
LETTER FROM THE BOARD



CHINA BRILLIANT GLOBAL LIMITED

朗華國際集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8026)

Executive Directors:

Mr. Zhang Chunhua (*Chairman*)
Ms. Zhang Chunping (*Chief Executive Officer*)
Ms. Chung Elizabeth Ching Yee

Independent non-executive Directors:

Ms. Chan Mei Yan Hidy
Ms. Lee Kwun Ling, May Jean
Mr. Zhang Weidong

Registered office:

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Cayman Islands

Principal place of business:

Flat B, 9th Floor,
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Hong Kong

12 September 2023

To the Shareholders

Dear Sir or Madam,

(I) MAJOR AND CONNECTED TRANSACTIONS:

- (1) DISPOSAL OF 18.9% SHAREHOLDING IN A SUBSIDIARY; AND
(2) ACQUISITION OF A PROPERTY MANAGEMENT COMPANY; AND
(II) CONTINUING CONNECTED TRANSACTIONS UPON COMPLETION
OF THE PROPOSED ACQUISITION OF THE ENTIRE EQUITY
INTEREST OF A PROPERTY MANAGEMENT COMPANY**

INTRODUCTION

Reference is made to the announcements of the Company dated 2 June 2023, 21 June 2023, 25 August 2023 and 4 September 2023.

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On 2 June 2023, (a) the Disposal Vendor, being a wholly-owned subsidiary of the Company, and Mr. Zhang entered into the Disposal Agreement in relation to the Disposal, pursuant to which the Disposal Vendor has conditionally agreed to sell, and Mr. Zhang has conditionally agreed to purchase, the Disposal Shares at the cash consideration of HK\$184.9 million; and (b) the Acquisition Purchaser, being a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Acquisition Vendor, pursuant to which, the Acquisition Vendor has conditionally agreed to sell, and the Acquisition Purchaser has conditionally agreed to purchase, the Acquisition Interest (i.e. 100% equity interest in the Acquisition Company) at the cash consideration of RMB87.7 million (equivalent to approximately HK\$100.86 million).

On 21 June 2023, the Acquisition Purchaser and Mr. Zhang, being the ultimate beneficial owner of the Acquisition Vendor, entered into the Master Service Agreement in relation to the provision of the Services by the Acquisition Company to Mr. Zhang and his associates (save for the Company and its subsidiaries) for a term up to 31 December 2025.

The purpose of this circular is to provide you with, among other things, (i) further details of the Disposal Agreement, the Acquisition Agreement, the Master Service Agreement (including the Proposed Annual Caps) and the transactions contemplated thereunder respectively; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Disposal Agreement, the Acquisition Agreement, the Master Service Agreement and the transactions contemplated thereunder respectively; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in the same regard; (iv) a summary of the valuation reports on the Disposal Shares and the Acquisition Company respectively; and (v) a notice of the EGM.

THE DISPOSAL AGREEMENT

Date 2 June 2023 (as supplemented by a supplemental agreement dated 4 September 2023)

Parties (1) The Disposal Vendor as vendor
(2) Mr. Zhang as purchaser

As at the Latest Practicable Date, Mr. Zhang is an executive Director and the chairman of the Company who owns 57,098,000 Shares, representing approximately 3.92% of the entire issued share capital of the Company, and Mr. Zhang owns 80% of the entire issued share capital of Brilliant Chapter Limited, a company which in turn owns 834,851,294 Shares, representing approximately 57.92% of the entire issued share capital of the Company. As such, Mr. Zhang,

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being an executive Director and a controlling shareholder of the Company, is a connected person of the Company as defined under the GEM Listing Rules. As at the Latest Practicable Date, Mr. Zhang does not own any shareholding interest in the Disposal Company.

Subject matter

Pursuant to the Disposal Agreement, the Disposal Vendor has conditionally agreed to sell, and Mr. Zhang has conditionally agreed to purchase, the Disposal Shares.

Consideration

The consideration of the Disposal is HK\$184.9 million which shall be settled at the completion of the Disposal (i) as to HK\$100.86 million by way of set-off against the consideration of the Acquisition payable by the Acquisition Purchaser to the Acquisition Vendor, which is indirectly wholly-owned by Mr. Zhang, under the Acquisition Agreement; and (ii) as to HK\$84.04 million by way of set-off against certain debts owed by the Company to Mr. Zhang.

The consideration was arrived at after arm's length negotiation between the Disposal Vendor and Mr. Zhang, after taking into account factors such as, (i) the Disposal Company's financial position, results of operation and prospects; (ii) the prevailing market conditions and economic landscape; (iii) the valuation of 18.9% equity interests of the Disposal Company of approximately HK\$159.7 million as at 31 March 2023 carried out by the Valuer, using income approach in the form of discounted cash flow methodology; and (iv) the information set out under the section headed "Reasons for and benefits of the Disposal, the Acquisition and the Master Service Agreement" below. Details on the independent valuation on the Disposal Shares are set out in Appendix VI to this circular.

The value of the Disposal Shares in the valuation derived from the adoption of discounted cash flow methodology represented a controlling basis. In view of the loss of control of the Group over the Disposal Company as a result of the Disposal, the valuation has considered and included a discount for lack of control (DLOC) of 18.5% (which was determined with reference to the information in the Mergerstat Control Premium Study published by FactSet Mergerstat, LLC, an internationally recognised source, details of which are disclosed in Appendix VI to this circular and which is considered by the Board as a standard and reasonable rate to be adopted in this regard) as a reasonable assumption for a private entity, as a non-controlling interest is worth less than a pro-rata interest in the total equity because the holder of a non-controlling interest has limited control of and influence over corporate affairs. The market value of the 18.5% equity interest in the Disposal Group represents the estimated amount for which such non-controlling equity interest should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction. The Board understands that DLOC is the reduction commonly

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applied to the valuation of a minority equity position in a company due to the absence of control as minority shareholders usually do not have the ability to dictate the future strategic direction of the company, the election of directors, the nature, quantum and timing of their return on investment, or even the sale of their own shares. Further details are disclosed in the letter from the Independent Financial Adviser and Appendix VI to this circular. Based on discussion with the Valuer and the assumptions and parameters adopted in the valuation, the Board considers that the DLOC rate applied is fair and reasonable and the consideration of the Disposal determined taking into account the above factors (including the loss of control of the Group over the Disposal Company as a result of the Disposal) is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Conditions precedent

Completion of the Disposal is subject to the satisfaction of the following conditions precedent:

- (i) the passing of resolution by the Independent Shareholders at the EGM to approve the Disposal Agreement and the transactions contemplated thereunder;
- (ii) a valuation report stating the valuation of the Disposal Shares to be not more than the consideration of the Disposal having been obtained;
- (iii) the Acquisition Agreement having become unconditional in all respects except for the condition therein relating to the Disposal Agreement having become unconditional; and
- (iv) all necessary consents and approvals as may be required in respect of the Disposal Agreement and the transactions contemplated thereunder having been obtained.

None of the conditions set out above is capable of being waived. If any of the conditions mentioned above has not been fulfilled on or before 30 September 2023, or such later date as Mr. Zhang and the Disposal Vendor may agree in writing, the Disposal Agreement shall cease and determine and save for any antecedent breach, neither party shall have any obligations and liabilities towards each other.

As at the Latest Practicable Date, condition (ii) above has been satisfied.

The Disposal and the Acquisition are inter-conditional.

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Completion

Completion of the Disposal shall take place on the third business day after the fulfillment of all conditions precedent set out in the Disposal Agreement.

Profit forecast in relation to the valuation

Pursuant to the independent valuation provided by the Valuer, the value of the Disposal Shares was appraised by the Valuer using the income approach, which involved the discounted cash flow method as a primary methodology, and thus the calculations of the appraised value as set out in the valuation are deemed as profit forecast under Rule 19.61 of the GEM Listing Rules. Details of the major assumptions on which the profit forecast are made, are set out in the valuation report in Appendix VI to this circular and include the following:

- (a) The unaudited consolidated financial statements of the Disposal Group provided by the management of the Company can reasonably represent its financial position and performance of the Disposal Group as of the valuation date;
- (b) There will be no major changes in the current taxation laws in the territories in which the Disposal Group operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;
- (c) There will be no major changes in the political, legal, economic or financial conditions in the territories in which the Disposal Group operates or intends to operate, which would adversely affect the revenues attributable to and the profitability of the Disposal Group;
- (d) The Disposal Group will retain and have competent management, key personnel, and technical staff to support its ongoing operation;
- (e) All relevant legal approvals and business certificates or licences to operate the business in the localities in which the Disposal Group operates or intends to operate has or would be officially obtained and renewable upon expiry;
- (f) All information and representations provided by the management of the Company, for which they are solely and wholly responsible for are true, accurate and complete in all material respects;

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- (g) The accounting policies will not affect the discounted cash flow model adopted by the Disposal Group after the valuation date, and those adopted in the preparation of the valuation are consistent in material aspects;
- (h) The Disposal Group will maintain the current operation scope and business pattern based on the existing management method and management level after the valuation date;
- (i) There will be no material changes in the supply and cost of funding, labour expense, outsourcing expense, information technology expense and other operating expenses used by the Disposal Group in their operation, nor are there any unforeseeable material changes in the services and income streams of the Disposal Group;
- (j) Brillink Bank Corporation Limited, a subsidiary of the Disposal Group, will get at least one correspondent bank of USD before 31 March 2024;
- (k) The increase of capital of the Disposal Group will be in line with the increase of common loan to meet with the Basel Accords requirement; and
- (l) Industry trends and the market conditions for related industries will not deviate significantly from economic forecasts.

Review by Reporting Accountant

The Reporting Accountant has performed an assurance engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagement Other Than Audits or Reviews of Historical Financial Information” issued by the Hong Kong Institute of Certified Public Accountants to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the bases and assumptions.

The Reporting Accountant reported that the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the bases and assumptions. The Directors confirm that the valuation, which constitutes a profit forecast under Rule 19.61 of the GEM Listing Rules, has been made after due and careful enquiry.

A letter from the Reporting Accountant in compliance with Rule 19.62(2) of the GEM Listing Rules is included in Appendix VIII to this circular.

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Review by Financial Adviser

The Company's financial adviser, Neutral Financial Holding Company Limited, has reviewed the major assumptions upon which the profit forecast was based and is satisfied that the profit forecast has been made by the Directors after due and careful enquiry. The letter from Neutral Financial Holding Company Limited in compliance with Rule 19.62(3) of the GEM Listing Rules is included in Appendix IX to this circular.

THE PROPOSED ACQUISITION

The Board is pleased to announce that on 2 June 2023, the Acquisition Purchaser, being a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with the Acquisition Vendor, pursuant to which, the Acquisition Vendor has conditionally agreed to sell, and the Acquisition Purchaser has conditionally agreed to purchase, the Acquisition Interest (i.e. 100% equity interest in the Acquisition Company) at the cash consideration of RMB87.7 million (equivalent to approximately HK\$100.86 million).

Principal terms of the Acquisition Agreement are set out below:

THE ACQUISITION AGREEMENT

- Date** 2 June 2023 (as supplemented by a supplemental agreement dated 25 August 2023)
- Parties** (1) The Acquisition Vendor as vendor
- (2) The Acquisition Purchaser as purchaser

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the Latest Practicable Date, the Acquisition Vendor is a company principally engaged in investment holding and wholly-owned by Shenzhen China Brilliant Investments Holdings Company Limited# (深圳市朗華投資控股有限公司), a company established under the laws of the PRC which is wholly-owned by Mr. Zhang, being an executive Director and the chairman of the Company who owns 57,098,000 Shares, representing approximately 3.92% of the entire issued share capital of the Company, and Mr. Zhang owns 80% of the entire issued share capital of Brilliant Chapter Limited, a company which in turn owns 834,851,294 Shares, representing approximately 57.92% of the entire issued share capital of the Company. As such, the Acquisition Vendor is a connected person of the Company as defined under the GEM Listing Rules. The Acquisition Company was founded by the Acquisition Vendor in 2019 as the sole shareholder of the initial paid up share capital of RMB200,000.

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Subject matter

Pursuant to the Acquisition Agreement, the Acquisition Vendor has conditionally agreed to sell, and the Acquisition Purchaser has conditionally agreed to purchase, the Acquisition Interest, being the entire equity interests in the Acquisition Company.

Consideration

The consideration of the Acquisition is RMB87.7 million (equivalent to approximately HK\$100.86 million) which shall be settled by the Acquisition Purchaser to the Acquisition Vendor by way of set-off against part of the consideration of the Disposal on the date on which the registration of the transaction contemplated under the Acquisition Agreement with the relevant government authority in the PRC has been completed.

The consideration was arrived at after arm's length negotiation between the Acquisition Vendor and the Acquisition Purchaser, after taking into account factors such as, (i) the Acquisition Company's financial position, results of operation and prospects; (ii) the prevailing market conditions and economic landscape; (iii) the valuation of entire equity interests of the Acquisition Company of approximately RMB87.7 million as at 31 December 2022 carried out by the Valuer, using market approach; and (iv) the information set out under the section headed "Reasons for and benefits of the Disposal, the Acquisition and the Master Service Agreement" below. Details on the independent valuation on the Acquisition Company are set out in Appendix VII to this circular.

Conditions precedent

Completion is subject to the satisfaction of the following conditions precedent:

- (i) the results of the due diligence to be conducted by the Acquisition Purchaser on the Acquisition Company being satisfactory to the Acquisition Purchaser;
- (ii) the passing of resolution by the Independent Shareholders at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder;
- (iii) a PRC legal opinion issued by a PRC legal adviser on the Acquisition Company having been obtained;
- (iv) a valuation report stating the valuation of the Acquisition Interest to be not less than the consideration of the Acquisition having been obtained;

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- (v) all representations and warranties provided by the Acquisition Vendor remaining true and correct;
- (vi) the Disposal Agreement having become unconditional in all respects except for the condition therein relating to the Acquisition Agreement having become unconditional;
- (vii) all necessary consents and approvals as may be required to be obtained by the Acquisition Purchaser in respect of the Acquisition Agreement and the transactions contemplated thereunder having been obtained;
- (viii) all necessary consents and approvals as may be required to be obtained by the Acquisition Vendor in respect of the Acquisition Agreement and the transactions contemplated thereunder having been obtained; and
- (ix) the declaration and payment of dividend in the amount of RMB11,000,000 having been completed.

The Acquisition Purchaser may at its absolute discretion at any time waive in writing the conditions set out in (i), (iii), (v) or (viii) above (to the extent it is capable of being waived) subject to such terms and conditions as may be determined by the Acquisition Purchaser. If any of the conditions mentioned above has not been fulfilled or waived on or before 30 September 2023, or such later date as the Acquisition Purchaser and the Acquisition Vendor may agree in writing, the Acquisition Agreement shall cease and determine and save for any antecedent breach, neither party shall have any obligations and liabilities towards each other.

As at the Latest Practicable Date, conditions (iv) and (ix) above have been satisfied.

The Disposal and the Acquisition are inter-conditional.

Completion

Completion shall take place on the third business day after the fulfillment or waiver (as the case may be) of all conditions precedent set out in the Acquisition Agreement.

MASTER SERVICE AGREEMENT

On 21 June 2023, the Acquisition Purchaser and Mr. Zhang, being the ultimate beneficial owner of the Acquisition Vendor, entered into the Master Service Agreement in relation to the provision of the Services by the Acquisition Company to Mr. Zhang and his associates (save for the Company and its subsidiaries) for a term up to 31 December 2025.

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A summary of the salient terms of the Master Service Agreement is set out below:

Date:	21 June 2023
Parties:	(i) The Acquisition Purchaser (ii) Mr. Zhang
Term:	From the date of the Completion to 31 December 2025
Subject matter:	The Acquisition Company shall provide the Services to Mr. Zhang and his associates (save for the Company and its subsidiaries)
Payment and pricing policy:	Mr. Zhang and/or his associates shall pay property management and value-added service fees per month or per agreed period to the Acquisition Company which comprises labour costs, other staff costs and outsourcing service fees (if any) and property management remuneration after receiving the relevant invoice issued by the Acquisition Company.

The property management and value-added service fees are determined after arm's length negotiations between the relevant parties after taking into account (i) the area of the relevant premises; (ii) the type of the property projects; (iii) the contracted scope of services and standards; (iv) the number of staff required for the provision of services; (v) the labour costs including wages, overtime payment and welfare expenses; (vi) other staff costs, outsourcing service fees, one-off material input fees, cleaning fees and property management remuneration; (vii) the prevailing market rates and market prices for the provision of the Services of comparable quality and scope and in comparable areas for comparable types of properties; and (viii) the guidance price of such services for similar types of property projects issued by the local government (if any).

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Government guidance prices are available only for residential property projects. Currently, none of the property projects under the management of the Acquisition Company is of a residential nature and as such, market-based prices of 1 to 3 other similar property projects managed by independent property management companies are primarily used for pricing reference for the property management and value-added service fees charged by the Acquisition Company.

For the year ended 31 December 2022, the average service fee charged to Mr. Zhang and his associates under the Acquisition Company's management was in the range of RMB2.0 and RMB8.0 per square metre per month varying from property to property depending on their location and type, which are generally in line with the average service fee charged to other customers by the Acquisition Company for similar types of properties and service standards with slight adjustments depending on factors as mentioned above.

In determining the reasonableness of the service fees charged, the Group will obtain and assess, among other things, (a) the prices charged by other independent property management companies of similar sizes for property management services with similar scope for 1 to 3 comparable properties obtained through property agencies and publicly available market research; and (b) the level of fees charged by the Group for other projects in the same region of similar scale.

Based on the foregoing assessment, the relevant personnel will proceed to plan and prepare budget for a particular subsidiary service agreement and then come up with a fee proposal in accordance with the applicable pricing policies for approval.

As confirmed by the Directors, the terms offered by the Acquisition Company to Mr. Zhang and/or his associates (save for the Company and its subsidiaries) should not be more favourable than those offered to other customers for similar services.

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In respect of each of the three years ended 31 December 2022, the historical figures for the service fees in respect of the Services provided by the Acquisition Company to Mr. Zhang and/or his associates (save for the Company and its subsidiaries) are as follows:

Nature of transaction	Historical figures (million) for the year ended		
	31 December (unaudited)		
	2020	2021	2022
Provision of the Services by the Acquisition Company to Mr. Zhang and/or his associates (save for the Company and its subsidiaries)	RMB0.02 (equivalent to about HK\$0.02)	RMB1.47 (equivalent to about HK\$1.69)	RMB9.38 (equivalent to about HK\$10.78)

The proposed maximum aggregate annual amount of service fees for the Services to be provided by the Acquisition Company to Mr. Zhang and/or his associates (save for the Company and its subsidiaries) for each of the three years ending 31 December 2025 shall be as follows:

Nature of transaction	Proposed Annual Caps (million)		
	2023	2024	2025
Provision of the Services by the Acquisition Company to Mr. Zhang and/or his associates (save for the Company and its subsidiaries)	RMB15.57 (equivalent to about HK\$17.90)	RMB18.76 (equivalent to about HK\$21.57)	RMB18.95 (equivalent to about HK\$21.79)

In determining the Proposed Annual Caps, the Board has taken into account: (i) the historical figures and the trend for the same transactions in the past few years; (ii) the gross floor area of different types of properties owned by Mr. Zhang and/or his associates requiring the Services; (iii) the rates chargeable by the Acquisition Company per square metre of each type of the properties owned by Mr. Zhang and his associates requiring the Services; (iv) the anticipated growth of the property management industry in the PRC in the coming three years which is expected to lead to an increase in demand for the property management and value-added service business as currently carried out by the Acquisition Company; (v) the historical and anticipated growth of the property management portfolio of the Acquisition Company, which included prospective new property acquisition or development projects of Mr. Zhang, who intends to enter into further property management agreements with the Acquisition Company in relation thereto on terms similar to existing property management arrangements between the parties; (vi) a reasonable buffer of 2% to cater for any temporary and unexpected property management work and inflation rate fluctuations; and (vii) the prevailing market rates offered by independent third-party owners or service providers for comparable types of properties in the surrounding area having been obtained. The

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aforementioned buffer rate is not significant and serves to act as a buffer for any increase in property management and value-added service fees due to temporary and unexpected property management work and/or inflation rate fluctuations, which are not expected to be material. As such, the buffer rate is considered reasonable. In the event of any proposed major increase in the property management and value-added service fees, approval for an increase of annual caps would be sought as and when appropriate.

According to market research, the property management industry in the PRC is expected to continue to grow in a stable manner in the coming years under the impact of stable investment in real estate market as a result of the expected continued support from the government for the expansion and consolidation of the sector. The PRC government has been actively encouraging further development of the sector by reducing costs, e.g., providing additional VAT deductions for the life services industry, of which property management industry forms part or through establishing industry standards, improving transparency, expanding the scope and scale of the industry and promoting greater technology adoption and sustainability within the industry. According to Savills, it is estimated that the city public services sector could be worth RMB304.4 billion to third-party managers by 2024, generating an additional 10–20% in additional revenue. The level of growth of the property management industry in the PRC will depend primarily on further improvement in policy environment to stimulate growth potential of the industry, improvement in urbanisation and personal income, providing immense room for industry development, and increase in real estate investment and saleable area, providing full support for market demand.

Conditions precedent

The Master Service Agreement is conditional upon:

- (i) the Completion having taken place;
- (ii) the approval of the Independent Shareholders at the EGM having been obtained;
- (iii) all necessary approvals required to be obtained by the Acquisition Purchaser in respect of the Master Service Agreement and the transactions contemplated thereunder having been obtained; and
- (iv) all necessary approvals required to be obtained by Mr. Zhang in respect of the Master Service Agreement and the transactions contemplated thereunder having been obtained.

As at the Latest Practicable Date, none of the above conditions is satisfied.

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INFORMATION ON THE DISPOSAL COMPANY

The Disposal Company is a company incorporated in the British Virgin Islands on 27 July 2017 with limited liability and together with its subsidiaries, Brillink Fintech Limited, Brillink Bank Corporation Limited and Brillink Tech (Shenzhen) Limited, are principally engaged in regulated banking activities, including taking deposits, granting credits, advising on credit financing, arranging credit financing, and providing money services.

The Disposal Company was first acquired by the Group on 28 May 2020 when the Group subscribed for 56% of the issued share capital of the Disposal Company, as enlarged by the subscription, at an aggregate cash consideration of US\$5 million (equivalent to approximately HK\$39,000,000 at the then prevailing exchange rate). On 9 October 2020, the Disposal Company underwent a repurchase exercise of all equity interest held by one of its then shareholders and upon the completion of the repurchase exercise, the Disposal Company was owned as to 80% by the Group and 20% by two other shareholders in aggregate. Details of the repurchase exercise are disclosed in the announcement of the Company dated 9 October 2020. Thereafter, the Disposal Company had made a series of allotments and issues of shares and undergone a series of share transfers. As at the Latest Practicable Date, the Disposal Company is indirectly owned by the Company as to approximately 66.07% with the remaining 33.93% owned by Independent Third Parties.

The financial information of the Disposal Group for the relevant periods is set out below:

	For the year ended 31 March 2022 (unaudited) <i>(approximately HK\$ million)</i>	For the year ended 31 March 2023 (unaudited) <i>(approximately HK\$ million)</i>
Loss before taxation	27.5	31.7
Loss after taxation	27.5	31.7

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	As at 31 March 2022 (unaudited) <i>(approximately HK\$ million)</i>	As at 31 March 2023 (unaudited) <i>(approximately HK\$ million)</i>
Total assets	110.1	107.2
Total liabilities	67.2	95.4
Net assets	42.9	11.8

INFORMATION ON THE ACQUISITION COMPANY

To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, the Acquisition Company is a company established under the laws of the PRC on 9 May 2019 which is principally engaged in the provision of property management services in the PRC. As at the Latest Practicable Date, the property management business of the Acquisition Company spans across different cities and regions of the PRC, with a total of 22 property management projects, involving commercial plazas and other types of properties.

The financial information extracted from the unaudited financial statements of the Acquisition Company prepared in accordance with the PRC Generally Accepted Accounting Principles for the relevant periods is set out below:

	For the year ended 31 December 2021 (unaudited) <i>(approximately HK\$ million)</i>	For the year ended 31 December 2022 (unaudited) <i>(approximately HK\$ million)</i>
Profit before taxation	2.1	8.3
Profit after taxation	1.9	7.1

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	As at 31 December 2021 (unaudited) <i>(approximately</i> <i>HK\$ million)</i>	As at 31 December 2022 (unaudited) <i>(approximately</i> <i>HK\$ million)</i>
Total assets	8.4	24.5
Total liabilities	0.3	9.4
Net assets	8.1	15.1

INFORMATION ON THE DISPOSAL VENDOR AND THE ACQUISITION PURCHASER

The Disposal Vendor is a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company. It is principally engaged in investment holding.

The Acquisition Purchaser is a company incorporated in Hong Kong and wholly-owned by Lighting Storm Holdings Limited, a wholly-owned subsidiary of the Company. It is principally engaged in investment holding.

FINANCIAL EFFECT OF THE DISPOSAL AND THE ACQUISITION

Upon completion of the Disposal, the Group will maintain 47.17% shareholding interest in the Disposal Company and the Disposal Company will cease to be a subsidiary of the Company and become financial assets at fair value through profit or loss of the Company.

It is estimated that, upon completion of the Disposal, the Company will record an unaudited gain on disposal of approximately HK\$485.6 million, recognised in reserves being the difference between the consideration of the Disposal and 18.9% of the unaudited net assets of the Disposal Company as at 31 March 2023, and taking into account of the reclassification of the Disposal Group from subsidiaries to financial assets at fair value through profit or loss as a result of the Disposal. The final amount of the gain from the Disposal is subject to the audit by the auditor of the Company.

No proceeds in cash will be received by the Group as a result of the Disposal as the consideration of the Disposal would be set off against the consideration of the Acquisition, and certain debts owed by the Company to Mr. Zhang. In this regard, the Disposal will help increase the liquidity and improve the gearing ratio of the Company by reducing the liabilities and interest expenses of the Group as a whole.

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Before the set off, the Company owed to Mr. Zhang the promissory note in the principal amount of HK\$78 million and accumulated interest in amounting to HK\$5.09 million up to 31 August 2023, and a loan in the principal amount of HK\$19.6 million. After the set off, the principal amount of the promissory note and all outstanding interests accrued thereon will be paid off in full, with only the loan amounting to HK\$18.8 million remaining owed by the Company to Mr. Zhang.

Upon completion of the Acquisition, the Acquisition Company will become a wholly-owned subsidiary of the Company and its financial results, assets and liabilities will be consolidated into the financial statements of the Company.

The financial effect of the Disposal and the Acquisition is expected to be as follows:

Assets and Liabilities

As set out in the unaudited pro forma financial information of the Enlarged Group in Appendix IV to this circular, assuming the Acquisition and the Disposal had been completed on 31 March 2023, the Group's total assets would increase from approximately HK\$168.8 million to approximately HK\$555.2 million and total liabilities would decrease from HK\$119.7 million to HK\$49.1 million, resulting in an overall increase in total consolidated net assets from approximately HK\$49.1 million as at 31 March 2023 to approximately HK\$506.1 million upon Completion.

Earnings

For the year ended 31 March 2023, the consolidated net loss of the Group was approximately HK\$51.4 million. Loss after tax of the Disposal Group was approximately HK\$31.7 million for the year ended 31 March 2023. Upon the Completion, the results of the Acquisition Company would be consolidated into the books of the Company and the Disposal Group would be de-consolidated from the books of the Company. As set out in the accountants' report of the Acquisition Company in Appendix II to this circular, the Acquisition Company recorded a net profit after tax of approximately HK\$7.1 million for the year ended 31 December 2022. The Directors are of the opinion that the Acquisition and the Disposal would have a positive impact on the Enlarged Group's long-term financial performance.

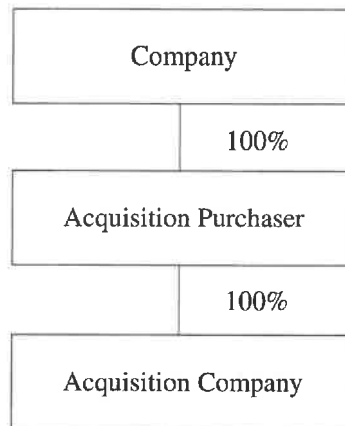
Liquidity

As set out in this letter from the Board, the consideration of the Disposal of HK\$184.9 million shall be settled as to HK\$100.86 million by way of set-off against the consideration of the Acquisition and as to HK\$84.04 million by way of set-off against certain debts owed by the

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Company to Mr. Zhang. As set out in the unaudited pro forma financial information of the Enlarged Group in Appendix IV to this circular, the Enlarged Group's net current assets would increase from approximately HK\$92.9 million to approximately HK\$99.2 million. The current ratio (being current assets over current liabilities) would also improve from approximately 2.5 times to approximately 3.0 times.

The following chart sets out the shareholding structure of the Acquisition Company immediately after completion of the Acquisition:



REASONS FOR AND BENEFITS OF THE DISPOSAL, THE ACQUISITION AND THE MASTER SERVICE AGREEMENT

The Group is principally engaged in gold and jewellery trading and retailing, money lending and related business and fintech business.

Reference is made to the announcements of the Company dated 3 January 2020 and 8 June 2020. The Disposal Company was first acquired by the Group on 28 May 2020 when the Group subscribed for 56% of the issued share capital of the Disposal Company, as enlarged by the subscription, at an aggregate cash consideration of US\$5 million (equivalent to approximately HK\$39,000,000 at the then prevailing exchange rate). Thereafter, following a repurchase exercise of the Disposal Company a series of allotments and issues of shares and share transfers, the Disposal Company became indirectly owned by the Company as to approximately 66.07%. As disclosed in the aforementioned announcements, the acquisition was made as the then Board considered that it would allow the Company to tap into the fast-growing banking business in Kazakhstan and expand its income source steadily, by leveraging on the combined expertise, facilities and resources of the parties. However, since the acquisition, the performance of the Disposal Group has been loss making since incorporation and has not been able to meet the initial expectations of the Company. As the Disposal Group, which is relatively newly acquired by the

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Group, is not substantial in size in comparison to the entire businesses of the Group as a whole and do not form part of the core businesses of the Group and has not been performing up to the standards and initial expectations of the Company, the Board considered that it may be more beneficial to the Company to partially divest its investments in the Disposal Group and utilise the resources and funds to seek alternative investments with more promising prospects, such as the Acquisition Company.

The Disposal will not have any material impact to the financial and trading position of the Group as a whole. After the Disposal and before taking into account the Acquisition, the Group would still have its substantial core businesses and there would be no implication on the Group not being able to meet the requirements of Rule 17.26 of the GEM Listing Rules.

The Board considers that the Acquisition Company would be a good investment for the Company which would utilise part of the proceeds from the partial divestment of the Company's investment in the Disposal Group as the property management industry in the PRC has been showing tremendous growth and is expected to grow further in a stable manner in the coming years under the impact of stable investment in real estate market as a result of the expected continued support from the government for the expansion and consolidation of the sector. The PRC government has been actively encouraging further development of the sector by reducing costs, e.g., providing additional VAT deductions for the life services industry, of which property management industry forms part or through establishing industry standards, improving transparency, expanding the scope and scale of the industry and promoting greater technology adoption and sustainability within the industry and the Board considers it to be a very promising opportunity for the Group to seize in order to achieve greater returns for the Company and the Shareholders as a whole. As the economy in the PRC is expected to further recover from the pandemic gradually, it is expected that the businesses of the Acquisition Company would maintain consistent performance in the near future, allowing the Group to reap the returns for the Company and its Shareholders as a whole.

Further, Mr. Zhang, being the ultimate beneficial owner of the Acquisition Vendor as well as a Director, has been engaged in the provision of property management services for over 7 years and has extensive experience and expertise in this area. He has a strong understanding of the customers' needs and the property management market. Besides, the Acquisition Company currently has a team of 6 members, all of whom have substantial experience in property management industry and are responsible for overseeing the operation of subsidiaries and branch offices in different cities in the PRC. Through Mr. Zhang and the experienced team, the Enlarged Group is expected to possess the relevant expertise, skills and experience to operate in the property management industry.

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Having considered the above factors, the Directors (including the independent non-executive Directors whose opinions are set out in the letter from the Independent Board Committee included in this circular after taking into account the advice of the Independent Financial Adviser) are of the view that the Disposal and the Acquisition are carried out on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

As a result of the Acquisition, the Acquisition Company will become an indirect wholly-owned subsidiary of the Company. The Acquisition Company has been providing property management services to Mr. Zhang and/or his associates (save for the Company and its subsidiaries) for over 3 years and such transactions constituted approximately 0.42%, 18.28% and 55.11% of the total turnover of Acquisition Company for each of the three years ended 31 December 2022 respectively. Accordingly, the Master Service Agreement will allow the Enlarged Group to have a stable turnover with respect of its provision of property management services business in the PRC.

In view of the foregoing, the Directors consider that the entering into of the Master Service Agreement will be in the ordinary course of business of the Enlarged Group and that the terms of thereof are determined on an arm's length basis with the counterparty. Accordingly, the Directors (including the independent non-executive Directors whose opinions are set out in the letter from the Independent Board Committee in this circular after taking into account the advice of the Independent Financial Adviser) are of the view that the terms and conditions of the Master Service Agreement (including the Proposed Annual Caps) are fair and reasonable, on normal commercial terms and in the interests of the Enlarged Group and the Shareholders as a whole.

Save for Mr. Zhang, who has abstained from voting at the Board meeting to approve the Master Service Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps), none of the Directors has a material interest in the transactions contemplated under the Master Service Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps) and none of them was required to abstain, or has abstained, from voting on the relevant board resolutions approving the Master Service Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps).

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INTERNAL CONTROL

The following internal control measures have been implemented in order to ensure that the transactions contemplated under the Master Service Agreement are conducted on normal commercial terms and will not be prejudicial to the interests of the Company and the Shareholders as a whole:

- (1) The Group has established a series of measures to ensure that the transactions contemplated under the Master Service Agreement will be conducted in accordance with the principal terms of the Master Service Agreement, such as a designated staff of the finance department would compare the fees and terms and check that they are no more favourable than those offered by the Group to independent third parties for the same or similar services on the same or similar conditions and carry out regular assessments on the pricing and fairness of the terms every year and such price comparisons will be used as reference and basis for determining the prices offered by the Group to property developers and property owners (regardless of the method of sourcing contracts) which would not deviate materially from the market rates; and the implementation of separate agreements governing each particular transaction must be approved by, depending on size of the transaction, the business department, the sourcing department, the legal department, the finance department and/or the management to ensure that it is in accordance with the pricing policy.
- (2) In addition, the finance department will keep proper documentation of the agreements governing each particular transaction entered into between the Group and Mr. Zhang and/or his associates (save for the Company and its subsidiaries) pursuant to the Master Service Agreement, and the compliance department will report to the audit committee on a yearly basis whether the internal control measures in respect of the transactions contemplated under the Master Service Agreement remain complete and effective.
- (3) The finance department and compliance department shall be jointly responsible for monitoring the transaction amounts under the Master Service Agreement on a quarterly basis to ensure they do not exceed the annual caps.
- (4) The independent non-executive Directors will review the transactions contemplated under the Master Service Agreement, at least annually, to ensure, among other matters, that such transactions are entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and the terms of the Master Service Agreement are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

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- (5) The external auditors of the Company will conduct an annual review on the transactions contemplated under the Master Service Agreement, including the annual caps and their actual utilisation, and confirm, among other matters, whether anything has come to their attention that causes them to believe such transactions were not entered into, in all material respects, in accordance with the relevant agreements governing the transaction.

GEM LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio (as defined in the GEM Listing Rules) in respect of each of the Disposal and the Acquisition exceeds 25% but is less than 75%, each of the Disposal and the Acquisition constitutes a major transaction for the Company under Chapter 19 of the GEM Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

The Acquisition Vendor is indirectly wholly-owned by Mr. Zhang, being an executive Director and the chairman of the Company who owns 57,098,000 Shares, representing approximately 3.92% of the entire issued share capital of the Company, and Mr. Zhang owns 80% of the entire issued share capital of Brilliant Chapter Limited, a company which in turn owns 834,851,294 Shares, representing approximately 57.92% of the entire issued share capital of the Company. As such, Mr. Zhang and the Acquisition Vendor are connected persons of the Company as defined under the GEM Listing Rules and each of the Disposal and the Acquisition constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

As such, the Disposal Agreement and the Acquisition Agreement and the transactions contemplated thereunder respectively are subject to the requirements of reporting, announcement and Independent Shareholders' approval under the GEM Listing Rules. Mr. Zhang shall abstain from voting at the Board meeting to approve the Disposal Agreement and the Acquisition Agreement and save for Mr. Zhang who has a material interest in the Disposal and the Acquisition, none of the Directors has any material interest in the Disposal or the Acquisition. In accordance with the GEM Listing Rules, any Shareholder who has a material interest in the Disposal or the Acquisition shall abstain from voting on the resolution(s) to approve the Disposal Agreement or the Acquisition Agreement and the transactions contemplated thereunder respectively at the EGM. As disclosed above, Mr. Zhang owns 57,098,000 Shares, representing approximately 3.92% of the entire issued share capital of the Company as at the Latest Practicable Date, and he owns 80% of the entire issued share capital of Brilliant Chapter Limited, a company which in turn owns 834,851,294 Shares, representing approximately 57.92% of the entire issued share capital of the Company as at the Latest Practicable Date. As such, Mr. Zhang and his associates will be required to abstain from voting on the relevant resolution(s) to approve the Disposal Agreement and the Acquisition Agreement and the transactions contemplated thereunder respectively at the EGM. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries,

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save for Mr. Zhang and his associates, no other Shareholder has a material interest in the Disposal or the Acquisition and will be required to abstain from voting on the relevant resolution(s) to approve the Disposal Agreement and the Acquisition Agreement and the transactions contemplated thereunder respectively at the EGM.

Immediately upon Completion, the Acquisition Company will become an indirect wholly-owned subsidiary of the Company. To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, the Acquisition Vendor is indirectly wholly-owned by Mr. Zhang, being an executive Director and the chairman of the Company who owns 57,098,000 Shares, representing approximately 3.92% of the entire issued share capital of the Company, and Mr. Zhang owns 80% of the entire issued share capital of Brilliant Chapter Limited, a company which in turn owns 834,851,294 Shares, representing approximately 57.92% of the entire issued share capital of the Company, and Mr. Zhang and his associates are accordingly connected persons of the Company under the GEM Listing Rules.

As the Proposed Annual Caps exceed HK\$10,000,000 per annum and the applicable percentage ratios calculated with reference to which exceeds 5%, the provision of the Services by the Acquisition Company to Mr. Zhang and his associates (save for the Company and its subsidiaries) after the Completion contemplated under the Master Service Agreement would constitute non-exempt continuing connected transactions of the Company subject to the reporting, announcement and Independent Shareholders' approval requirements under the GEM Listing Rules.

As for the leasing of office premises by the Acquisition Company from the Acquisition Vendor and/or its associates (save for the Company and its subsidiaries), as all the applicable percentage ratios calculated in respect of such transactions are less than 5% and the total consideration is less than HK\$3,000,000, the transactions are de minimis transactions and therefore are fully exempted pursuant to Rule 20.74(1)(a) of the GEM Listing Rules.

Completion of the Disposal and the Acquisition are inter-conditional and are conditional upon the satisfaction of the conditions set out in the section headed “The Disposal Agreement — Conditions precedent” and “The Acquisition Agreement — Conditions precedent” respectively in this circular. Therefore, the Disposal and the Acquisition may or may not proceed. Shareholders and potential investors of the Company should note that the Master Service Agreement is subject to fulfillment of certain conditions precedent (including but not limited to the Completion). As the Acquisition may or may not proceed, the Master Service Agreement may or may not become unconditional. Shareholders and potential investors are therefore advised to exercise caution when dealing in the Shares.

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INDEPENDENT BOARD COMMITTEE

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Disposal Agreement, the Acquisition Agreement, the terms of the Master Service Agreement (including the Proposed Annual Caps) and the transactions contemplated thereunder respectively. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 32 to 33 of this circular.

INDEPENDENT FINANCIAL ADVISER

Red Sun Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal Agreement, the Acquisition Agreement, the Master Service Agreement (including the Proposed Annual Caps) and the transactions contemplated thereunder respectively. A letter from the Independent Financial Adviser containing its recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 34 to 79 of this circular.

EGM

The EGM will be held at Flat B, 9th Floor, 9 Des Voeux Road West, Hong Kong, on Friday, 29 September 2023 at 11:10 a.m. or immediately after the conclusion of the annual general meeting of the Company to be held on the same day, whichever is later for the Independent Shareholders to consider and, if thought fit, to approve the Disposal Agreement, the Acquisition Agreement, the Master Service Agreement (including the Proposed Annual Caps) and the transactions contemplated thereunder by way of poll.

For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 26 September 2023 to Friday, 29 September 2023 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the EGM, all transfer of shares of the Company accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Monday, 25 September 2023.

The notice of the EGM is set out on pages EGM-1 to EGM-4 of this circular.

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A form of proxy for use at the EGM is enclosed herewith. Whether or not you are able to attend the EGM, you are requested to complete, sign and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

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

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 32 to 33 of this circular which contains its recommendation to the Independent Shareholders in relation to the Disposal Agreement, the Acquisition Agreement, the Master Service Agreement and the transactions contemplated thereunder respectively, and the letter from the Independent Financial Adviser set out on pages 34 to 79 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in this regard.

The Directors (including the independent non-executive Directors whose views are set out in the letter from the Independent Board Committee in this circular after taking into account the advice of the Independent Financial Adviser) consider that the terms of the Disposal Agreement, the Acquisition Agreement, the Master Service Agreement (including the Proposed Annual Caps) and the transactions contemplated thereunder respectively are on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the proposed resolutions in relation to the Disposal Agreement, the Acquisition Agreement, the Master Service Agreement and transactions contemplated thereunder respectively at the EGM.

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ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board of
China Brilliant Global Limited



Zhang Chunhua
Chairman and Executive Director