



**红日资本有限公司**  
**RED SUN CAPITAL LIMITED**

12 September 2023

*To: The independent board of committee and the independent shareholders of  
China Brilliant Global Limited*

**(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**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of Disposal Agreement, the Acquisition Agreement and the Master Service Agreement (including the Proposed Annual Caps) (the “**Transactions**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 12 September 2023 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

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

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 INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee comprising all of the independent non-executive Directors, namely Ms. Chan Mei Yan Hidy, Ms. Lee Kwun Ling, May Jean and Mr. Zhang Weidong, has been established to advise the Independent Shareholders as to whether the Disposal Agreement, the Acquisition Agreement and the Master Service Agreement (including the Proposed Annual Caps) are fair and reasonable and making recommendation as to voting. We have been appointed as the independent financial adviser and approved by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in this regard.

#### **OUR INDEPENDENCE**

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant in assessing our independence. In the previous two years from the Latest Practicable Date, Red Sun Capital Limited has not acted as an independent financial adviser to the Independent Board Committee and the Independent Shareholders of the Company for any transaction. Apart from normal professional fees paid or payable to us in connection with this appointment and the engagement as stated above as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant in assessing our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.



## **BASIS OF OUR ADVICE**

In order to formulate our advice, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Group, the Directors and/or senior management of the Company (the “**Management**”). We have reviewed, among other things, (i) the Acquisition Agreement and its supplemental agreement dated 25 August 2023; (ii) the Disposal Agreement and its supplemental agreement dated 4 September 2023; (iii) the Master Service Agreement; (iv) the valuation report prepared by the Valuer in relation to the market value of Disposal Shares as of 31 March 2023; (v) the valuation report prepared by the Valuer in relation to market value of the Acquisition Interest as of 31 December 2022; and (vi) the annual report of the Company for the year ended 31 March 2023 (the “**Annual Report 2022/23**”). We have assumed that all information, representations and opinions contained or referred to in the Circular or made, given or provided to us by the Company, the Directors and the Management, for which they are solely and wholly responsible, were true and accurate and complete in all material respects at the time when they were made and continue to be so as at the Latest Practicable Date. We have assumed that all the opinions and representations made by the Directors in the Circular have been reasonably made after due and careful enquiry. The Directors and the Management confirmed that no material facts have been omitted from the information provided and referred to in the Circular, nor statements, information, opinions or representation provided to us to be untrue, inaccurate or misleading.

However, we have not, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the financial position, business and affairs of the Group or its respective history, experience and track records, or the prospects of the markets in which it operates. We consider that we have been provided with sufficient information to enable us to reach an informed view and to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group, the Directors and/or the Management and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely for their consideration of Disposal Agreement, the Acquisition Agreement and the Master Service Agreement (including the Proposed Annual Caps).

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation, we have taken into consideration the following principal factors and reasons:

### Background

#### *Information of the Group*

As set out in the Letter from the Board, the Group is principally engaged in gold and jewellery trading and retailing, money lending and related business and fintech business.

#### *Summary of the Group's operating results extracted from the Annual Report 2022/23*

*Summary of the Group's audited consolidated statement of profit or loss and other comprehensive income*

	For the year ended 31 March	
	2023	2022
	HK\$'000	HK\$'000
	(audited)	(audited)
Revenue	93,930	77,806
Cost of sales	(87,916)	(72,786)
Gross profit	6,014	5,020
Loss before tax	(51,378)	(46,154)
Loss for the year attributable to owners of the Company	(40,784)	(37,322)
Loss for the year attributable to non-controlling interests	(10,594)	(8,832)

#### *Financial performance for the year ended 31 March 2023*

As set out in the Annual Report 2022/23, the Group recorded revenue of approximately HK\$93.9 million for the year ended 31 March 2023, representing an increase of approximately 20.7% as compared to approximately HK\$77.8 million for the year ended 31 March 2022. Such increase was mainly from the gold and jewellery business because of the increase in trading of golden jewellery products in the PRC. The gross profit of the Group amounted to approximately HK\$5.0 million and HK\$6.0 million for the year ended 31 March 2022 and 2023, respectively.



Based on the Annual Report 2022/23, the Group recorded loss before tax of approximately HK\$51.4 million for the year ended 31 March 2023 as compared to approximately HK\$46.2 million for the year ended 31 March 2022 and a loss attributable to owners of the Company of approximately HK\$40.8 million for the year ended 31 March 2023 as compared to a loss attributable to owners of the Company of approximately HK\$37.3 million for the year ended 31 March 2022, mainly due to (i) loss arising on fair value change of financial liabilities at fair value through profit or loss in amounting to approximately HK\$9.6 million; (ii) loss on fintech business on development stage in amounting to approximately HK\$31.3 million and (iii) other administrative expenses in amounting to approximately HK\$18.4 million.

*Summary of the Group's audited consolidated statement of financial position*

	<b>As at 31 March</b>	
	<b>2023</b>	<b>2022</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>
<b>Non-current assets</b>	14,415	15,930
— Intangible assets	12,397	14,375
— Right-of-use assets	999	170
— Property, plant and equipment	808	1,385
<b>Current assets</b>	154,349	152,871
— Loan receivables	71,898	42,005
— Cash and cash equivalents	45,089	92,144
— Inventories	16,816	634
— Prepayment, deposits and other receivables	11,694	6,495
<b>Current liabilities</b>	61,491	93,662
— Deposits from customers	31,539	7,272
— Contract liabilities	18,700	2,495
— Other payables and accruals	10,216	7,844
— Promissory note	—	75,947
<b>Non-current liabilities</b>	58,214	—
— Promissory note	58,149	—
<b>Equity attributable to owners of the Company</b>	<u>18,279</u>	<u>26,230</u>
<b>Equity attributable to non-controlling interests</b>	<u>30,780</u>	<u>48,909</u>

*Note:* For the avoidance of doubt, only selected major asset and liability components are disclosed in the table above.

### *Financial position as at 31 March 2023*

As at 31 March 2023, the Group's total assets amounted to approximately HK\$168.8 million, representing a decrease of less than 1% as compared to approximately HK\$168.8 million as at 31 March 2022, which mainly comprised (i) loan receivables of approximately HK\$71.9 million as compared to approximately HK\$42.0 million as at 31 March 2022; (ii) cash and cash equivalents of approximately HK\$45.1 million as compared to approximately HK\$92.1 million as at 31 March 2022; (iii) inventories of approximately HK\$16.8 million as compared to approximately HK\$0.6 million as at 31 March 2022; (iv) intangible assets of approximately HK\$12.4 million as compared to approximately HK\$14.4 million as at 31 March 2022; and (v) prepayment, deposits and other receivables of approximately HK\$11.7 million as compared to approximately HK\$6.5 million as at 31 March 2022.

As at 31 March 2023, the Group's total liabilities amounted to approximately HK\$119.7 million, as compared to approximately HK\$93.7 million as at 31 March 2022, which mainly comprised (i) promissory note of approximately HK\$58.1 million as compared to approximately HK\$75.9 million as at 31 March 2022; (ii) deposits from customers of approximately HK\$31.5 million as compared to approximately HK\$7.3 million as at 31 March 2022; (iii) contract liabilities of approximately HK\$18.7 million as compared to approximately HK\$2.5 million as at 31 March 2022; and (iv) other payables and accruals of approximately HK\$10.2 million as compared to approximately HK\$7.8 million as at 31 March 2022.

As at 31 March 2023, total equity attributable to owners of the Company amounted to approximately HK\$18.3 million, as compared to approximately HK\$26.2 million at 31 March 2022.

#### **1. THE DISPOSAL**

On 2 June 2023 (after trading hours), the Disposal Vendor, being a wholly-owned subsidiary of the Company, and Mr. Zhang entered into the Disposal Agreement, 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. 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 an associate of the Company, and its financial results will be equity accounted for in the financial statements of the Company.



## 1.1 Information on 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%.

The financial information extracted from the unaudited consolidated financial statements of the Disposal Company prepared in accordance with the Hong Kong Financial Reporting Standards for the relevant periods is set out below:

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

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

## 1.2 The Disposal Agreement

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

Parties: The Disposal Vendor as vendor

Mr. Zhang as purchaser

As at the date of the Circular, 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, 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.

## 1.3 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” in the Letter from the Board. Details on the valuation on the Disposal Shares are set out in Appendix VI in the Circular.

#### **1.4 Conditions precedent**

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

- (i) the passing of resolutions 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.

#### **1.5 Completion**

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

## 1.6 Reasons for and the benefits of the Disposal

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

The Disposal Company, together with its subsidiaries, are principally engaged in regulated banking activities, including taking deposits, granting credits, advising on credit financing, arranging credit financing, and providing money services.

As set out in the Letter from the Board and the reference to the announcements of the Company dated 3 January 2020 and 8 June 2020, the acquisition of the Disposal Group 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 of the Disposal Group, 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 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.

Having considered that (i) the performance of the Disposal Group has been loss making for the since incorporation and has not been able to meet the initial expectations of the Company; (ii) the Disposal Group has not been performing up to the standards and initial expectations of the Company; (iii) there is expected gain from the Disposal to be recognized by the Company; (iv) 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 promising investment in the Acquisition Company, the Directors are of the view and we concur that the Disposal is in the interests of the Company and the Independent Shareholders as a whole.



## 1.7 Our analysis on the Disposal

As set out in the Letter from the Board, the consideration of the Disposal is HK\$184.9 million, which 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" in the Letter from the Board.

### 1.7.1 Valuation of the Disposal Company

With a view to assess the fairness and reasonableness of the consideration of the Disposal Shares, we have performed the following procedures, including but not limited to, (i) reviewed the valuation report dated 12 September 2023 (the "**Disposal Valuation Report**") prepared by the Valuer in respect of the market value of the 18.9% equity interest of the Disposal Group (the "**Disposal Valuation**"); and (ii) discussed with the Valuer in relation to (a) their methodology and assumptions used in performing the Disposal Valuation; (b) their scope of work for conducting the Disposal Valuation; and (c) their relevant professional qualifications and experience.

### 1.7.2 Background of the Valuer

We have reviewed the website of the Valuer and noted that the Valuer is specialised in the provision of independent comprehensive corporate consultancy and valuation services and the Valuer has abundant experience in providing services to Hong Kong listed companies and multi-national companies.

We have also discussed the Disposal Valuation with the engagement team of the Valuer, namely Ms. Winnie Lam, who is the managing director of the Valuer, a charter holder of Chartered Financial Analyst with more than ten years of experience in valuation and financial analyses, including business valuation, valuation of intangible assets, financial instruments, natural resources projects and purchase price allocation in relation to their expertise, valuation experience, their scope of work and valuation procedures conducted in relation to the Disposal Valuation.

We also noted that as part of its work performed, the Valuer has reviewed the relevant financial information and other relevant data concerning the Disposal Group. Based on the above, we are satisfied that the Valuer is qualified to give their opinion as set out in the Disposal Valuation Report taking into account their relevant experience and expertise, their independence,

and their scope of work and valuation procedures conducted. Besides, we have reviewed the terms of engagement between the Valuer the Company in relation to the Disposal Valuation Report and having particular regards to the scope of work, the steps and due diligence measures in conducting the Disposal Valuation, and we are considered that the scope of work is appropriate to the opinion required to be given and there is no limitation on the scope of work which might adversely impact on the degree of assurance given by the Valuer in the Disposal Valuation Report.

Besides, we have enquired whether the Valuer has any current or prior relationships with the Company, Mr. Zhang, and connected persons of either the Company or Mr. Zhang. The Valuer confirmed that it is independent of and not connected with the Group, Mr. Zhang and their respective associates.

For our due diligence purpose, we have reviewed and enquired into the methodology used and principal bases and assumptions adopted in the Disposal Valuation Report. We noted that the Disposal Valuation Report was prepared in accordance with International Valuation Standards 2022. The Disposal Valuation is determined on minority shares and going concern bases.

### *1.7.3 Valuation methodology*

According to the Disposal Valuation Report and based on our discussion with the Valuer for the methodologies, basis and assumptions adopted by the Valuer, we understood that the Valuer has considered three generally accepted approaches, namely the income approach, the market approach, and the cost approach in the Disposal Valuation. The Valuer advised that in determining the selection of valuation approach used, it has considered the merits and limitations of each of the aforesaid valuation methodologies, as well as the business nature, the financial performance and position of the Disposal Group, its future prospects as well as relevant publicly available information.

Based on our discussion with the Valuer, the market approach benchmarks the Disposal Group's equity value to that of the publicly trading comparable companies based on the similarity and comparability on their financial performances and business nature. However, the current scale of the business and financial performance of the Disposal Group as of the valuation date has not yet reached the expected and normalized level for direct comparison with public comparable companies. The market approach was therefore not considered as appropriate to adopt for the Disposal Valuation. Besides, the cost approach was also not applied for the Disposal Valuation as it tends to understate the value of an income-generating business of the Disposal Group.

The Valuer has primarily adopted the income approach in the form of a discounted cash flow ("DCF") methodology which the Valuer considered to be appropriate having considered that (i) the income approach could take into consideration the specific business development and capital



injection schedule of the Disposal Group; and (ii) it could capture the future earning potential of the Disposal Group. Hence, the Valuer considered and we concurred that it is fair and reasonable to adopt the income-based approach in arriving at the market value of the Disposal Group.

The appraised values of the equity interest of the market value of the 18.9% equity interest in the Disposal Group as of 31 March 2023 is HK\$159.7 million. Details of the valuation model are set out in Appendix VI to the Circular.

#### *1.7.4 Review of the Disposal Valuation Report*

We noted that the Valuer relied primarily on the income approach in the form of a DCF methodology. The DCF methodology views a company as an operating entity, with the principal focus of the analysis on the operating entity's ability to generate free cash flow in the future. Free cash flow to equity ("FCFE") is a measure of how much cash can be paid to the equity shareholders of a company after all expenses, reinvestment and debt were paid. Reasonable projections of operating income, expenses, and reinvestment requirements (i.e. net working capital and capital expenditures) form the basis for estimating the future FCFE that a company will likely generate from its business. The management of the Disposal Group has provided the financial projections of the Disposal Group, which formed the basis of DCF analysis for the Disposal Valuation.

The DCF analysis was based on key qualitative factors applicable to the Disposal Valuation, outlook for the general economy of the territory in which it operates, and discussions with and projections prepared by the Disposal Group. FCFE for each year of the projection period was calculated by adding back other items affecting cash flows to net profit. Non-cash expenses, such as depreciation and amortization, were added, incremental investments in net working capital and capital expenditures were deducted, and net borrowing (if any) was added, all of which are provided by the Disposal Group.

We have reviewed and discussed with the Valuer the key bases and assumptions adopted for the Disposal Valuation. A list of key information reviewed, major assumptions and considerations made by the Valuer are set out in the Disposal Valuation Report set out in the Appendix VI. Moreover, we have reviewed the letters from Elite Partners CPA Limited ("**Elite Partners CPA**") and Neutral Financial Holding Company Limited relating to the profit forecast as set out in Appendix VIII and Appendix IX in the Circular and discussed with the Management regarding the bases and assumptions as well as the parameters applied in the profit forecast and understood that the financial projections used represent the best estimate of economic conditions and Disposal Group's operations.

As set out in Appendix VIII to the Circular, Elite Partners CPA are of the view that so far as the arithmetical accuracy of the calculations of the cashflow forecast is concerned, the cash flow forecast has been properly compiled in all material respects in accordance with the assumptions adopted by the directors of the Disposal Company.

Independent Shareholders should note that the bases and assumptions adopted by the executive Directors in the cash flow forecast are primarily based on current view with respect to business, financial, economic, market and other conditions, and circumstances may develop or change in the future which may affect these projections underlying the valuation.

#### *1.7.5 Overview of the Kazakhstan economy and banking industry in Kazakhstan*

According to “The Republic of Kazakhstan: 2022 Article IV Consultation — Press Release; and Staff Report” published by the International Monetary Fund (<https://www.elibrary.imf.org/view/journals/002/2022/367/article-A001-en.xml>), the gross domestic product (“GDP”) growth of Kazakhstan is projected at 2.7% in 2022 and 4.2% in 2023. In the medium-term, non-oil GDP growth would stabilize around 3.5%.

According to the bank ratings in Kazakhstan 2023 of financial indicators published by the World Bank (<https://bakertilly-ca.com/en/insights/rejting-bankov-kazahstana-2023-finansovye-pokazateli/>), the banking sector in Kazakhstan in 2022 showed a fairly rapid growth compared to the previous year. At the beginning of 2023, Kazakhstan banks demonstrated (i) an increase in assets by 18.4%; (ii) an increase in capital by 15.3%; (iii) an increase in loan portfolio by 20.1%; (iv) an increase in deposits by 18.9%; and (v) an increase in total net profit of the sector by 13.7%. At the beginning of 2023, the total assets of the banking sector amounted to 44.6 trillion tenge, which is 18.4% more as compared to the previous year. The net profit of the banking sector in 2022 amounted to KZT (the lawful currency of Kazakhstan) 1,461 billion showing a growth of 13.7% compared to 2021. Positive dynamics of net profit are a good indicator not only for the banking sector but for the economy as a whole.

#### *1.7.6 Projections*

In preparing the valuation, the Valuer relied on the future free cash flows generated from the expected operation of the Disposal Group. The projected operating income includes the interest and non-interest income generated by the Disposal Group. As advised by the management of Disposal Group, the number of customers are expected to increase based on its existing client base as well as potential strategic cooperation with other banks and joint venture with potential investors. The projected total operating income of the Disposal Group is expected to increase from HK\$18.6 million for the year ending 31 March 2024 to HK\$806 million for the year ending 31 March 2030. In this regard, we have performed review for the overview of the Kazakhstan



economy and banking industry, details of which please refer to section headed “1.7.5 Overview of the Kazakhstan economy and banking industry in Kazakhstan” in this letter and discussed with the Management to note that (i) there is expected growth of the overall economy and in Kazakhstan; (ii) the records of growing in banking industry in Kazakhstan in 2022; (iii) Brillink Bank Corporation Limited has been granted a FinTech Lab Participant License by the Astana Financial Services Authority of the Republic of Kazakhstan; and (iv) there are more than one correspondent bank of USD in Kazakhstan available in the market for Brillink Bank Corporation Limited to seek for the cooperation. Also, we obtained and reviewed the calculation spreadsheet of the projections prepared by the Valuer and discussed with the Valuer and the Management respectively on the key assumptions as adopted in the valuation and we are of the view that the assumptions are fair and reasonable.

### ***1.7.7 Discount Rate***

Given the income approach measures the value of an asset as the present value of its future economic benefits, application of income approach necessitates the development of an appropriate discount rate.

As discussed with the Valuer, they adopted consistent methodologies in determining the discount rate as those adopted in the Disposal Valuation, details of which are discussed in the Disposal Valuation Report set out in Appendix VI, and has taken into account the market risk factors and economic factors of the Disposal Group.

We have also discussed with the Valuer, obtained and reviewed underlying supporting information, calculations and basis adopted by the Valuer in deriving the discount rate. We also searched public information to verify the basis adopted by the Valuer in its calculations (including (a) the risk-free rate of return with cross reference from public data for 10-year government bond yield of the United States of 3.47% as of 31 March 2023 from Bloomberg and sovereign credit default swap spread of Kazakhstan relative to that of the United States of 2.38% based on Damodaran Online; (b) “beta” of the comparable companies adopted with cross reference calculation data from Bloomberg; (c) market risk premium with cross reference of the country risk premium of Kazakhstan relative to that of the United States of 3.29% based on Damodaran Online; (d) small size risk premium with cross reference of the size premium of the micro-cap decile from Kroll Cost of Capital Navigator) and note that the basis adopted by the Valuer is generally in line with the data obtained from public information. Based on the above, we concur with the Valuer’s view that it is appropriate to adopt the income approach for the Disposal Group and the discount rate adopted throughout the forecast period are reasonable for the purpose of the valuation.

#### ***1.7.8 Discount for lack of marketability (“DLOM”)***

Marketability is defined as the ability to convert an investment into cash quickly at a known price with minimal transaction costs. DLOM is a downward adjustment to the value of an investment to reflect its reduced level of marketability and is the valuation adjustment with the largest monetary impact on the final determination of value. It is noted from the Valuer that the Valuer adopted a DLOM of 20.5% to adjust the equity value of the Disposal Company based on their understanding of the liquidity of the stock with reference to the range indicated in related research regarding marketability discount across different industries. In this regard, we have searched public information in relation to the DLOM and compare the similar valuation of corporations which shares are not publicly traded as well as the Disposal Group. As a result, we are of the view that the adoption of DLOM in the valuation of the Disposal Group is fair and reasonable.

#### ***1.7.9 Discount for Lack of Control (“DLOC”)***

A control premium is the premium an investor is willing to pay in addition to a marketable controlling equity value to obtain controlling interest in a business subject; whilst a discount for lack of control refers to the discount of value due to lack of management control power over a company for minority shareholders. The value derived from the DCF methodology represents a controlling basis, therefore adjustment has been made to reflect the degree of control associated with 18.9% equity interest in the Disposal Group.

In this regard, we have searched public information in relation to the DLOC and compare the similar valuation of shares of corporation which are lack of management control power as well as the Disposal Shares. As a result, we are of the view that the adoption of DLOC in the Disposal Valuation is fair and reasonable.

#### ***1.7.10 Conclusion on the Disposal Valuation Report***

As per our discussions with the Valuer, the documents we have obtained and reviewed from the Valuer and our consideration of their work done, we confirmed that we had complied with the requirements under Rule 17.92(2)(b) note 1(d) of the GEM Listing Rules.

According to our aforementioned works on the Disposal Valuation, we are of the view that (i) the methodology applied and principal bases and assumptions adopted in the Disposal Valuation Report are fair and reasonable; (ii) the scope of work of the Valuer for the relevant engagement is considered as appropriate (iii) the Valuer has adequate qualifications, experience and expertise, and hence is competent to issue the Disposal Valuation Report and is independent from the Company, Mr. Zhang, and the Disposal Group; and (iv) the consideration of the Disposal was determined



after negotiations between the parties on an arm's length basis and taking into account various factors, including, among other things, the market value of the 18.9% equity interest in the Disposal Group as at 31 March 2023 of HK\$159.7 million as assessed by the Valuer under the income approach. We are not aware of any factor that would cause us to doubt the fairness and reasonableness of the Disposal Valuation Report, and hence the concluded value of the 18.9% equity interest of the Disposal Group of HK\$159.7 million is indicative to the consideration of the Disposal. Therefore, we consider that the Disposal Valuation Report is a fair reference for determination of the consideration of the Disposal and the consideration of the Disposal is fair and reasonable.

### **1.8 Possible financial effect of the Disposal**

As set out in the Letter from the Board, it is estimated that, upon completion of the Disposal, the Company will record an unaudited gain on disposal of approximately HK\$485.6 million, 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 asset measured at fair value and the dividend declared by the Disposal Company on 30 July 2023 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.

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.

For further details of possible financial effect of the Disposal, please refer to the section headed "Financial effect of the disposal and the acquisition" set out in the Letter from the Board.

## **1.9 Discussion**

Having considered the aforementioned factors and reasons, in particular that (i) the information and our analysis as set out under the section headed “1.6 Reasons for and the benefits of the Disposal” in this letter; (ii) the Disposal Valuation was fairly and reasonably determined by the Valuer; (iii) the consideration of the Disposal represents a premium over the fair value of the Disposal Shares as at 31 March 2023 based on the Disposal Valuation; and (iv) the expected financial effect of the Disposal as set out under the section headed “1.8 Possible financial effect of the Disposal” in this letter; we are of the view that (a) the Disposal is in the interests of the Company and the Independent Shareholders as a whole; and (b) the terms of the Disposal Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned.

## **2. THE ACQUISITION**

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).

### **2.1 Information on Acquisition Company**

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.

As set out in the Letter from the Board, 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 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:

	<b>For the year ended 31 December 2021 <i>(unaudited)</i> <i>(approximately</i> <i>HK\$ million)</i></b>	<b>For the year ended 31 December 2022 <i>(unaudited)</i> <i>(approximately</i> <i>HK\$ million)</i></b>
Profit before taxation	2.1	8.3
Profit after taxation	1.9	7.1
	<b>As at 31 December 2021 <i>(unaudited)</i> <i>(approximately</i> <i>HK\$ million)</i></b>	<b>As at 31 December 2022 <i>(unaudited)</i> <i>(approximately</i> <i>HK\$ million)</i></b>
Total assets	8.4	24.5
Total liabilities	0.3	9.4
Net assets	8.1	15.1

## 2.2 The Acquisition Agreement

Date: 2 June 2023 (as supplemented by a supplemental agreement on 25 August 2023)

Parties: The Acquisition Vendor as vendor  
  
The Acquisition Purchaser as purchaser

### **2.3 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" in the Letter from the Board. Details on the independent valuation on the Acquisition Company are set out in Appendix VII to the Circular.

### **2.4 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 resolutions 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;
- (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, condition (iv) and (ix) above has been satisfied. The Disposal and the Acquisition are inter-conditional.

## **2.5 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.

## **2.6 Background information on the PRC property management industry**

According to the PRC 2021 Gross Domestic Product Final Results\* (國家統計局關於2021年國內生產總值最終核實的公告) ([http://www.stats.gov.cn/sj/zxfb/202302/t20230203\\_1901693.html](http://www.stats.gov.cn/sj/zxfb/202302/t20230203_1901693.html)) and the PRC Fourth Quarter 2022 Gross Domestic Product Preliminary Results\* (2022年四季度和全年國內生產總值初步核算結果) ([http://www.stats.gov.cn/xxgk/sjfb/zxfb2020/202301/t20230118\\_1892208.html](http://www.stats.gov.cn/xxgk/sjfb/zxfb2020/202301/t20230118_1892208.html)) by the National Bureau of Statistics of the PRC (國家統計局), the PRC recorded year-on-year growth in gross domestic product (“GDP”) in 2021 of approximately 8.4% based on published final figures for the twelve months ended 31 December 2021, and the PRC recorded a year-on-year growth on the GDP of approximately 3.0% based on published preliminary figures for the twelve months ended 31 December 2022. Such relatively moderate GDP growth for the 2022 was partly attributable to the re-emergence of

COVID-19 cases in various regions or cities of the PRC from time to time. In this connection, the PRC government has introduced various regulations and measures to manage and contain the re-emergence of these COVID-19 cases, some of which may have temporarily affected the level of business activities.

The year of 2021 is the first year of “14th Five-Year” Plan promulgated by the PRC government. According to the 14th Five Year Plan (the “14th FYP”)\* (十四五規劃) announced by the PRC government in March 2021, the target urbanization rate of the resident population\* (常住人口城鎮化率) is set at 65.0% by 2025. In this connection, the PRC government had implemented policies to promote urbanization in the PRC through to, among others, (i) accelerate the agricultural population urbanization\* (加快農業轉移人口市民化) by implementing three main strategies, namely further reform of the household registration system\* (深化戶籍制度改革), implementation of the residence permit system\* (實施居住證制度) and improvement on the system for promoting urbanisation of agricultural population\* (健全促進農業轉移人口市民化的機制); and (ii) optimise urbanization layout\* (優化城鎮化布局和形態) by implementing three main strategies, namely the acceleration of the construction and advancement of urban agglomeration\* (加快城市群建設發展), enhancement of the drive of activities by central cities\* (增強中心城市輻射帶動功能) and speeding up of the development of small and medium-sized cities and characteristic towns\* (加快發展中小城市和特色鎮).

In addition, based on publication by the PRC government in relation to the 14th FYP, the PRC government will focus on enhancing the quality and efficacy of the overall economy with a view to attaining sustainable and healthy development through, among others, (i) the improvement of supply chain modernisation\* (提升產業鏈供應鏈現代化水平); (ii) the development of strategic new industries\* (發展戰略性新興產業); (iii) the acceleration of modern service industries development\* (加快發展現代服務業); (iv) the coordination of infrastructure construction advancement\* (統籌推進基礎設施建設); and (v) the acceleration of the development of digitalisation\* (加快數位化發展).

The development of the PRC property market will continue to be influenced by changes in PRC government policies at a national and regional level which is intended to promote sustainable long-term development of the industry, prevailing market conditions as well as the overall economic development of the PRC.

## **2.7 Reasons for and benefits of the Acquisition**

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

The Acquisition Company is principally engaged in the provision of property management services in the PRC.



As set out in the “2.6 Background information on the PRC property management industry” as above, it’s expected that the development of the PRC property market will continue to be influenced by changes in PRC government policies at a national and regional level which is intended to promote sustainable long-term development of the industry, prevailing market conditions as well as the overall economic development of the PRC.

The Party Central Committee and the State Council issued the “Outline of Strategic Planning for Expanding Domestic Demand (2022–2035)” (《擴大內需戰略規劃綱要(2022–2035年)》), in which it is mentioned that the PRC government will improve the quality level of community public services; build a community service system that combines public services, convenience and benefit services, and voluntary mutual assistance services; enhance community service functions; guide social forces to participate in community services; induce the social power and social supply chain to continue to improve the quality of community services; improve the level of intelligence in community services; support the integration and innovation of housekeeping, elderly care, childcare, property and other business services and; improve the ability and level of community epidemic prevention and control.

As set out in the Letter from the Board, 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 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 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 the 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.

As set out in the section headed “Information on the Acquisition Company” in the Letter from the Board, the Acquisition Company recorded a profit after taxation in consecutive two years, with a growth from approximately HK\$1.9 million for the year ended 31 December 2021 to approximately HK\$7.1 million for the year ended 31 December 2022, and recorded net assets of approximately HK\$17.1 million as at 31 March 2023 as set out in Appendix II in the Circular. The Directors are expected that the Acquisition Company would be able to sustain its working capital for its future development. Hence, there would be no additional pressure on the other main businesses of the Group and the Group can enjoy the earnings attributable from the Acquisition Company in future.

As set out in the Letter from the Board, the consideration of the Acquisition is RMB87.7 million (equivalent to approximately HK\$100.86 million), which 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 “2.7 Reasons for and benefits of the Acquisition” above.

The consideration of the Acquisition 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. Therefore, there is no cash outflow pressure for the Group in settlement of the consideration of the Acquisition.

Having considered that (i) the Acquisition would provide the Company with an opportunity to develop property management in the PRC in efficiency manner with established brand; (ii) there is no adverse impact on the working capital position from the Acquisition and the Group has sufficient working capital to satisfy its working capital requirements for at least the next twelve months commencing from the Latest Practicable Date; (iii) the Group can make use of the experience and professional knowledge of the executive Director to expand relevant business; (iv) our review on the latest trend of the PRC property management industry and the support of the PRC government under the 14th FYP and the Outline of Strategic Planning for Expanding Domestic Demand (2022–2035) as abovementioned and the Acquisition Company would be benefit from the growth of the PRC property management market and align with the government’s plan to



promote urbanisation in the PRC; and (v) the solid and stable financial performance and position of the Acquisition Company, the Directors are of the view and we concur that the Acquisition is in the interest of the Company and the Independent Shareholders as a whole.

## **2.8 Our analysis on the valuation report**

The consideration of the Acquisition is RMB87.7 million (equivalent to approximately HK\$100.86 million) which was arrived at after arm's length negotiation between the Acquisition Vendor and the Acquisition Purchaser after taking into account various factors, among others, 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.

With a view to assess the fairness and reasonableness of the consideration of the market value of the Acquisition Interest, we have performed the following procedures, including but not limited to, (i) reviewed the valuation report dated 12 September 2023 (the "**Acquisition Valuation Report**") by the Valuer in respect of the Acquisition Interest (the "**Acquisition Valuation**"); (ii) discussed with the Valuer in relation to (a) their methodology and assumptions used in performing the Acquisition Valuation; (b) their scope of work for conducting the Acquisition Valuation; and (c) their relevant professional qualifications and experience.

### ***2.8.1 Background of the Valuer***

We have reviewed the website of the Valuer and noted that the Valuer is specialised in the provision of independent comprehensive corporate consultancy and valuation services and the Valuer has abundant experience in providing services to Hong Kong listed companies and multi-national companies.

We have also discussed the Acquisition Valuation with the engagement team of the Valuer, namely Ms. Winnie Lam, who is the managing director of the Valuer a charter holder of Chartered Financial Analyst with more than ten years of experience in valuation and financial analyses, including business valuation, valuation of intangible assets, financial instruments, natural resources projects and purchase price allocation in relation to their expertise, valuation experience, their scope of work and valuation procedures conducted in relation to the Acquisition Valuation.

We also noted that as part of its work performed, the Valuer has reviewed the relevant financial information and other relevant data concerning the Acquisition Company. Based on the above, we are satisfied that the Valuer is qualified to give their opinion as set out in the Acquisition Valuation Report taking into account their relevant experience and expertise, their independence, and their scope of work and valuation procedures conducted. Besides, we have reviewed the terms of engagement between the Valuer the Company in relation to the Acquisition

Valuation Report and having particular regards to the scope of work, the steps and due diligence measures in conducting the Acquisition Valuation, and we are considered that the scope of work is appropriate to the opinion required to be given and there is no limitation on the scope of work which might adversely impact on the degree of assurance given by the Valuer in the Acquisition Valuation Report.

Besides, we have enquired whether the Valuer has any current or prior relationships with the Company, the Acquisition Vendor, and connected persons of either the Company or the Acquisition Vendor. The Valuer confirmed that it is independent of and not connected with the Group, the Acquisition Vendor and their respective associates.

For our due diligence purpose, we have reviewed and enquired into the methodology used and principal bases and assumptions adopted in the Acquisition Valuation Report. We noted that the Acquisition Valuation Report was prepared in accordance with International Valuation Standards 2022. The Acquisition Valuation is based on controlling shares and going concern bases and also conducted on a market value basis.

#### *2.8.2 Valuation methodology*

According to the Acquisition Valuation Report and based on our discussion with the Valuer for the methodologies, basis and assumptions adopted by the Valuer, we understood that the Valuer has considered three generally accepted approaches, namely the income approach, the market approach, and the cost approach in the Acquisition Valuation.

The Valuer advised that in determining the selection of valuation approach used, it has considered the merits and limitations of each of the aforesaid valuation methodologies, as well as the business nature, the financial performance and position of the Acquisition Company, its future prospects as well as relevant publicly available information.

Based on our discussion with the Valuer, the cost approach was not adopted as it may not be able to reflect the expected future economic benefits of an income-generating business. Having considered that (i) the limitation of the income approach as the prospective financial projection at market participants' point of view is subject to a number of assumptions and contingent factors, was not reliably available; (ii) the Acquisition Company is well established with earnings in consecutive two years ended 31 December 2023 and there are sufficient numbers of market comparable companies available to assess the Acquisition Valuation; (iii) the market approach benchmarked the Acquisition Company's equity value to the publicly trading entities by looking into their financial performances; and (iv) the market approach not only could reflect the current



market's investment preferences or investment habitat, but also provide up-to-date public market information allowing to make a more informative decision, the Valuer has adopted the market approach for the Acquisition Valuation Report.

The market approach uses direct comparisons to other enterprises and their equity securities to estimate the market value of the common shares of privately issued securities. The Market Approach bases the market value measurement on what other similar enterprises or comparable transactions indicate the value to be. Under this approach, investment by unrelated parties in comparable equity securities of the subject enterprise or transactions in comparable equity securities of comparable enterprises is examined. One commonly used "market comparables" method is the guideline public company method ("**GPC Method**"). To adopt the GPC Method under the Market Approach, the Valuer has to determine the appropriate valuation multiples of comparable companies, in which the Valuer has considered price-to-sales ("**P/S**"), price-to-earnings ("**P/E**") and price-to-book ("**P/B**") multiples.

As advised by the Valuer, P/B multiple was not adopted because book value does not necessarily reflect the profitability or the earning capability of the Acquisition Company. Also, the operations of the Acquisition Company do not require significant amount of tangible assets (i.e. asset-light), therefore, P/B multiple is not considered. P/E multiple was preferred over P/S multiple as P/E multiple could consider the cost structure and profitability of the Acquisition Company. P/E multiple is a commonly adopted multiple for estimating the market value of a profit-making company.

Therefore, the Valuer has employed P/E multiple in the valuation on for the Acquisition Interest. Having considered that (i) the principal activity of the Acquisition Company is the provision of property management services in the PRC; (ii) there was no material non-current assets noted in the statement of financial position of the Acquisition Company as at 31 December 2022; (iii) there was earnings recorded by the Acquisition Company for the year ended 31 December 2022; (iv) the limitation of the P/S multiple which does not consider the cost structure and profitability of the Acquisition Company; and (v) P/E multiple is a commonly adopted multiple for estimating the market value of a profit-making company, we concur with the Valuer to employ P/E multiple in the valuation for the Acquisition Interest as of the valuation date.

For the purpose of our assessment, we also reviewed (i) the selection criteria and information of comparable companies adopted; and (ii) the underlying calculations in the Acquisition Valuation Report. We noted from the Valuer that the selection of guideline companies is by understanding the principal business of the valuation target and search for public companies with businesses as similar with the valuation target as possible. The Valuer searched for listed companies with business scopes and operations similar to those of the Acquisition Company as comparable companies on best-effort basis with reference to the following selection criteria, including (a) the



companies are principally engaged in property management in the PRC, which is close to the Acquisition Company's business; (b) over 50% of the total revenue of the companies were generated from property management in the PRC in its preceding financial year; (c) the companies have pertinent operating histories and are actively listed in Hong Kong with more than three years' listing history; and (d) the financial information and relevant market data of the companies are available to the public. Accordingly, the 15 comparable companies are considered to have a similar principal business with the Acquisition Company.

Having considered that the selected comparable companies are engaged in similar business to that of Acquisition Company and for our due diligence purpose, we have reviewed the recent financial statements of the selected comparable companies and noted that all the comparable companies fulfill the aforementioned selection criteria. We consider that the selected comparable companies are fair and representative samples based on the above selection criteria and hence are satisfied with the results of the Valuer in identifying the selected comparable companies that are sufficiently comparable to the Acquisition Company.

As noted from the Valuer, the Valuer multiplied the median P/E multiple of the comparable companies as of the valuation date by the latest 12-month normalized net profit of the Acquisition Company to arrive at the equity value of the Acquisition Company.

Having considered that (i) the P/E multiples of comparable companies ranged from approximately 4.7 times to approximately 29.0 times; (ii) the average of P/E multiples of approximately 15.6 times is closed to the median of the same of approximately 16.2 times; (iii) the median is considered to be a more reasonable approach to prevent the outliers from distorting the result; and (iv) the median is preferred over average as the median is less affected by outliers and skewed data, we concurred with the Valuer that median is considered as more appropriate to be adopted.

We noted that the latest 12-month normalized net profit was based on the unaudited management accounts of the Acquisition Company for the year ended 31 December 2022, excluding any non-recurring other income/expense and with statutory profit tax rate of China. After the then adjusted the derived equity value of the Acquisition Company with discount for lack of marketability and control premium to account for the fact that the Acquisition Company is a private company and the 100% equity interest in the Acquisition Company as of the valuation date is determined on a controlling basis.

Based on our discussions with the Valuer, we concur with the Valuer to adjust for non-recurring other income/expense to the net profit of the Acquisition Company for the year ended 31 December 2022 in order to (i) measure its normalized earnings; (ii) eliminate the effects from of non-recurring items; (iii) provide tax impact from statutory profit tax rate of PRC as 25%



which is in line with the relevant current tax policy of the PRC; and (iv) the normalised earnings could more appropriately reflect the financial performance of the Acquisition Company, and the adoption of which could accordingly better reflect the fair value of the Acquisition Company.

In addition, we have obtained and reviewed the income statement of the Acquisition Company and consider that the aforesaid adjustments represented all the material items on non-recurring other income/expense. As such, we consider the Valuer's adjustments for any non-recurring other income/expense and with statutory profit tax rate of China to arrive at the Acquisition Company's normalized earnings to be sufficient and fair and reasonable.

### *2.8.3 Control premium and lack of marketability*

As advised by the Valuer, the value of privately held shares is not directly comparable to the value of publicly traded securities due to the fact that shareholders of privately held companies do not have the same access to trading markets that shareholders of publicly traded companies enjoy and the market value of the ordinary shares must be adjusted to reflect its lack of liquidity and ready market.

As advised by the Valuer, the adjustment of discount for lack of marketability of approximately 20.5%, based on Stout Restricted Stock Study Companion Guide 2022 published by Stout Risius Ross, LLC, has been adopted in the Acquisition Valuation Report after taking into account the shares of Acquisition Valuation limited liquidity not publicly traded. The control premium of approximately 22.6% was determined by the Valuer with reference to the Mergerstat Control Premium Study published by FactSet Mergerstat, LLC, having considered the Group will obtain the control of the Acquisition Company when the Acquisition completed.

Based on our discussion with the Valuer, we noted that it is common to use the abovementioned independent research study reports as reference to provide data and statistics on recent merger and acquisition transactions, accordingly we concur with the view of the Valuer to adopt DLOM and control premium as part of the valuation methodology to determine the value of the Acquisition Interest to be fair and reasonable.

Based on our discussion with the Valuer, we noted that it is common to use independent research study report, such as Stout Restricted Stock Study Companion Guide 2022 as reference, to provides data and statistics on recent merger and acquisition transactions, accordingly we concur with the view of the Valuer to adopt DLOM as part of the valuation methodology to determine the Acquisition Interest to be fair and reasonable.

Based on all of the above in assessing the valuation and having considered, in particular, (i) our assessment on the methodology of, and the basis and assumptions adopted for, the Acquisition Valuation Report; (ii) our review on the selection criteria and information of the selected comparable companies, which are considered as fair and representative samples; and (iii) the independence, qualification and experience of the Valuer, we consider that there is no substantial factors identified which may cause us to doubt the fairness and reasonableness of the methodology adopted and the basis used in arriving at the Acquisition Valuation.

As assessed by the Valuer, the market value of the 100% equity interest in the Acquisition Company as of 31 December 2022 was approximately RMB87.7 million (equivalent to approximately HK\$100.86 million) which is same as the consideration of the Acquisition. As such, we are of the view that the consideration of the Acquisition is fair and reasonable so far as the Company and Independent Shareholders are concerned.

For further details of the basis and assumptions of the valuation, please refer to the Acquisition Valuation Report as set out in in Appendix VII to the Circular.

## 2.9 Comparable analysis

Having discussed above, the P/E ratio is the most appropriate trading multiple to assess the Acquisition Valuation and P/S ratio and P/B ratio are not considered as appropriate. As an alternative analysis, we also compared the P/E ratio of the Comparable Companies (defined hereafter). Considering the P/E ratio is commonly accepted benchmark in the comparison of valuation of companies against their industry peers, we have adopted the P/E ratio for the purpose of our analyses. On a best effort basis, we had conducted research on a non-exhaustive basis, with a review as at the date of the Acquisition Agreement, based on criteria (the “**Selection Criteria**”) that the companies are (i) currently listed on the Stock Exchange; (ii) are principally engaged in property management in the PRC, which is close to the Acquisition Company’s business; (iii) are over 50% of the total revenue of the companies were generated from property management in the PRC in its preceding financial year; and (iv) have pertinent operating histories and are actively listed in Hong Kong with more than three years’ listing history, to provide a general reference for the recent market condition on the date of Acquisition Agreement. Accordingly, we have identified 15 comparable companies which fulfilled the Selection Criteria (the “**Comparable Companies**”). Kindly remind that the size, scale of the market capitalisation, profitability and financial positions of the Comparable Companies may be not same as the Acquisition Company and we have not conducted any in-depth investigation into the size, scale of the market capitalisation, profitability and financial positions of the Comparable Companies.



Set out below is our analysis on the Comparable Companies:

<b>Company name (Stock code)</b>	<b>Principal business</b>	<b>P/E Ratio on the date of Acquisition Agreement Approximately times</b>
GR Properties Ltd (108)	Investment and development of properties.	N/A (Note 3)
Riverine China Holdings Ltd. (1417)	The provision of property management services in the PRC.	14.5
Zhong Ao Home Group Ltd (1538)	The provision of management services to property developers and owners in the PRC.	3.6
S-Enjoy Service Group Co Ltd (1755)	The provision of property management services in the PRC.	8.2
Yincheng Life Service Co Ltd (1922)	The provision of property management services and life community value added services.	4.1
AUX International Holding Ltd (2080)	The provision of property management services and related value-added services in Mainland China.	8.1
China Overseas Property Holdings Ltd (2669)	The provision of property management services and value-added services to non-residents and residents; and the trading of car parking spaces.	20.6
Greentown Service Group Co Ltd (2869)	The provision of property services, community living services, consulting services and technology services.	23.7

Company name (Stock code)	Principal business	P/E Ratio on the date of Acquisition Agreement <i>Approximately times</i>
Binjiang Service Group Co Ltd (3316)	The provision of property management services and ancillary services to residential and non-residential properties in the PRC.	13.0
A-Living Smart City Services Co Ltd (3319)	The provision of parking management, home cleaning, Hydropower, maintenance, and other services.	3.8
Poly Property Services Co Ltd. (6049)	The provision of property management, property projects pre-consultation, post-delivery evaluation and analysis, professional equipment and facilities maintenance, and other services in the PRC.	18.4
Hevol Services Group Co Ltd (6093)	The provision of property management services and value-added services in the PRC.	25.9
Country Garden Services Holdings Co Ltd (6098)	The provision of property management services, community value-added services, value-added services to non-property owners, heat supply services, city services and commercial operational services in the PRC.	15.4
Times Neighborhood Holdings Ltd (9928)	The provision of property Management solutions such as cleaning, gardening, repairing, and maintenance activities in the PRC.	N/A (Note 3)



<b>Company name (Stock code)</b>	<b>Principal business</b>	<b>P/E Ratio on the date of Acquisition Agreement Approximately times</b>
Powerlong Commercial Management Holdings Ltd. (9909)	The provision of residential property and office, buildings and serviced apartments management, and other services in the PRC.	6.0
<b>Maximum</b>		25.9
<b>Minimum</b>		3.6
<b>Average</b>		12.7
<b>Median</b>		13.0
<b>The Acquisition Company (based on the consideration of the Acquisition)</b>		14.1 (Note 1)

Source: The website of Stock Exchange

Note 1: The implied P/E Ratio of the Acquisition Company on the date of Acquisition Agreement was calculated as the consideration of Acquisition of approximately RMB87.7 million (equivalent to approximately HK\$100.86 million). Divided by the profit for the year ended 31 December 2022 of approximately HK\$7.1 million.

Note 2: For the purpose of illustration in above table, the exchange rate between Renminbi and Hong Kong dollars provided in this circular is RMB1 = HK\$1.07.

Note 3: The P/E Ratio is not applicable as the companies are loss making for the latest published financial year ended 31 December 2022.

We noticed from the above table that (i) the P/E Ratio of the Comparable Companies on the date of Acquisition Agreement ranged from approximately 3.6 times to approximately 25.9 times (“Comparable P/E Ratio Range”), with a median of approximately 13.0 times (“Comparable P/E Ratio Median”) and an average of approximately 12.7 times.

Based on the consideration of the Acquisition of approximately HK\$100.86 million, the implied P/E Ratio of the Acquisition on the date of Acquisition Agreement is approximately 14.1 times which is within the Comparable P/E Ratio Range and slightly higher than Comparable P/E Ratio Median of approximately 13.0 times.

Taking into the account that (i) the implied P/E Ratio of the Acquisition on the date of the Acquisition Agreement is within the Comparable P/E Ratio Range and close to Comparable P/E Ratio Median; (ii) there is the solid and stable financial performance and position of the Acquisition Company; (iii) there is no adverse impact on the working capital position of the Group from the Acquisition; and (iv) the Acquisition would provide the Company with an opportunity to its develop property management business in the PRC in an efficiency manner with an established brand, we are of the view that the consideration of the Acquisition is fair and reasonable and the Acquisition is in the interests of the Company and the Independent Shareholders as a whole.

### ***2.9.1 Conclusion on the Valuation Report***

As per our discussions with the Valuer, the documents we have obtained and reviewed from the Valuer and our consideration of their work done, we confirmed that we had complied with the requirements under Rule 17.92(2)(b) note 1(d) of the GEM Listing Rules.

According to our aforementioned works on the valuation of the Acquisition Interest, we are of the view that (i) the methodology applied and principal bases and assumptions adopted in the Acquisition Valuation Report are fair and reasonable; (ii) the scope of work of the Valuer for the relevant engagement is considered as appropriate; (iii) the Valuer has adequate qualifications, experience and expertise, and hence are competent to issue the Acquisition Valuation Report and is independent from the Company, Acquisition Vendor, and the Acquisition Company; and (iv) the consideration of the Acquisition was determined after negotiations between the parties on an arm's length basis and taking into account various factors, including, among other things, the market value of the Acquisition Interest as at 31 December 2022 amounted to RMB87.7 million (equivalent to HK\$100.86 million) as assessed by the Valuer under the market approach. We are not aware of any factor that would causes us to doubt the fairness and reasonableness of the Acquisition Valuation Report, and hence the concluded value of the Acquisition Interest of RMB87.7 million is indicative to the consideration of the Acquisition. Therefore, we consider that the Acquisition Valuation Report is a fair reference for determination of the consideration of the Acquisition and the consideration of the Acquisition is fair and reasonable.

### **2.10 Possible financial effect of the Acquisition**

Upon Completion, the Acquisition Company will become a wholly-owned subsidiary of the Company and thus the assets, liabilities and the financial results of the Acquisition Company and its respective subsidiaries 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 the Circular.



### ***2.10.1 Assets and liabilities***

Based on the unaudited pro forma financial information as set out in Appendix IV in the Circular, assuming that Completion had taken place on 31 March 2023, the total assets of the Enlarged Group would have increased from approximately HK\$168.8 million to approximately HK\$555.2 million on a pro forma basis, the total liabilities of the Enlarged Group would have decreased from approximately HK\$119.7 million to approximately HK\$49.1 million on a pro forma basis, and the net assets of the Enlarged Group would have increased from HK\$49.1 million to HK\$506.1 million on a pro forma basis.

### ***2.10.2 Earnings***

As set out in the accountants' report of the Acquisition Company in Appendix II in the Circular, the revenue and net profit attributable to shareholders of the Acquisition Company for the three months ended 31 March 2023 were approximately HK\$4.1 million and HK\$2.1 million, respectively.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial performance and position of the Group will be upon the completion of the Acquisition.

For the further details of possible financial effect of the Acquisition, please refer to the section headed "Financial effect of the disposal and the acquisition" set out in the Letter from the Board.

## **2.11 Discussion**

Having considered the aforementioned factors and reasons, in particular that (i) the information and our analysis as set out under the section headed "2.7 Reasons for and benefits of the Acquisition" in this letter; (ii) the Acquisition Valuation was fairly and reasonably determined by the Valuer; (iii) the consideration of the Acquisition is same as the fair value of the Acquisition Interest as at 31 December 2022 based on the Acquisition Valuation; (iv) the expected financial effect of the Acquisition as set out under the section headed "2.10 Possible financial effects of the Acquisition" in this letter; (v) the implied P/E of the consideration of the Acquisition is slightly higher than the Comparable P/E Ratio Median and within Comparable P/E Ratio Range; (vi) there is the solid and stable financial performance and position of the Acquisition Company; (vii) there is no adverse impact on the working capital position of the Group from the Acquisition; and (viii) the Acquisition would provide the Company with an opportunity to develop its property management business in the PRC in an efficiency manner with an established brand, we are of the

view that (a) the Acquisition is in the interests of the Company and the Independent Shareholders as a whole; and (b) the terms of the Acquisition Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned.

### **3. CONTINUING CONNECTED TRANSACTIONS**

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.

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.

#### **3.1 Background information on the property management industry in the PRC**

Pursuant to the Fourteenth Five Year Plan, the PRC government has announced the target urbanisation rate of the resident population\* (常住人口城鎮化) for the next five years from 2021 is approximately 65.0%. In this connection, the PRC government promoted urbanisation in the PRC through, among others, (i) accelerate the agricultural population urbanisation (加快農業轉移人口市民化) by implementing two main strategies, namely further reform of the household registration system\* (深化戶籍制度改革) and improvement on the system for promoting urbanisation of agricultural population\* (健全促進農業轉移人口市民化的機制); and (ii) improve urbanisation layout\* (完善城鎮化空間布局) by implementing five strategies, namely promote integrated development of conurbations\* (推動城市群一體化發展), construct modernised metropolitan areas\* (建設現代化都市圈), optimise and enhance functions of central urban areas in



mega-sized-cities\* (優化提升超大特大城市中心城區功能), improve habitability and employability in large and medium-sized cities\* (完善大中城市宜居宜業功能) and promote urbanisation construction with counties/cities as major carriers\* (推進以縣城為重要載體的城鎮化建設). Accordingly, the development of the PRC commercial property market continues to be influenced by changes in the PRC government policies at a national and regional level, market environment as well as the overall economic development of the PRC. In view of the above, it is expected that the continuous increase in urbanisation rate in the PRC and the recovery of the PRC economy shall continue to drive the growth for the PRC property management industry.

### **3.2 Reasons for and benefits of the Master Service Agreement**

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

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.

As set out in the Letter from the Board, the Board considers that the Acquisition Company would be a good investment for the Company, details of which please refer to the section headed “2.7 Reasons for and benefits of the Acquisition” in this letter.

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 the 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.

Having considered that (i) the Acquisition Company has been providing Services to Mr. Zhang and/or his associates (save for the Company and its subsidiaries) for more than three years before the Acquisition and the Services were ordinary course of business of the Acquisition Company; (ii) the terms and price of the transactions contemplated under the Master Service Agreement would be determined after arm's length negotiations between the relevant parties; (iii) the Master Service Agreement (including the Proposed Annual Caps), if approved, would facilitate the transactions contemplated under the Master Service Agreement for the three years ending 31 December 2023, 2024 and 2025; and (iv) the Master Service Agreement (including the Proposed Annual Caps), if approved, would avoid to seek the approval from Independent Shareholders for each transaction which could reduce the administration costs of the Company, we concur with the Directors' view that Master Service Agreement (including the Proposed Annual Caps) are in the interests of the Company and Independent Shareholders as a whole.

### 3.3 The Master Service Agreement

Date:	21 June 2023
Parties:	The Acquisition Purchaser  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).

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 1 to 3 property management services with similar scope for 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.

*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.

In order to assess the reasonableness of the terms under the Master Service Agreement, we have obtained and reviewed a total of seven samples of the ongoing transactions of the Acquisition Company. Regarding the four out of seven samples for the Services provided by the Acquisition Company to Independent Third Parties or Mr. Zhang and/or his associates (save for the Company and its subsidiaries), we noted that the price charged by the Acquisition Company from Mr. Zhang and/or his associates (save for the Company and its subsidiaries) would be (i) no less favourable to the price charged by the Acquisition Company from Independent Third Parties under similar locations and similar types of properties; or (ii) no less favourable to the market price researched in the market under the situation that no transaction entered into with Independent Third Parties is with similar locations and types of properties available for comparison, as such, the Acquisition Company would conduct research for the market price; and the relevant payments from Mr. Zhang and/or his associates (save for the Company and its subsidiaries) were settled with the credit period shorter than/same as the Independent Third Parties. Regarding the three out of seven samples for the Services in relation to the provision of intelligent management systems, hardware and charging platform software for the managed property, supervision of renovation projects and inspection provided by the Acquisition Company to Mr. Zhang and/or his associates (save for the Company and its subsidiaries) were charged under a standard price list and the standard payment terms applicable to both Mr. Zhang and/or his associates (save for the Company and its subsidiaries) and Independent Third Parties. We have obtained and reviewed the standard pricing list from the Acquisition Company regarding the such Services consumed by Mr. Zhang and/or his associates (save for the Company and its subsidiaries). We noted from the Management that the Acquisition Company would apply the standard pricing list for both Independent Third Parties and with Mr. Zhang and/or his associates (save for the Company and its subsidiaries) for such Services. On this basis, the Directors is of the view and we concur that the terms of Master Service Agreement were conducted on normal commercial terms and considered to be fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

### 3.4 Internal Control

As set out in the Letter from the Board, 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:

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) 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.



- (v) 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.

Apart from reviewing the abovementioned internal control measures, we have also obtained and reviewed the Connected Transactions and Continuing Connected Transactions Internal Control Management System\* (關連交易及持續關連交易內控管理制度) of the Company. Having considered that (i) the finance department will review and confirm that the transactions contemplated under the Master Service Agreement 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; (ii) the finance department and compliance department will monitor the transaction amounts of the transactions contemplated under the Master Service Agreement quarterly to ensure that the annual caps will not be exceeded; (iii) the compliance department will report to the audit committee of the Company annually regarding the completeness and effectiveness of the internal control measures for the transactions contemplated under the Master Service Agreement; (iv) the independent non-executive Directors will review the transactions contemplated under the Master Service Agreement at least annually; and (v) the external auditors of the Company will conduct an annual review on the transactions contemplated under the Master Service Agreement, we are of the view that the implementation of the abovementioned internal control measures and the Connected Transactions and Continuing Connected Transactions Internal Control Management System can ensure that the terms offered by the Acquisition Company to Mr. Zhang and/or his associates (save for the Company and its subsidiaries) would not be more favourable than those offered to other customers for similar services.

Having discussed with the Management and considered the internal control procedures as set out above, we are of the view that the aforementioned internal control procedures adopted by the Company are adequate.

### 3.5 Basis for determining the Proposed Annual Caps

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		
	for the year ended 31 December		
	2020	2021	2022
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
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)		
	for the year ending 31 December		
	2023	2024	2025
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(equivalent to about HK\$)</i>	<i>(equivalent to about HK\$)</i>	<i>(equivalent to about HK\$)</i>
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)

As set out in the Letter from the Board, 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.

In order to assess the fairness and reasonableness of the Proposed Annual Caps under the Master Services Agreement, we have obtained and reviewed a schedule and documents prepared by the Management and discussed with the Management and noted that (i) Mr. Zhang and his associates (save for the Company and its subsidiaries) intend to continue to use the Services provided by the Acquisition Company; (ii) the additional potential properties for not less than one hundred thousand square metre of Mr. Zhang and/or his associates (save for the Company and its subsidiaries) that will be required the Services provided by the Acquisition Company starting from 2023; and (iv) the Management have been considered, including but not limited to, cost of labour, administrative expense and sundry expense, when estimating the expected service fee per square metre for the potential properties.

Having considered that (i) the historical figures for the fees in respect of the Services provided by the Acquisition Company to Mr. Zhang and his associates (save for the Company and its subsidiaries); (ii) Mr. Zhang and/or his associates (save for the Company and its subsidiaries) have no intention to change the service provider (i.e. the Acquisition Company) for providing the Services for the relevant properties; (iii) Mr. Zhang and/or his associates (save for the Company and its subsidiaries) expected to require the Services from the Acquisition Company with the additional properties for not less than one hundred thousand square metre starting from 2023; and (iv) the buffer of 2% which is in line with the five-year average consumer price index of the PRC of approximately 2.1% according to the National Bureau of Statistics of the PRC, the Directors are of the view and we concur that the Proposed Annual Caps under the Master Service Agreement is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

## **RECOMMENDATION**

Having considered the factors as set out in this letter above, we are of the view that

- (i) although the Disposal is not conducted in the ordinary course of business of the Group, the Disposal is in the interests of the Company and the Shareholders as a whole, and the terms of the Disposal Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned;

- (ii) although the Acquisition is not conducted in the ordinary course of business of the Group, the Acquisition is in the interests of the Company and the Shareholders as a whole, and the terms of the Acquisition Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned; and
- (iii) the transactions contemplated under the Master Service Agreement are in the ordinary and usual course of business of the Acquisition Company and the Enlarged Group and on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole, and the terms of which, including the Proposed Annual Caps, are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we advise the Independent Board Committee to recommend, and we recommend, the Independent Shareholders to vote in favour of the resolutions to approve the Disposal Agreement, the Acquisition Agreement and the Master Service Agreement and the transactions contemplated thereunder, including the Proposed Annual Caps, at the EGM.

Yours faithfully,  
For and on behalf of  
**Red Sun Capital Limited**



**Robert Siu**

*Managing Director*

*Mr. Robert Siu is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 25 years of experience in corporate finance industry.*