repayment of bank borrowings in relation to CWK Project and short-term loan from a director.

The Group generally finances its operations with internally generated cashflow and bank borrowings. As at 30 June 2020, the Group had outstanding bank borrowings of approximately HK$1,820.4 million (31 December 2019: approximately HK$2,580.2 million). The bank borrowings as at 30 June 2020 were secured by the Group's properties, or pledged bank deposits, or corporate guarantee.

The Group's gearing ratio (defined as the total interest-bearing borrowings divided by total equity and multiplied by 100%) and net debt-to-equity ratio (defined as the total borrowings net of cash and cash equivalents divided by total equity) decreased from approximately 369.4% as at 31 December 2019 to approximately 172.5% as at 30 June 2020 and decreased from approximately 360.6% as at 31 December 2019 to approximately 166.3% as at 30 June 2020 respectively. The decrease of both ratios was primarily due to the Disposal of Subsidiary and repayment of both bank borrowings and short-term loan from a director.

The Group's debt-to-assets ratio (total borrowings net of cash and cash equivalents divided by total assets) decreased from approximately 73.3% as at 31 December 2019 to approximately 59.3% as at 30 June 2020 due to a repayment of bank borrowings and shortterm loan from a director after the Disposal of Subsidiary.

The Group's capital commitment as at 30 June 2020 amounted to approximately HK$258.9 million (31 December 2019: approximately HK$99 million). The increase of capital commitment was mainly due to contracts signed for Korea project development.

The Group has no significant contingent liabilities as at the end of the reporting period. The Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements.

The Group adopts a continuing monitoring approach towards financial management policy so that the financial resources are reviewed from time to time to ensure the Group's smooth operation and loan repayment obligations. Therefore, the management of the Group is of the opinion that the Group's financial structure and resources are healthy and sufficient for meeting its needs on operation, potential investment and to cope with market changes.

Foreign Exchange Exposure

The Group conducts its business primarily in Hong Kong with the related cash flows, assets and liabilities being denominated mainly in Hong Kong dollars. The Group's primary foreign exchange exposure arises from its property developments in South Korea which are denominated in United States dollars and Korean Won. The Group acquired 2 sites in South Korea as disclosed under Property Development section and the foreign currency denomination of commercial transactions, assets and liabilities, and net investments in foreign operations are mainly in US dollars and Korean Won.

In respect of the Group's operations in South Korea, the Group maintains an appropriate level of external borrowings in Korean Won for natural hedging of Korean Won attributed to those projects. The Korean Won currency exposure of the Group is mainly derived from the translation of current assets and liabilities of the subsidiaries in South Korea with functional currency of Korean Won and the Korean Won deposits held for future development costs to be expended to Hong Kong dollar.

As at 30 June 2020, offshore borrowings were approximately Korean Won 17.0 billion, which is approximately HK$109.6 million (31 December 2019: approximately Korean Won 17.0 billion, which is approximately HK$114.3 million). The project loans for both Seongsu Project and Sausage Project were secured in July 2020. The offshore borrowings are expected to be repaid after the disposal of projects. The finance cost was approximately 4.2% as at 30 June 2020.

Apart from this, the Group does not have any material foreign exchange exposure. The Group currently does not have a foreign currency hedging policy. However, the Directors will continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises. During the reporting period, the Group has not entered into any agreement or committed to any financial instruments to hedge any exchange rate exposure.

Pledge of Assets

As at 30 June 2020, the Group's investment properties and properties held for sale, as well as pledged banks deposits with carrying value of approximately HK$50.7 million and HK$2,620.0 million as well as HK$10.3 million respectively (31 December 2019: approximately HK$52.0 million and HK$3,150.9 million, as well as HK$10.3 million respectively) were pledged to secure the Group's banking facilities.

Compliance With the Relevant Laws and Regulations

As far as the Board and the management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Period, there was no material breach of or noncompliance with the applicable laws and regulations by the Group.

Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

On 9 January 2020, Inventive Rainbow Limited, an indirect wholly-owned subsidiary of the Group, disposed the entire equity interest of Rainbow Red Holdings Limited, a property development company, for a consideration of HK$980,000,000 to an independent third party. Rainbow Red Holdings Limited was the holding company of CWK Project. Upon reconsideration of the transactions involving change in control of entities instead of transfer of control of assets to customers, the Group decided to treat such disposal as a very substantial disposal and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**"). Please refer to the announcement of the Company dated 28 April 2020 and 15 July 2020; and the circular of the Company dated 28 May 2020 for details.

On 24 January 2020, the Company (as purchaser) and Metropolitan Lifestyle (BVI) Limited (as vendor) entered into an acquisition agreement (the "**Previous Acquisition Agreement**"), pursuant to which the Company conditionally agreed to acquire, and Metropolitan Lifestyle (BVI) Limited conditionally agreed to sell, the entire issued share capital of Metropolitan Group (BVI) Limited and all obligations, liabilities and debts owing or incurred by Metropolitan Group (BVI) Limited and its subsidiaries (the "**Metropolitan Group**") at an aggregate consideration of HK$420,000,000. Metropolitan Lifestyle (BVI) Limited is indirectly held as to 100% by Mr. Chan Man Fai Joe. The acquisition was lapsed on 30 June 2020 due to certain conditions under the Acquisition Agreement has not been fulfilled or waived by the long stop date as defined in the circular. Please refer to the announcement of the Company dated 24 January 2020 and 30 June 2020; and the circular of the Company dated 27 March 2020 for details.

The Board considers that it will be in the interest of the Company and its Shareholders as a whole, if, upon the termination of the Previous Acquisition Agreement, the Company and the Vendor could enter into the Acquisition Agreement as soon as possible. Subsequently on 21 July 2020, the Company (as purchaser) and Metropolitan Lifestyle (BVI) Limited (as vendor) entered into another acquisition agreement to acquire the Metropolitan Group at an aggregate consideration of HK$460,000,000. Please refer to the announcement of the Company dated 21 July 2020 for details.

Save for those disclosed in the interim result announcement for the six months ended 30 June 2020, there was no significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the reporting period.

Save as disclosed in the interim result announcement for the six months ended 30 June 2020, the Group did not have other plans for material investments or capital assets as of 30 June 2020.

Employees and Remuneration Policy

As at 30 June 2020, the Group employed 43 employees including 12 employed under construction company (31 December 2019: 26 including 4 employed under construction company) and appointed 8 Directors. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to individual performance, working experience, qualification and the current relevant industry practices. Apart from base salary and statutory provident fund scheme, discretionary bonus and share options may be granted to selected staff by reference to the Group's as well as the individual's performances. Other forms of benefits such as on-the-job and external training to staff are also provided. The Group has not experienced any material dispute with its employees or disruption to its operations due to employee dispute and has not experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel. The Group maintains a good relationship with its employees.

Possible Risks and Uncertainties

The Group has reviewed the possible risks and uncertainties which may affect its businesses, financial condition, operations and prospects, and considered that the major risks and uncertainties that may affect the Group included (i) economic and financial conditions which may directly affect the property market; (ii) availability of suitable sites and/or existing buildings for future property development; (iii) the continuous increase of construction costs; (iv) business cycle for property under development may be influenced by a number of factors, such as delays in obtaining the Government approvals for our property development projects, and the Group's revenue will be directly affected by the mix of properties available for sale and completion; (v) all construction works are outsourced to independent third parties that they may fail to provide satisfactory services adhering to our quality and safety standards as well as within the timeline required by the Group; (vi) fluctuations of fair value gain or loss incurred on financial assets and investment properties; (vii) credit risk and recoverability of provision of finance which may incur bad debts during the downturn of economy; and (ix) the foreign exchange risk which has disclosed under foreign exchange exposure section.

The Board acknowledges that it is responsible for monitoring the risk management and internal control systems of the Group on an ongoing basis and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. The Group has established risk control committee for internal control and risk management. The risk control committee will review the possible risks and uncertainties from time to time to enable the Group could response to risk effectively and promptly.

Impact of Novel Coronavirus ("COVID-19") Outbreak to the Group

The COVID-19 pandemic has led to a severe impact to different industry globally as well as people's livelihoods. The Group has taken immediate action to minimise the impact of the coronavirus outbreak to our business operation. The Group adopted several precautionary measures to protect our workplace from outbreak by providing clear and timely guidelines to all staffs; daily following up on all staff's health status, travel history and potentially infectious contacts; providing extra sanitisation products and air purifier machine. From the business aspect, the sale of remaining inventory and development process was slightly delayed in the first six months of 2020. However, since of mid-August 2020, the situation of COVID-19 pandemic is improving, our sale of remaining inventory received a positive response. The Group is closely communicating with the business partners to follow-up different schedules and planning. The Group will also observe the market situation to conduct the pre-sales of next project at the best timing.

Prospect

In face of pandemic, tense and rival relationship between China and America and the debut of National Security Ordinance coupled with the social unrest, however, Hong Kong residential market has been performing unexpectedly well pinpointed by Leading Centaindex which reached year high, 181.72, in the month of June, not to mention plenty of HK stocks have broken the historical high in the month of July. The new policy regarding relaxation of mortgage on residential properties by Government and unlimited Quantitative Easing policy by Federal Reserve of America are the key drivers.

Nevertheless, with the borders between China and other foreign countries closed, the real economy of Hong Kong has been still suffering pains across different industries, such as tourist related industries, retails etc. As such, both the rental and selling price of the nondomestic properties including offices, shops and factories are sliding slowly.

After all, we are still optimistic on the both residential and non-domestic property market due to the following reasons. Technology has been evolving all the time in the history of human beings. As a matter of fact, many developed countries are working on vaccine and medicine taking care of COVID-19 at full speed and in whatever it takes manner. Numerous vaccines and medicines have come to the stage of testing in Humans. Vaccine and effective medicine will be worked out soon. Secondly, over the course of unlimited QE, trillions dollars are flooding into economy and financial system of America that in turn are rippling into the financial market and economy in Hong Kong. Next to zero interest rate will help to bring the investors back to the non-domestic property market. Thirdly, China has got some big steps in containing the COVID-19, we believe with the advancement of testing equipment and tracking system, the border between China and Hong Kong will be opened up very soon. The real economy of Hong Kong will be bolstered

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 F 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:

$$\frac{G + \dfrac{H \text{ x } I}{J}}{G + H}$$

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 Company and its subsidiaries 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	836,000,000 *(Note 3)*	1,276,116,800	198.93
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 836,000,000 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:

	Amount of debentures				
Name of Director	**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$418,000,000 *(note 1)*	HK$418,000,000	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	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	1,558,000	–	0.24
Eagle Trend (BVI) Limited	Beneficial owner *(Note 2)*	38,259,200	–	5.96
The Vendor	Beneficial owner *(Note 3)*	836,000,000	–	130.32

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 836,000,000 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 2019 (being the date up to which the latest published audited consolidated financial statements of the Group was made), acquired or disposed of by, or leased 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 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 tenancy agreement dated 11 December 2018 entered into between Spring Moon Investments Limited (an indirect wholly owned subsidiary of the Company)(as landlord), and Metro Yoga & Dance Limited (as tenant) in relation to the lease of a shop, namely, Shop 3, G/F., The Rainbow, 22 Wang Yip Street South, Yuen Long, for the period from 11 December 2018 to 10 December 2021. Mr. Chan is the ultimate controlling shareholder of Metro Yoga & Dance Limited and indirectly holds 65% of the total number of issued shares of it. For details, please refer to the announcement of the Company dated 11 December 2018. The tenancy agreement was subsequently terminated on 29 February 2020 under mutual agreement.

(b) 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;

(c) 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 announcements of the Company dated 31 December 2019 and 28 February 2020 and the circular of the Company dated 28 May 2020;

(d) the Previous Acquisition Agreement dated 24 January 2020 and entered into between the Company (as purchaser) and the Vendor (as vendor), pursuant to which the Company conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the entire issued share capital of the Target Company and all obligations, liabilities and debts owing or incurred by the Target Company and its subsidiaries at an aggregate consideration of HK$420,000,000, details of which are disclosed in the announcement of the Company dated 24 January 2020, the circular of the Company dated 27 March 2020 and the announcement of the Company dated 30 June 2020; and

(e) the Acquisition Agreement.

6. LITIGATION AND CLAIMS

The contractor for the project at 22 Wang Yip Street West has delays in completing the works as stipulated in the building contract. The delays together with the variation works and defect rectifications works are issues which might be resolved by arbitration. At this moment, the arbitrator has not yet been appointed, and the details of these issues cannot be crystallized until the pleadings are filed.

Save as disclosed, 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 experts did not have any direct or indirect interest in any assets which had been, since 31 December 2019, 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 PO Box 1350, 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 Ocorian Trust (Cayman) Limited, PO Box 1350, Clifton house, 75 Fort Street, 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 96 of this circular;

(d) the annual reports of the Company for the years ended 31 December 2018 and 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;

(j) circular of the Company dated 27 March 2020;

(k) circular of the Company dated 28 May 2020; and

(l) 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 30 September 2020 at 3:00 p.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 21 July 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 15 September 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$460,000,000, 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$418,000,000 (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 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, 15 September 2020

Notes:

1. In order to determine the list of Shareholders who will be entitled to attend and vote at the EGM. Shareholders whose names appear on the register of members of the Company on 23 September 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., 23 September 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.