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

If you have sold or transferred all your shares in Art Group Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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ART GROUP HOLDINGS LIMITED

錦藝集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 565)

- (I) VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE PROPOSED
DISPOSAL OF 75% EQUITY INTERESTS IN A SUBSIDIARY;
(II) VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE
LEASE CONTRACT JIACHAO'S;
(III) VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE
LEASE CONTRACT ZONE C; AND
(IV) NOTICE OF THE EGM**

Financial adviser to the Company



中毅資本有限公司
Grand Moore Capital Limited

A letter from the Board is set out on pages 5 to 32 of this circular.

A notice convening the EGM to be convened at Unit 1603-1604, 16/F, Causeway Bay Plaza I, 489 Hennessy Road, Causeway Bay, Hong Kong on Friday, 18 June 2021 at 3:20 p.m. is set out on pages EGM-1 to EGM-4 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you plan to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

PRECAUTIONARY MEASURES FOR THE EGM

To prevent and control the spread of COVID-19, the Company will implement the following precautionary measures at the EGM, including:

- (i) all attendees will be subject to compulsory body temperature checks at the entrance of the EGM venue;
- (ii) all attendees will be required to wear surgical face masks throughout the EGM;
- (iii) maintaining proper distance between seats; and
- (iv) no beverage or refreshments will be served, and no corporate gifts will be distributed at the EGM.

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the EGM venue. The Company reminds the Shareholders that they may exercise their voting rights by appointing the chairman of the EGM as their proxy to vote according to their indicated voting instructions as an alternative to attending the EGM in person.

Subject to the development of the COVID-19 situation, the Company may implement and/or adjust precautionary measures for the EGM and may issue further announcement(s) on such measures as and when appropriate.

28 May 2021

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DEFINITIONS

In this circular, the following expressions shall have the following meanings unless otherwise stated:

| | |
|--|---|
| “Board” | the board of Directors |
| “business day” | a day (other than Sunday, Saturday and public holiday) on which commercial banks are generally open for business in Hong Kong and the PRC |
| “Company” | Art Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability with its securities listed on the Stock Exchange |
| “Completion” | completion of the Industrial and Commerce Transfer Registration |
| “connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “Consideration” | the total consideration in the amount of RMB429,540,000 (equivalent to approximately HK\$511,357,000) in relation to the Disposal |
| “Director(s)” | the director(s) of the Company |
| “Disposal” | the disposal of the Sale Equity Interests pursuant to the Sale and Purchase Agreement |
| “EGM” | the extraordinary general meeting of the Company to be convened at Unit 1603-1604, 16/F, Causeway Bay Plaza I, 489 Hennessy Road, Causeway Bay, Hong Kong on Friday, 18 June 2021 at 3:20 p.m. to approve, among others, the Transactions |
| “Existing Lease Contract Jiachao’s” | the existing intra-group lease contract dated 1 March 2021 entered into between the Lessee and the Lessor Jiachao’s in relation to the Jiachao’s Shopping Mall |
| “Existing Lease Contract Zone C” | lease contract dated 12 August 2015 entered into between the Lessee and the Lessor Zone C in relation to the Zone C Shopping Mall (as supplemented by the supplemental lease contracts dated 30 April 2016, 10 September 2016, 22 August 2017, 30 June 2019, 22 July 2019 and 20 July 2020) |

DEFINITIONS

| | |
|----------------------------|---|
| “Group” | the Company and its subsidiaries |
| “HKAS 40” | Hong Kong Accounting Standard 40 – Investment Properties |
| “HKFRS 16” | Hong Kong Financial Reporting Standard 16 – Leases |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China |
| “Jiachao’s Shopping Mall” | a shopping mall situated at No. 36 Mianfang West Road, Zhongyuan District, Zhengzhou City, Henan Province, the PRC |
| “Latest Practicable Date” | 25 May 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular |
| “Lease Contract Jiachao’s” | the conditional lease contract dated 26 April 2021 entered into by the Lessor Jiachao’s and the Lessee in respect of the Jiachao’s Shopping Mall |
| “Lease Contract Zone C” | the conditional lease contract dated 26 April 2021 entered into by the Lessor Zone C and the Lessee in respect of the Zone C Shopping Mall |
| “Lessee” | Zhengzhou Zhongyuan Jinyi Commercial Operation Management Co., Ltd.* (鄭州中原錦藝商業運營管理有限公司), an indirect non-wholly-owned subsidiary of the Company and is the lessee of (i) the Jiachao’s Shopping Mall pursuant to the Lease Contract Jiachao’s and (ii) the Zone C Shopping Mall pursuant to the Lease Contract Zone C |
| “Lessor Zone C” | Zhengzhou Hanyuan Real Estate Co., Ltd.* (鄭州翰園置業有限公司), a company established in the PRC with limited liability |

DEFINITIONS

| | |
|---|---|
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Long Stop Date” | 31 August 2021 (or such other date as agreed by the Vendor and the Purchaser) |
| “PRC” | the People’s Republic of China |
| “Purchaser” | Zhengzhou Fengxiang Investment Co., Ltd.* (鄭州豐祥投資有限公司) |
| “Remaining Group” | collectively, the Company and its subsidiaries (excluding the Target Company) following Completion |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Sale and Purchase Agreement” | the conditional sale and purchase agreement dated 26 April 2021 entered into between the Vendor and the Purchaser in relation to the Disposal |
| “Sale Equity Interests” | 75% equity interests in the Target Company |
| “SFO” | Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) |
| “Shareholder(s)” | the shareholder(s) of the Company |
| “Shares” | ordinary shares of HK\$0.01 each in the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Target Company” or “Lessor Jiachao’s” | Zhengzhou Jiachao Property Services Co., Ltd.* (鄭州佳潮物業服務有限公司), a company established in the PRC with limited liability and an indirect non-wholly-owned subsidiary of the Company prior to the Completion |

DEFINITIONS

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|------------------------|--|
| “Transactions” | collectively, the Disposal, the Lease Contract Jiachao’s, the Lease Contract Zone C and the transactions contemplated thereunder |
| “Vendor” | Zhengzhou Changdun Asset Management Co., Ltd.* (鄭州昌盾資產管理有限公司), the Company’s indirect wholly-owned subsidiary |
| “Zone C Shopping Mall” | a shopping mall situated at No. 40 Mianfang West Road, Zhongyuan District, Zhengzhou City, Henan Province, the PRC |

* For identification purpose only

For the purpose of illustration only and unless otherwise stated, amounts denominated in RMB in this circular have been translated into HK\$ at the rate of HK\$1.00 = RMB0.84. Such translation should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate or at all.

LETTER FROM THE BOARD



ART GROUP HOLDINGS LIMITED

錦藝集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 565)

Executive directors:

Mr. Chen Jinyan (*Chairman*)

Mr. Chen Jindong

Independent non-executive directors:

Mr. Kwan Chi Fai

Mr. Lin Ye

Mr. Yang Zeqiang

Ms. Chong Sze Pui Joanne

Registered office:

2nd Floor, Century Yard

Cricket Square

P.O. Box 902

Grand Cayman KY1-1103

Cayman Islands

*Head office and principal place
of business in Hong Kong:*

Unit 1407, 14th Floor

China Merchants Tower

Shun Tak Centre

168-200 Connaught Road Central

Hong Kong

28 May 2021

To the Shareholders

Dear Sir or Madam,

- (I) VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE PROPOSED
DISPOSAL OF 75% EQUITY INTERESTS IN A SUBSIDIARY;
(II) VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE
LEASE CONTRACT JIACHAO'S; AND
(III) VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE
LEASE CONTRACT ZONE C**

INTRODUCTION

Reference is made to the announcement of the Company dated 26 April 2021 in relation to the Transactions. On 26 April 2021 (after trading hours), the Vendor, being an indirect wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Purchaser, pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendor

LETTER FROM THE BOARD

has conditionally agreed to sell, the Sale Equity Interests. In addition, on 26 April 2021 (after trading hours), the Lessee, being an indirect non-wholly-owned subsidiary of the Company, entered into the Lease Contract Jiachao's with the Lessor Jiachao's, pursuant to which the Lessee has conditionally agreed to rent, and the Lessor Jiachao's has conditionally agreed to lease, the Jiachao's Shopping Mall during a lease term of 15 years. Furthermore, on 26 April 2021 (after trading hours), the Lessee, being an indirect non-wholly-owned subsidiary of the Company, entered into the Lease Contract Zone C with the Lessor Zone C, pursuant to which the Lessee has conditionally agreed to rent, and the Lessor Zone C has conditionally agreed to lease, the Zone C Shopping Mall during a lease term of 15 years.

The purpose of this circular is to provide the Shareholders with further details of the Transactions, together with such other information as required by the Listing Rules.

SALE AND PURCHASE AGREEMENT

Date

26 April 2021 (after trading hours)

Parties

The Purchaser (as the Purchaser)

The Vendor (as the Vendor)

To the best of the Directors' knowledge, information and belief having made all reasonable enquires, the Purchaser and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Asset to be disposed of

The Sale Equity Interests

Consideration

The Consideration to be received by the Vendor amounted to RMB429,540,000 (equivalent to approximately HK\$511,357,000), which will be settled in cash in the following manner:

1. RMB214,770,000 (equivalent to approximately HK\$255,679,000) will be paid on or before the application for the Industrial and Commercial Transfer Registration (as defined below);
2. RMB128,862,000 (equivalent to approximately HK\$153,407,000) will be paid on or before the 10th business day after the Industrial and Commercial Transfer Registration (as defined below) is completed; and

LETTER FROM THE BOARD

3. the remaining RMB85,908,000 (equivalent to approximately HK\$102,271,000) will be paid on or before the 40th business day after the Industrial and Commercial Transfer Registration (as defined below) is completed.

After completion of the Industrial and Commercial Transfer Registration (as defined below), if the Purchaser fails to pay the remaining Consideration, without prejudice to the rights to other remedies, the Purchaser shall pay to the Vendor damages at the rate of 0.05% per day on the unpaid Consideration.

If the Sale and Purchase Agreement is terminated due to the Industrial and Commercial Transfer Registration (as defined below) not being completed, the Vendor will within 10 business days refund to the Purchaser the partial Consideration received, and the Target Company will refund to the Purchaser the Current Accounts-Adjusted (as defined below) and the Bonus Dividend (as defined below) the Purchaser advanced to the Target Company, or paid to the Vendor on behalf of the Target Company. Upon failure to refund, the Vendor or the Target Company (as the case may be) shall pay to the Purchaser damages at the rate of 0.05% per day on the relevant amount.

Basis of the Consideration

The Consideration was determined after arm's length negotiation between the Purchaser and the Vendor with reference to (i) 75% of the unaudited net assets value of the Target Company of approximately RMB545,448,000 (equivalent to approximately HK\$649,342,000) as at 31 March 2021 based on the then latest unaudited management accounts of the Target Company (which has taken into account the preliminary valuation of the Jiachao's Shopping Mall (with the assumed existence of the Lease Contract Jiachao's) of approximately RMB1,436,000,000 (equivalent to approximately HK\$1,709,524,000) as at 31 March 2021 based on the income capitalisation method compiled by an independent valuer), being RMB409,086,000 (equivalent to approximately HK\$487,007,000); and (ii) a 5% premium over (i) above of approximately RMB20,454,000 (equivalent to approximately HK\$24,350,000).

Conditions precedent to the Sale and Purchase Agreement

The Completion shall be conditional upon the fulfilment of the following conditions:

1. the Stock Exchange having reviewed and confirmed the relevant announcement(s) and circular in relation to the Sale and Purchase Agreement, the Lease Contract Jiachao's and the transactions contemplated thereunder as required by the Listing Rules, and the Company having published such announcement(s) and circular;
2. the Shareholders approving the Sale and Purchase Agreement, the Lease Contract Jiachao's and the transactions contemplated thereunder in an extraordinary general meeting to be convened by the Company;

LETTER FROM THE BOARD

3. the Vendor and the Purchaser having obtained all the consents, approvals, filings or registrations (but not including the industrial and commercial transfer registration (工商變更登記) of the Sale Equity Interests) (the “**Industrial and Commercial Transfer Registration**”) necessary for them to complete the transactions contemplated under the Sale and Purchase Agreement and the Lease Contract Jiachao’s, all such consents, approvals, filings or registrations remaining complete and effective, and any such consents, approvals, filings or registrations not conflicting, altering or invalidating any terms of the Sale and Purchase Agreement;
4. no government department, regulatory bodies, court or other judicial authority having issued any order or made any decision to the effect that the Sale and Purchase Agreement, the Lease Contract Jiachao’s and/or the transactions contemplated thereunder is invalid, unenforceable or illegal;
5. the Target Company having executed and submitted to the Vendor the duly signed Lease Contract Jiachao’s, and the Shareholders having approved the Lease Contract Jiachao’s and the transactions contemplated thereunder in an extraordinary general meeting to be convened by the Company; and
6. the payments below being settled prior to the submission of application for the Industrial and Commercial Transfer Registration:
 - a. the Target Company repaying to the Vendor the current accounts as at 31 March 2021 in the amount of RMB272,472,178.13 (equivalent to approximately HK\$324,372,000) (the “**Current Accounts-Adjusted**”); and
 - b. the Target Company distributing to the Vendor a bonus dividend as at 31 March 2021 in the amount of RMB35,056,406.81 (equivalent to approximately HK\$41,734,000) (the “**Bonus Dividend**”).

“Current Accounts-Adjusted” refers to the amount by deducting the payables to the Target Company of RMB33,348,956.87 from the amount due to the Vendor of RMB305,821,135 as at 31 March 2021.

For ease of reference, the sum of the Current Accounts-Adjusted and the Bonus Dividend amounts to approximately RMB307,529,000, which equals the difference between amount due to an immediately holding company as at 31 March 2021 of approximately RMB316,848,000 and the amount due from the ultimate holding company as at 31 March 2021 of approximately RMB9,318,000 (the difference of approximately RMB1,000 is due to rounding).

If the Target Company fails to pay to the Vendor the Current Accounts-Adjusted and/or the Bonus Dividend on or before 3 business days after the extraordinary general meeting to be convened by the Company as mentioned in condition 2

LETTER FROM THE BOARD

above, the Purchaser shall (i) advance as loan to the Target Company a sum equal to the Current Accounts-Adjusted and the Bonus Dividend and the Target Company shall use the sum advanced by the Purchaser to pay the Vendor the amounts set out in conditions 6(a) and (b) above; or (ii) settle/pay the Current Accounts-Adjusted on behalf of the Target Company.

The Bonus Dividend has been declared and will be paid out of the retained earnings of the Target Company with reference to the Target Company's performance from 1 July 2020 to 31 March 2021. The Target Company had declared bonus dividend to the Vendor and Henan Diyi Textile Company Limited* (河南第一紡織有限公司) for the financial year ended 30 June 2020 and the nine months ended 31 March 2021 respectively according to their respective shareholding in the Target Company.

Within 3 business days after the fulfilment of conditions 1 to 5 above, the Vendor and the Purchaser will attend to the Industrial and Commercial Transfer Registration with the relevant industrial and commercial administration bureau.

None of the conditions above are waivable.

Each of the Vendor and the Purchaser has undertaken, and procure to fulfill the above conditions 1 to 5 on the best effort basis on or before the Long Stop Date (or such other dates as agreed by the Vendor and the Purchaser).

If (i) the above conditions 1 to 5 are not fulfilled on or before the Long Stop Date; (ii) the amounts in condition 6 are not paid by the Target Company or the Purchaser on or before the stipulated timeframe; or (iii) the Industrial and Commercial Transfer Registration is not completed within 60 days (or such other days as the parties agree) after the fulfilment of conditions 1 to 5 above, the Sale and Purchase Agreement will be automatically terminated and become invalid. Upon the termination, both parties will have no rights and obligations under the Sale and Purchase Agreement, save for any rights on breach which occurred before the termination.

LETTER FROM THE BOARD

Completion

Completion will take place on the date when the Industrial and Commercial Transfer Registration is completed.

Upon Completion, the Target Company will cease to be an indirect non-wholly-owned subsidiary of the Company, and the financial results of the Target Company will no longer be consolidated into the consolidated financial statements of the Group.

Following Completion, the Group will, through the Lessee, continue to carry on the business of operation and management of (i) the Jiachao's Shopping Mall as a result of the Lease Contract Jiachao's becoming effective; and (ii) the Zone C Shopping Mall as a result of the Lease Contract Zone C becoming effective. Please refer to the sections headed "Information on the Target Company and the Jiachao's Shopping Mall", "Lease Contract Zone C" and "Information on the Zone C Shopping Mall" of this letter for further details.

INFORMATION ON THE TARGET COMPANY AND THE JIACHAO'S SHOPPING MALL

The Target Company

The Target Company is a company registered in the PRC with limited liability and is owned as to 75% by the Vendor and as to 25% by 河南第一紡織有限公司 (Henan Diyi Textile Company Limited*), which is also holding 25% equity interests in the Lessee and is a connected person at subsidiary level to the Group. The Target Company is principally engaged in property investment and its major asset is the Jiachao's Shopping Mall. The Group acquired 75% interests in the Target Company as announced by the Company's announcement dated 18 December 2014 at a cash consideration of RMB591,660,000 (equivalent to approximately HK\$748,937,000 at the time of such acquisition). Completion of such acquisition took place in 2015.

The Target Company also leases shop units in the Zone C Shopping Mall, which is adjacent to the Jiachao's Shopping Mall, from the Lessor Zone C to expand its property operating business pursuant to the Existing Lease Contract Zone C. The Existing Lease Contract Zone C will expire on 31 December 2021, subject to renewal or termination.

Please refer to the section headed "Information on the Zone C Shopping Mall" of this letter for further information on the Zone C Shopping Mall.

LETTER FROM THE BOARD

Set out below is the financial summary of the Target Company for the years ended 30 June 2019 and 2020 and the nine months ended 31 March 2021:

| | For the nine months ended 31 March 2021 HK\$'000 (unaudited) | For the year ended 30 June 2020 HK\$'000 (unaudited) | 2019 HK\$'000 (unaudited) |
|--|---|---|--|
| Revenue | 143,329 | 159,547 | 207,751 |
| Decrease in fair value of investment properties | (1,147,619) | (77,778) | (19,540) |
| (Loss)/profit before taxation | (1,102,782)* | (41,079)* | 98,541 |
| (Loss)/profit after taxation | (820,940)* | (18,583)* | 82,057 |

The unaudited net assets value of the Target Company as at 31 March 2021 was approximately HK\$650,113,000.

* The above losses before and after taxation for the financial year ended 30 June 2020 and the nine months ended 31 March 2021 respectively were attributable to the fair value loss on the Jiachao's Shopping Mall. Please refer to the sub-paragraph headed "The Target Company has been loss-making due to fair value loss on the Jiachao's Shopping Mall" under the paragraph headed "Reasons for and benefits of the Transactions and use of proceeds" for further details.

The Jiachao's Shopping Mall

The Jiachao's Shopping Mall is a shopping mall located at No. 36 Mianfang West Road, Zhongyuan District, Zhengzhou City, Henan Province, the PRC and is the major asset of the Target Company.

The Jiachao's Shopping Mall comprises the whole of a 4-storey shopping mall built over one level of basement commercial space and has a total registered gross floor area of approximately 125,188.32 square meters. As at 31 March 2021, approximately 99.8% of the leasable area of the Jiachao's Shopping Mall had been leased out to retail shops, restaurants and/or for entertainment and leisure use. The Jiachao's Shopping Mall is a one-stop shopping paradise offering a wide range of services and goods to consumers and shoppers with 152 tenants including a renowned department store, a cinema, a supermarket, KTV (a karaoke box), beauty shops, electrical appliances shops, international labels for fashion, lifestyle, casual wear/sport, kid's paradise and restaurants. Certain area of the Jiachao's Shopping Mall was rented to tenants on short-term leases for use including kiosks and booths of trendy and stylish items.

LETTER FROM THE BOARD

As extracted from Appendix IV to this circular, the market valuation of the Jiachao's Shopping Mall (with the assumed existence of the Lease Contract Jiachao's) as appraised by an independent valuer as at 31 March 2021 was approximately RMB1,436,000,000 (equivalent to approximately HK\$1,709,524,000) based on income capitalisation method. When assessing the Jiachao's Shopping Mall, the Valuer adopted (i) a capitalisation rate of 4.5%, which is derived from open market value per sq.m. and monthly open market rental per sq.m.; and (ii) a monthly open market rental of RMB152.2 per sq.m. which is derived from comparables asking/letting evidences in the locality.

The Directors are aware of the difference in market value of the Jiachao's Shopping Mall (to be disposed of by the Group) of approximately RMB1,436,000,000 as at 31 March 2021 and the market value of the Jiaochao's Shopping Mall (to be leased by the Group) of approximately RMB1,107,000,000 as at 31 March 2021. Such difference is due to difference in assumptions adopted in deriving the market value of the Jiachao's Shopping Mall (to be disposed of by the Group) and the market value of the Jiaochao's Shopping Mall (to be leased by the Group) as illustrated in page IV-11 of this circular.

The Directors consider the assumptions adopted to arrive at the market value of the Jiachao's Shopping Mall (to be disposed of by the Group) and the market value of the Jiaochao's Shopping Mall (to be leased by the Group) are fair and reasonable.

Set out below is the unaudited statement of profit or loss on the identifiable net income stream of the Jiachao's Shopping Mall for the years ended 30 June 2019 and 2020 and the nine months ended 31 March 2021:

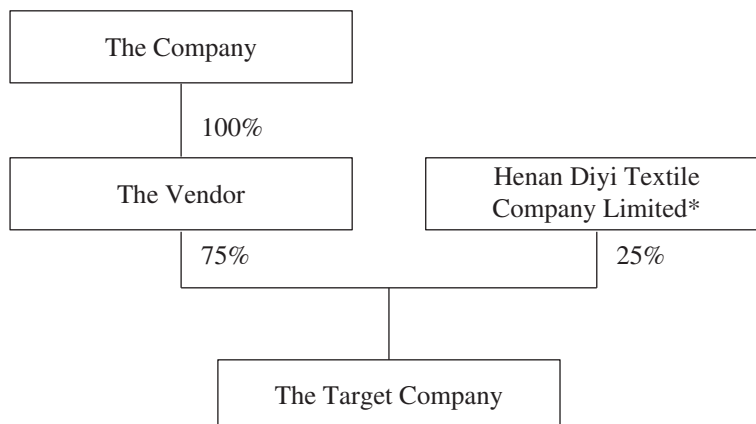
| | For the nine months ended 31 March 2021 HK\$'000 (Unaudited) | For the year ended 30 June 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
|-------------------------------|---|---|--|
| Revenue | 94,362 | 105,423 | 148,351 |
| (Loss)/profit before taxation | (1,112,082)* | (56,423)* | 77,004 |
| (Loss)/profit after taxation | (827,915)* | (30,091)* | 65,904 |

* The above losses before and after taxation for the financial year ended 30 June 2020 and the nine months ended 31 March 2021 respectively were attributable to the fair value loss on the Jiachao's Shopping Mall. Please refer to the sub-paragraph headed "The Target Company has been loss-making due to fair value loss on the Jiachao's Shopping Mall" under the paragraph headed "Reasons for and benefits of the Transactions and use of proceeds" for further details.

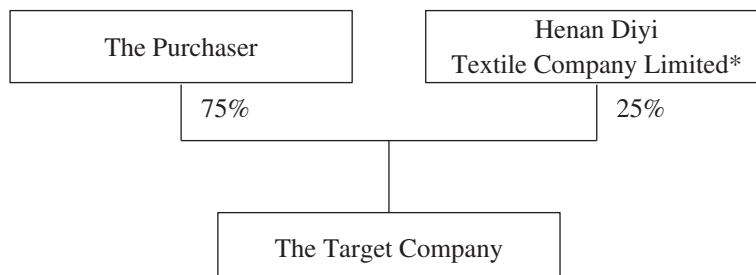
LETTER FROM THE BOARD

Shareholding structure of the Target Company

Set forth below is the simplified group chart of the Target Company as at the Latest Practicable Date:



Set forth below is the simplified group chart of the Target Company immediately upon Completion:



LEASE CONTRACT JIACHAO'S

Date

26 April 2021 (after trading hours)

Parties

Lessor Jiachao's (as the lessor)

Lessee (as the lessee)

LETTER FROM THE BOARD

Lessor Jiachao's (i.e. the Target Company) is an indirect non-wholly-owned subsidiary of the Company prior to the Completion. To the best of the Directors' knowledge, information and belief having made all reasonable enquires, following Completion, the Lessor Jiachao's and its ultimate beneficial owners will be third parties independent of the Company and its connected persons.

Property

The Jiachao's Shopping Mall

Lease term

15 years commencing from a lease start date mutually agreed by the Lessor Jiachao's and the Lessee after the effective date of the Lease Contract Jiachao's.

The existing intra-group Existing Lease Contract Jiachao's between the Lessor Jiachao's and the Lessee will be terminated on the aforesaid lease start date.

Rental payment

There is no rent-free period.

The monthly rent unit price of the Jiachao's Shopping Mall will start at RMB28 per square meter (value-added tax inclusive), and the monthly rent unit price will be increased by 5% every 2 rental years. The rental payment schedule is as follows:

| Rental year | Rental area (square meters) | Monthly rent unit price (RMB per square meter) | Monthly rent (RMB) | Aggregate rent (RMB) |
|--------------|--------------------------------|---|-----------------------|------------------------------|
| 1, 2 | 125,188.32 | 28.00 | 3,505,272.96 | 84,126,551.04 |
| 3, 4 | | 29.40 | 3,680,536.61 | 88,332,878.64 |
| 5, 6 | | 30.87 | 3,864,563.44 | 92,749,522.56 |
| 7, 8 | | 32.41 | 4,057,353.45 | 97,376,482.80 |
| 9, 10 | | 34.03 | 4,260,158.53 | 102,243,804.72 |
| 11, 12 | | 35.73 | 4,472,978.67 | 107,351,488.08 |
| 13, 14 | | 37.52 | 4,697,065.77 | 112,729,578.48 |
| 15 | | 39.40 | 4,932,419.81 | <u>59,189,037.72</u> |
| Total | | | | <u>744,099,344.04</u> |

LETTER FROM THE BOARD

The monthly rent unit price increment of 5% every 2 rental years was determined after arm's length negotiation among the Purchaser, the Lessor Jiachao's and the Lessee with reference to (i) as announced by the National Bureau of Statistics, in the first quarter of year 2021, the national consumption expenditure per capita in the PRC represented a nominal increase of 17.6% over the same period of the previous year (source: http://www.stats.gov.cn/tjsj/zxfb/202104/t20210416_1816309.html); (ii) as announced by the National Bureau of Statistics, in the first quarter of year 2021, the national disposable income per capita in the PRC represented a nominal increase of 13.7% over the same period of the previous year (source: http://www.stats.gov.cn/tjsj/zxfb/202104/t20210416_1816309.html); (iii) the PRC government's forecasted gross domestic product growth of over 6% in 2021 (source: <https://finance.sina.com.cn/china/2021-03-08/doc-iknscsh9057068.shtml>); (iv) according to data whose source is the World Bank, the historical inflation rate in the PRC of approximately 2.07% and 2.90% in the years 2018 and 2019 respectively (source: <https://www.macrotrends.net/countries/CHN/china/inflation-rate-cpi>); and (v) the Group's property operating business on the Zone C Shopping Mall has been profitable since the entering into of the Existing Lease Contract Zone C in August 2015, while the latest monthly rent unit price of the Zone C Shopping Mall is RMB28 per square meter for the year 2021, representing a compounded annual growth rate of approximately 7% from the monthly rent unit price of RMB20 per square meter for the year 2016.

Based on the above, the Directors considered the monthly rent unit price increment of 5% every 2 rental years is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Deposit

Within 10 business days from the effective date of the Lease Contract Jiachao's, the Lessee will pay to the Lessor Jiachao's a deposit of RMB148,820,000 (equivalent to approximately HK\$177,167,000), being 20% of the aggregate rent throughout the whole rental period. The deposit will be applied to settle the rental payment of the 14th rental year and 15th rental year, and the remainder will be refunded to the Lessee accordingly upon the expiry of the Lease Contract Jiachao's.

According to industry practice, the rental deposit will not be applied to settle rental payment. Instead, the rental deposit will be refunded to lessee by the lessor upon maturity/termination of a lease contract. Accordingly, the Directors consider that the above arrangement of rental deposit is fair and reasonable to the Group.

Usage

Shopping mall leasing, operation and management by the Lessee.

LETTER FROM THE BOARD

Conditions precedent to the Lease Contract Jiachao's

Following the Lessor Jiachao's and the Lessee having duly signed and executed the Lease Contract Jiachao's, the Lease Contract Jiachao's will become effective subject to the following conditions:

1. the Lease Contract Jiachao's and the transactions contemplated thereunder being approved by the Shareholders in an extraordinary general meeting of the Company; and
2. the Industrial and Commercial Transfer Registration having completed.

Effective date of the Lease Contract Jiachao's

Subject to fulfilment of the conditions precedent to the Lease Contract Jiachao's, the effective date of the Lease Contract Jiachao's is the date Industrial and Commercial Transfer Registration has been completed, i.e. the date of Completion.

Termination

The Lease Contract Jiachao's can be terminated upon mutual agreement of the Lessee and the Lessor Jiachao's.

In the event the Lessee considers that the Jiachao's Shopping Mall does not generate the economic results reasonably anticipated by the Lessee, the Lessee has the right to terminate the Lease Contract Jiachao's, and upon such termination, the Lessee shall pay to the Lessor Jiachao's 20% of the rental payment for the remaining rental period under the Lease Contract Jiachao's.

According to industry practice, in the event a lessee wishes to terminate a lease contract, such lessee is obliged to pay to the lessor a compensation of the rental payment for the whole remaining rental period underlying such lease contract. Accordingly, the Directors consider that a compensation of 20% of the rental payment for the remaining rental period is fair and reasonable to the Group.

LEASE CONTRACT ZONE C

Date

26 April 2021 (after trading hours)

Parties

Lessor Zone C (as the lessor)

Lessee (as the lessee)

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief having made all reasonable enquires, the Lessor Zone C and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Property

The Zone C Shopping Mall

Lease term

15 years commencing from a lease start date mutually agreed by the Lessor Zone C and the Lessee after the effective date of the Lease Contract Zone C.

The Existing Lease Contract Zone C between the Lessor Zone C and the Lessee will be terminated on the aforesaid lease start date.

Rental payment

There is no rent-free period.

The monthly rent unit price of the Zone C Shopping Mall will start at RMB28 per square meter (value-added tax inclusive), and the monthly rent unit price will be increased by 5% every 2 rental years. The rental payment schedule is as follows:

| Rental year | Rental area (square meters) | Monthly rent unit price (RMB per square meter) | Monthly rent (RMB) | Aggregate rent (RMB) |
|--------------|--------------------------------|---|-----------------------|------------------------------|
| 1, 2 | 80,117.99 | 28.00 | 2,243,303.72 | 53,839,289.28 |
| 3, 4 | | 29.40 | 2,355,468.91 | 56,531,253.84 |
| 5, 6 | | 30.87 | 2,473,242.35 | 59,357,816.40 |
| 7, 8 | | 32.41 | 2,596,624.06 | 62,318,977.44 |
| 9, 10 | | 34.03 | 2,726,415.20 | 65,433,964.80 |
| 11, 12 | | 35.73 | 2,862,615.78 | 68,702,778.72 |
| 13, 14 | | 37.52 | 3,006,026.98 | 72,144,647.52 |
| 15 | | 39.40 | 3,156,648.81 | <u>37,879,785.72</u> |
| Total | | | | <u>476,208,513.72</u> |

Pursuant to the Existing Lease Contract Zone C, the monthly rent unit price amounted to RMB28 per square meter for the period from 1 January 2021 to 31 December 2021, and the monthly rent amounted to RMB2,243,303.72 calculated based on the rental area of the Zone C Shopping Mall of 80,117.99 square meters.

LETTER FROM THE BOARD

The monthly rent unit price increment of 5% every 2 rental years was determined after arm's length negotiation among the Lessor Zone C and the Lessee with reference to (i) as announced by the National Bureau of Statistics, in the first quarter of year 2021, the national consumption expenditure per capita in the PRC represented a nominal increase of 17.6% over the same period of the previous year (*source: http://www.stats.gov.cn/tjsj/zxfb/202104/t20210416_1816309.html*); (ii) as announced by the National Bureau of Statistics, in the first quarter of year 2021, the national disposable income per capita in the PRC represented a nominal increase of 13.7% over the same period of the previous year (*source: http://www.stats.gov.cn/tjsj/zxfb/202104/t20210416_1816309.html*); (iii) the PRC government's forecasted gross domestic product growth of over 6% in 2021 (*source: <https://finance.sina.com.cn/china/2021-03-08/doc-ikknscsh9057068.shtml>*); (iv) according to data whose source is the World Bank, the historical inflation rate in the PRC of approximately 2.07% and 2.90% in the years 2018 and 2019 respectively (*source: <https://www.macrotrends.net/countries/CHN/china/inflation-rate-cpi>*); and (v) the Group's property operating business on the Zone C Shopping Mall has been profitable since the entering into of the Existing Lease Contract Zone C in August 2015, while the latest monthly rent unit price of the Zone C Shopping Mall is RMB28 per square meter for the year 2021, representing a compounded annual growth rate of approximately 7% from the monthly rent unit price of RMB20 per square meter for the year 2016.

Based on the above, the Directors considered the monthly rent unit price increment of 5% every 2 rental years is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Deposit

Within 10 business days from the effective date of the Lease Contract Zone C, the Lessee will pay to the Lessor Zone C a deposit of RMB95,242,000 (equivalent to approximately HK\$113,383,000), being 20% of the aggregate rent throughout the whole rental period. The deposit will be applied to settle the rental payment of the 14th rental year and 15th rental year, and the remainder will be refunded to the Lessee accordingly upon the expiry of the Lease Contract Zone C.

According to industry practice, the rental deposit will not be applied to settle rental payment. Instead, the rental deposit will be refunded to lessee by the lessor upon maturity/termination of a lease contract. Accordingly, the Directors consider that the above arrangement of rental deposit is fair and reasonable to the Group.

LETTER FROM THE BOARD

Usage

Shopping mall leasing, operation and management by the Lessee.

Conditions precedent to the Lease Contract Zone C

Following the Lessor Zone C and the Lessee having duly signed and executed the Lease Contract Zone C, the Lease Contract Zone C will become effective subject to the Lease Contract Zone C and the transactions contemplated thereunder being approved by the Shareholders in an extraordinary general meeting of the Company.

Effective date of the Lease Contract Zone C

The effective date of the Lease Contract Zone C is the date on which the Lease Contract Zone C and the transactions contemplated thereunder being approved by the Shareholders in an extraordinary general meeting of the Company.

Termination

The Lease Contract Zone C can be terminated upon mutual agreement of the Lessee and the Lessor Zone C.

In the event the Lessee considers that the Zone C Shopping Mall does not generate the economic results reasonably anticipated by the Lessee, the Lessee has the right to terminate the Lease Contract Zone C, and upon such termination, the Lessee shall pay to the Lessor Zone C 20% of the rental payment for the remaining rental period under the Lease Contract Zone C.

According to industry practice, in the event a lessee wishes to terminate a lease contract, such lessee is obliged to pay to the lessor a compensation of the rental payment for the whole remaining rental period underlying such lease contract. Accordingly, the Directors consider that a compensation of 20% of the rental payment for the remaining rental period is fair and reasonable to the Group.

LETTER FROM THE BOARD

INFORMATION ON THE ZONE C SHOPPING MALL

The Zone C Shopping Mall is a shopping mall located at No. 40 Mianfang West Road, Zhongyuan District, Zhengzhou City, Henan Province, the PRC and adjacent to the Jiachao's Shopping Mall.

The Zone C Shopping Mall is currently being leased by the Target Company from the Lessor Zone C pursuant to the Existing Lease Contract Zone C. The Existing Lease Contract Zone C will expire on 31 December 2021, subject to renewal or termination. The Existing Lease Contract Zone C will be terminated upon the Lease Contract Zone C becoming effective.

The Target Company promoted and further rented out the Zone C Shopping Mall to independent tenants. The Target Company has an advantage of having an existing team of high-caliber and experienced management and staff to run the Zone C Shopping Mall. As such, the extra costs for running the Zone C Shopping Mall are minimal to the Target Company while it is earning considerable amount of incomes from renting out the Zone C Shopping Mall to tenants. The Board believes that the larger the area for shopping, the more the number of similar types of shops opened, which may in turn attract more customers by offering them a large diversity of and well-known brand choices. The combined management of both the Jiachao's Shopping Mall and the Zone C Shopping Mall by the Target Company currently and the Lessee upon Completion will bring positive benefits and synergy effects on the customer flow and the tenant profile to the Group, which are expected to eventually contribute to the revenue and profit margin of the property operating business of the Group. As at 31 March 2021, approximately 99.4% of the leasable area of the Zone C Shopping Mall had been leased out as retail shops, restaurants and/or for entertainment and leisure uses which offers a wide range of services and goods with over 113 tenants including a cinema, an aquarium, jewelries, beauty shops, international labels for fashion, fitness, lifestyle, casual wear/sport, kid's paradise and restaurants. Certain area of the Zone C Shopping Mall was rented to tenants on short-term leases for use including kiosks and booths of trendy and stylish items.

As extracted from Appendix IV to this circular, the market valuation of the Zone C Shopping Mall during the lease period covered by the Lease Contract Zone C as appraised by an independent valuer as at 31 March 2021 is approximately RMB927,000,000 (equivalent to approximately HK\$1,103,571,000) based on income capitalisation method. When assessing the Zone C Shopping Mall, the Valuer adopted (i) a capitalisation rate of 4.5%, which is derived from open market value per sq.m. and monthly open market rental per sq.m.; and (ii) a monthly open market rental of RMB152.2 per sq.m. which is derived from comparables asking/letting evidences in the locality. The Directors consider the assumptions adopted to arrive at the market value of the Zone C Shopping Mall are fair and reasonable.

LETTER FROM THE BOARD

Set out below is the unaudited statement of profit or loss on the identifiable net income stream of the Zone C Shopping Mall for the years ended 30 June 2019 and 2020 and the nine months ended 31 March 2021:

| | For the nine months ended 31 March 2021 | For the year ended 30 June 2020 | 2019 |
|------------------------|--|--|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Unaudited) | (Unaudited) |
| Revenue | 48,967 | 54,124 | 59,400 |
| Profit before taxation | 9,300 | 15,344 | 21,537 |
| Profit after taxation | 6,975 | 11,508 | 16,153 |

REASONS FOR AND BENEFITS OF THE TRANSACTIONS AND USE OF PROCEEDS

The Group is principally engaged in property operating business and biotechnology business, which is a newly-introduced segment to be further developed.

An existing team of high-caliber and experienced management and staff in property operating business

The Group has the advantage of having an existing team of high-caliber and experienced management and staff in property operating business. The Group's property operating business is led by the General Manager, a senior commercial real estate management staff who possesses 25 years' experience in commercial enterprise management and full-scale commercial operation, commercial real estate development, planning and operation and investment promotion capabilities, and has successful cases of large-scale comprehensive commercial projects with aggregate leasable area of approximately two million square meters in the PRC. There are in total 138 staff in the Group's property operating business, 28 of which has over 10 years of property operating and management business experience in the PRC. Since the completion of acquisition of the Target Company in 2015, the Group's property operating department managed to achieve occupancy rate of over 98%. As at 31 March 2021, there were 152 tenants in the Jiachao's Shopping Mall, and the vacant units accounted for only approximately 0.2% of the leasable area. As at 31 March 2021, there were 113 tenants in the Zone C Shopping Mall, and the vacant units accounted for approximately 0.6% of the leasable area. In view of the outstanding performance of the existing team in property operating business, the Group, in addition to operating its self-owned Jiachao's Shopping Mall, has entered into the Existing Lease Contract Zone C with the Lessor Zone C and is currently running and operating the Zone C Shopping Mall adjacent to the Jiachao's Shopping Mall. The Group is able to generate income from the provision of rental, management and operating services to tenants of the Zone C Shopping Mall with minimal incremental cost.

LETTER FROM THE BOARD

The Target Company has been loss-making due to fair value loss on the Jiachao's Shopping Mall

The Jiachao's Shopping Mall is the major asset of the Target Company.

As disclosed above, the Target Company turned around from a profit making position for the year ended 30 June 2019 to a loss making position for the year ended 30 June 2020, and the Target Company recorded an unaudited loss of approximately HK\$274,096,000 for the six months ended 31 December 2020. The Target Company's loss for the year ended 30 June 2020 and the six months ended 31 December 2020 were principally attributable to the decrease in fair value of investment property, i.e. the Jiachao's Shopping Mall. Despite that investment properties will be recognised on the financial statements of the Group pursuant to the Lease Contract Jiachao's and the Lease Contract Zone C in accordance with HKAS 40 – Investment Properties, the possible fair value fluctuation of investment property (the magnitude of which is (i) dependent on, among other things, market rental price of comparable properties and existing rental price and (ii) multiplied by the length of outstanding lease term) is expected to be much smaller in magnitude as the lease term pursuant to the Lease Contract Jiachao's and the Lease Contract Zone C is 15 years, while currently the magnitude of fair value fluctuation of investment property is (i) dependent on, among other things, market rental price of comparable properties and existing rental price and (ii) multiplied by the remaining term of the land use right of the Jiachao's Shopping Mall currently owned by the Target Company, which will expire in 31 years in the year 2052. Therefore, the Board expects that the Disposal of the Jiachao's Shopping Mall will mitigate the Group's exposure on such significant fair value decrease going forward. For illustrative purpose only, if the fair value loss on investment property, i.e. the Jiachao's Shopping Mall is excluded, the Group will record adjusted unaudited profit before taxation for the year ended 30 June 2020 and the six months ended 31 December 2020 of approximately HK\$19,569,000 and HK\$17,117,000, respectively. In respect of cash flow, following Completion and receipt of the Consideration of RMB429,540,000, in addition to pre-payment of the first year's rent approximately RMB42,063,000 and a 20% deposit of the total rent of RMB148,820,000 pursuant to the Lease Contract Jiachao's, the Group's cash outflow would be the quarterly rent payments starting from the second rental year. Rental income will be collected from tenants as it currently does. Following Completion, the Group has no outstanding loans or borrowings and therefore there will be no interest expenses for the Group.

LETTER FROM THE BOARD

A shift of business focus and resources to asset-light and service-oriented property operator

During the year ended 30 June 2015, the Group completed the acquisition of 75% equity interests in the Target Company in order for the Group to penetrate into the property operating markets. During the year ended 30 June 2016, the Group discontinued and disposed of the non-performing textile product business and determined to focus its resources into the property operating business.

The summary financial results of the Group for the financial years ended 30 June 2016, 2017, 2018, 2019 and 2020 and the six months ended 31 December 2020 are as follows:

| | For the six months ended 31 December | | For the year ended 30 June | | | |
|---------------------------------------|---|-----------|----------------------------|-----------|-----------|-----------|
| | 2020 | 2020 | 2019 | 2018 | 2017 | 2016 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (unaudited) | (audited) | (audited) | (audited) | (audited) | (audited) |
| Revenue | 92,000 | 159,547 | 211,818 | 199,219 | 185,422 | 164,160 |
| (Loss)/profit for the year/ period | (288,519) | (35,713) | 76,439 | 112,195 | 126,563 | 500,487 |

As disclosed above, the Group's property operating business has been satisfactory. However, the Group turned around to a loss making position during the year ended 30 June 2020 and the six months ended 31 December 2020 due to, among other things, (i) a temporary reduction of rental, management and operating service charges to more than 280 tenants (including tenants of the short-term leases) of the Jiachao's Shopping Mall and the Zone C Shopping Mall on different bases for the period from January to September 2020 with an aggregated amount of approximately HK\$18,386,000 as a result of the COVID-19 pandemic; and (ii) significant decrease in fair value of the Group's investment properties, i.e. the Jiachao's Shopping Mall, of approximately HK\$77,778,000 and HK\$403,000,000 during the year ended 30 June 2020 and the six months ended 31 December 2020, respectively as a result of the aforementioned situation.

LETTER FROM THE BOARD

As disclosed in the interim report of the Group for the six months ended 31 December 2020, during such period, the Company planned to streamline the Group's businesses by segregating the property holding business and property operating business of the Target Company. The Group has therefore, with the Target Company's minority shareholder in the same shareholding proportion as in the Target Company, established the Lessee in the PRC with the Company indirectly owning a 75% interests in the Lessee. Accordingly, the Lessee is engaged in the property operating business while the Target Company is engaged in property holding business as facilitated by the Existing Lease Contract Jiachao's. All benefits and costs associated with the tenancy agreements between the Target Company and tenants were transferred to the Lessee since 1 April 2021. As at the Latest Practicable Date, 92% of existing tenants of the Jiachao's Shopping Mall's tenancy agreements have been transferred, by way of tri-party agreement, from the Target Company to the Lessee, while 88% of existing tenants of the Zone C Shopping Mall's tenancy agreements, by way of tri-party agreement have been transferred from the Target Company to the Lessee. All remaining current tenants of the Target Company would be transferred to the Lessee and such transfer is expected to complete prior to the Completion. The Target Company and the Lessee agreed that all benefits and costs associated with these tenancy agreements have been transferred by the Target Company to the Lessee since 1 April 2021. All property operating staff's employment contracts were successfully transferred from the Target Company to the Lessee on 1 April 2021.

The Group currently operates the Jiachao's Shopping Mall and the Zone C Shopping Mall and its services includes (i) advertising to, attracting and negotiating with potential new tenants of famous brands; (ii) managing the strategic tenant mix portfolio and maintaining relationship with the tenants; (iii) addressing tenants' requests in a timely manner; (iv) shopping mall cleaning, repair and maintenance and security services; and (v) organising periodic promotion events to attract visitors to the shopping malls and increase visitor flows and revenue of the tenants. As to the Jiachao's Shopping Mall, the Group's revenue is derived from the monthly rent and management fees collected from tenants as well as profit sharing from certain tenants in accordance with the respective tenancy agreements, while the cost structure of the Group includes mainly human resources. As to the Zone C Shopping Mall, the Group's revenue is derived from the monthly rent and management fees collected from tenants as well as profit sharing from certain tenants in accordance with the respective tenancy agreements, while the cost structure of the Group includes mainly rental expense pursuant to the Existing Lease Contract Zone C and human resources.

Following Completion, the Group's revenue in respect of both the Jiachao's Shopping Mall and the Zone C Shopping Mall will be derived from the monthly rent and management fees collected from tenants as well as profit sharing from certain tenants in accordance with the respective tenancy agreements, while the cost structure of the Group includes mainly rental expense pursuant to the Lease Contract Jiachao's and the Lease Contract Zone C and human resources.

LETTER FROM THE BOARD

As illustrated above, the daily business operation of the Group would remain substantially unchanged prior to and after Completion, and the major difference in the business model of the Group is that prior to Completion, the Group owns the legal title of the Jiachao's Shopping Mall through its equity interests in the Target Company, while the Group will no longer own the legal title of the Jiachao's Shopping Mall immediately upon and after Completion. The Group will operate on light assets and the cost structure will be changed to include rental expenses pursuant to the Lease Contract Jiachao's. With the existing tenants of the Jiachao's Shopping Mall's tenancy agreements have been and will be transferred to the Group before Completion and the scale of properties on which the Group operates is the same before and after Completion, the Directors do not anticipate a substantial change in the business and operation scale of the Group after Completion.

According to the unaudited pro forma financial information of the Remaining Group as illustrated in Appendix III to this circular, (i) assuming that Completion took place on 1 July 2019, the unaudited pro forma consolidated revenue for the year ended 30 June 2020 remained approximately HK\$159,547,000 due to no substantial change in the business and operation scale of the Remaining Group before and after Completion as discussed above, and the unaudited pro forma consolidated profit/loss before taxation of the Remaining Group for the year ended 30 June 2020 would be improved from a loss before taxation of approximately HK\$58,209,000 to a profit before taxation of approximately HK\$611,384,000; and (ii) assuming that Completion took place on 31 December 2020, the unaudited pro forma consolidated equity attributable to owners of the Remaining Group as at 31 December 2020 amounted to approximately HK\$1,275,515,000; while the Remaining Group will have rights-of-use assets, rental deposits, investment properties and bank balances and cash of approximately HK\$6,780,000, HK\$177,934,000, HK\$1,757,313,000, HK\$530,620,000 out of the total assets of the Group of approximately HK\$2,504,096,000.

As confirmed by the Directors in the Appendix I to this circular, taking into account the Transactions, the Remaining Group's internal resources, the presently confirmed available banking facilities and in the absence of unforeseen circumstances, the Remaining Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

Based on the information currently available including but not limited to business model, business operation scale, working capital and property valuation, the Directors believe that following Completion, the Remaining Group's property operating business will meet the requirements of Rule 13.24 of the Listing Rules in respect of sufficiency of operations and assets.

LETTER FROM THE BOARD

In view of (i) the strong consumption power of the PRC citizens as announced by the National Bureau of Statistics and discussed above; (ii) the Group's familiarity with the Jiachao's Shopping Mall and the Zone C Shopping Mall since its acquisition of the Target Company and entering into of the Existing Lease Contract Zone C in 2015; (iii) the historical low vacancy rate of the Jiachao's Shopping Mall and the Zone C Shopping Mall, both being managed by the Group's existing team of high-caliber and experienced management and staff in property operating business as discussed in the paragraph headed "An existing team of high-caliber and experienced management and staff in property operating business" above; and (iv) the determination of the Group to shift its business focus and resources to asset-light and service-oriented property operator, the entering into of the Lease Contract Jiachao's and the Lease Contract Zone C with a lease term of 15 years secures the Group's continued use of such quality assets which the Group is familiar with to carry on its property operating business and is considered by the Directors to be favorable to the Group and the Shareholders.

Having considered (i) the outstanding performance of the Group's existing team of high-caliber and experienced management and staff in property operating business; (ii) the successful property operating business of managing the Zone C Shopping Mall (which is leased to and not owned by the Group); (iii) the significant adverse impact on financial results of the Group as a whole for the year ended 30 June 2020 and the six months ended 31 December 2020 as a result from significant decrease in fair value of investment property, i.e. the Jiachao's Shopping Mall, the Board considers the Transactions would allow the Group to (i) continue to carry on the business of operation and management of the Jiachao's Shopping Mall after Completion as a result of the Lease Contract Jiachao's becoming effective; (ii) reposition the Group from an asset-heavy property holding business to an asset-light service-oriented business which would mitigate the Group's exposure on such significant fair value decrease going forward, with the proceeds from the Disposal to be applied in the manner as described below; (iii) utilise the Group's core strength in property operating to the fullest extent; and (iv) secure long term continuity of the Group's operations as a property operator by way of the Lease Contract Jiachao's and the Lease Contract Zone C with long 15 year term.

Use of proceeds from the Disposal

The proceeds generated from the Disposal will be used as to (i) RMB244,062,000 (equivalent to approximately HK\$290,550,000) to settle the deposits pursuant to the Lease Contract Jiachao's and the Lease Contract Zone C; (ii) approximately RMB68,984,000 (equivalent to approximately HK\$82,124,000) to settle the rent prepayment of first rental year of the Jiachao's Shopping Mall and the Zone C Shopping Mall; and (iii) the remainder of approximately RMB116,494,000 (equivalent to approximately HK\$138,683,000) will be applied to finance the exploring/acquisitions of suitable shopping malls/properties and/or as general working capital of the Group.

LETTER FROM THE BOARD

Following Completion, the Group will continue to deploy its resources on the property operating business including but not limited to (i) recruit more candidates with high-caliber and experience in property operating business; (ii) explore suitable shopping malls/properties of similar size and scale to the Jiachao's Shopping Mall and the Zone C Shopping Mall to expand the Group's property operating portfolio; and (iii) possible merger and acquisition of asset-light property operating business in the PRC so as to strengthen the Group's property operating team and further expand the Group's property management and operating portfolio.

The Group has been paying attention to market information and in search for suitable shopping malls/properties for expanding its property portfolio. As at the Latest Practicable Date, the Group has not identified suitable shopping malls/properties nor was negotiating with potential landlord/shopping mall owners on potential collaboration. There is no defined timeline for the use of proceeds. The proceeds will be applied when and where suitable opportunity arises in the future, and the Company will make an announcement where appropriate.

Having considered the above, the Board considers that the Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE TRANSACTIONS

The Disposal

The Group is expected to recognise an estimated gain of approximately RMB11,574,000 (equivalent to approximately HK\$13,779,000) from the Disposal, which is calculated based on the Consideration, the unaudited net assets value of the Target Company as at 31 March 2021 attributable to the Sale Equity Interests and related costs and expenses associated with the Transactions.

Immediately after Completion, the Target Company will cease to be a non-wholly-owned subsidiary of the Company and the financial results of the Target Company will no longer be consolidated in the Group's consolidated financial statements.

The Group will focus and invest its resources on its property operating business following Completion, and its financial performance will no longer be affected by possible future fluctuations on fair value of investment property which may be significant.

LETTER FROM THE BOARD

The Lease Contract Jiachao's

According to HKFRS 16 – Leases, the Jiachao's Shopping Mall, which will be leased by the Lessee and then subleased to other third parties to earn rental income, will be initially recognised as right-of-use assets included in the financial line item “Investment properties” at cost. Subsequently, the Jiachao's Shopping Mall will be measured at fair value under fair value model in accordance with HKAS 40 – Investment Properties and any change in fair value will be recognised in profit or loss. Such accounting treatment was concurred with the Company's auditor.

By entering into the Lease Contract Jiachao's and sub-letting the shopping mall, the Group's cash balance is expected to decrease due to transfer to the Lessor Jiachao's a deposit of RMB148,820,000 (equivalent to approximately HK\$177,167,000), and the Group is expected to recognise an investment property during the lease period covered by the Lease Contract Jiachao's in the amount of approximately RMB1,107,000,000 (equivalent to approximately HK\$1,317,857,000).

The Lease Contract Zone C

According to HKFRS 16 – Leases, the Zone C Shopping Mall, which will be leased by the Lessee and then subleased to other third parties to earn rental income, will be initially recognised as right-of-use assets included in the financial line item “Investment properties” at cost. Subsequently, the Zone C Shopping Mall will be measured at fair value under fair value model in accordance with HKAS 40 – Investment Properties and any change in fair value will be recognised in profit or loss. Such accounting treatment was concurred with the Company's auditor.

By entering into the Lease Contract Zone C and sub-letting the shopping mall, the Group's cash balance is expected to decrease due to transfer to the Lessor Zone C a deposit of RMB95,240,000 (equivalent to approximately HK\$113,381,000), and the Group is expected to recognise an investment property during the lease period covered by the Lease Contract Zone C in the amount of approximately RMB927,000,000 (equivalent to approximately HK\$1,103,571,000).

Overall effects

Shareholders should note that the financial effects set out above is for illustrative purpose only, which will have to be ascertained at the time of preparation of the Company's consolidated financial statements upon Completion with reference to, among other things, the actual costs and expenses associated with the Transactions, and is subject to audit.

LETTER FROM THE BOARD

INFORMATION ON THE GROUP, THE VENDOR, THE LESSOR JIACHAO'S AND THE LESSEE

The Group

The Company is a company incorporated in the Cayman Islands with limited liability with its securities listed on the Stock Exchange (stock code: 565.hk).

The Group is principally engaged in property operating business and biotechnology business, which is a newly-introduced segment to be further developed.

The Vendor

The Vendor is a company established in the PRC with limited liability and is indirectly wholly-owned by the Company. The principal business activity of the Vendor is investment holding.

The Lessor Jiachao's

Please refer to the paragraph headed "The Target Company" above for further information on the Lessor Jiachao's.

The Lessee

The Lessee is a company established in the PRC with limited liability and is a 75% indirect non-wholly-owned subsidiary the Company. The principal business activity of the Lessee is the provision of rental, management and operating services to tenants of shopping malls.

INFORMATION ON THE PURCHASER

The Purchaser is a company established in the PRC with limited liability. Its entire equity interest is owned by Mr. Chen Jianxiong.

The Purchaser is principally engaged in business investment, investment consulting and property leasing. Mr. Chen Jianxiong is principally engaged in property investment related business.

LETTER FROM THE BOARD

INFORMATION ON THE LESSOR ZONE C

The Lessor Zone C is a company established in the PRC with limited liability. Its entire equity interest is held by Fujian Conghe Investment Co., Ltd.* (福建聰和投資有限公司), which is owned as to 60% by Ms. Wang Ping and as to 40% by Mr. Chen Wenlan.

The Lessor Zone C is principally engaged in property development and management and property leasing.

IMPLICATIONS UNDER THE LISTING RULES

Sale and Purchase Agreement

As one or more of the applicable percentage ratios (as defined in the Listing Rules) exceeds 75% for the Company, the Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Lease Contract Jiachao's

Under HKFRS 16, the entering into of the Lease Contract Jiachao's as a lessee and sub-letting the Jiachao's Shopping Mall will require the Lessee (i.e. the Group) to initially recognise as right-of-use asset at cost of approximately RMB529,638,000 (equivalent to approximately HK\$630,521,000). Subsequently, the Jiachao's Shopping Mall will be measured at fair value model in accordance with HKAS 40 of approximately RMB1,107,000,000 (equivalent to approximately HK\$1,317,857,000) covered by the Lease Contract Jiachao's as an investment property, and thus the entering into of the Lease Contract Jiachao's and the transactions contemplated thereunder will be regarded as a deemed acquisition of asset by the Group.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) of the entering into of the Lease Contract Jiachao's as a deemed acquisition of investment property exceed 100% on an aggregated basis, the entering into of the Lease Contract Jiachao's constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

LETTER FROM THE BOARD

Lease Contract Zone C

Under HKFRS 16, the entering into of the Lease Contract Zone C as a lessee and sub-letting the Zone C Shopping Mall will require the Lessee (i.e. the Group) to initially recognise as right-of-use asset at cost of approximately RMB338,957,000 (equivalent to approximately HK\$403,520,000). Subsequently, the Zone C Shopping Mall will be measured at fair value model in accordance with HKAS 40 of approximately RMB927,000,000 (equivalent to approximately HK\$1,103,571,000) covered by the Lease Contract Zone C as an investment property, and thus the entering into of the Lease Contract Zone C and the transactions contemplated thereunder will be regarded as a deemed acquisition of asset by the Group.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) of the entering into of the Lease Contract Zone C as a deemed acquisition of investment property exceed 100% on an aggregated basis, the entering into of the Lease Contract Zone C constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

EGM

Set out on pages EGM-1 to EGM-4 of this circular is a notice convening the EGM to be held at Unit 1603-1604, 16/F, Causeway Bay Plaza I, 489 Hennessy Road, Causeway Bay, Hong Kong on Friday, 18 June 2021 at 3:20 p.m. at which ordinary resolutions will be proposed to consider and, if thought fit, approve the Transactions. To the best of the knowledge, information and belief of the Board having made all reasonable enquiries, none of the Shareholders has a material interest in any of the Transactions and therefore, no Shareholders will be required to abstain from voting on the resolution(s) to be proposed at the EGM to approve the Transactions.

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

Pursuant to Rule 13.39(4) of the Listing Rules, the resolutions will be voted on by way of poll at the EGM and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

LETTER FROM THE BOARD

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 15 June 2021 to Friday, 18 June 2021 (both days inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 11 June 2021.

RECOMMENDATION

The Board considers that the terms of the Sale and Purchase Agreement, the Lease Contract Jiachao's and the Lease Contract Zone C are fair and reasonable and the entering into of the Sale and Purchase Agreement, the Lease Contract Jiachao's and the Lease Contract Zone C is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors would recommend the Shareholders to vote in favour of a resolution approving the Sale and Purchase Agreement, the Lease Contract Jiachao's and the Lease Contract Zone C and the transactions contemplated thereunder at the EGM.

ADDITIONAL INFORMATION

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

By order of the Board
Art Group Holdings Limited
Chen Jinyan
Chairman

* For identification purpose only

1. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for the years ended 30 June 2018, 2019, 2020 are disclosed on pages 44 to 106 of the annual report of the Company for the year ended 30 June 2018, pages 46 to 120 of the annual report of the Company for the year ended 30 June 2019 and pages 48 to 124 of the annual report of the Company for the year ended 30 June 2020, respectively. The financial information of the Group for the period ended 31 December 2020 is disclosed on pages 4 to 24 of the interim report of the Company for the six months ended 31 December 2020. All of which are published on the website of the Stock Exchange at <http://www.hkexnews.hk>, and the website of the Company at <http://artgroup.etnet.com.hk>. Quick links to the annual reports and the interim report of the Company published on the website of the Stock Exchange are set out below. There was no qualified opinion issued for the audited financial information of the Group for the years ended 30 June 2018, 2019 and 2020.

Annual report of the Company for the year ended 30 June 2018:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/1010/lt20181010469.pdf>

Annual report of the Company for the year ended 30 June 2019:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/1025/lt20191025071.pdf>

Annual report of the Company for the year ended 30 June 2020:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1023/2020102300360.pdf>

Interim report of the Company for the six months ended 31 December 2020:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0309/2021030900557.pdf>

2. INDEBTEDNESS**Bank borrowings**

As at 30 April 2021, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding principal amount of secured and guaranteed bank borrowings amounting to approximately HK\$868,452,000 which are wholly repayable over nine years and secured by certain investment properties and approximately HK\$311,905,000 which are wholly repayable within one year and secured by certain fixed bank deposits.

Lease liabilities

As at 30 April 2021, the Group had unsecured and unguaranteed lease liabilities amounting to approximately HK\$5,346,000.

Bonds

As at 30 April 2021, the aggregate principal amount of unsecured and unguaranteed bonds issued by the Group was amounted to approximately HK\$34,340,000.

Save as disclosed above and otherwise mentioned in this circular and apart from normal trade payables in the normal course of business, none of the members of the Remaining Group had, as at 30 April 2021, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, any outstanding mortgages, charges, debenture, loan capital issued and outstanding or agreed to be issued, bank loan and overdraft or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantee or other material contingent liabilities.

Contingent liabilities

As at 30 April 2021, the Remaining Group had no material contingent liabilities.

3. WORKING CAPITAL

Taking into account the Transactions, the Remaining Group's internal resources, the presently confirmed available banking facilities and in the absence of unforeseen circumstances, the Directors are of the opinion that, the Remaining Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

The annual results of the Group for the year ended 30 June 2020 experienced a loss when compared with that for the years ended 30 June 2018 and 2019 due to a number of adverse factors including (1) a reduction of rental, management and operating service charges to more than 280 tenants (including tenants of the short-term leases) of the Jiachao's Shopping Mall and the Zone C Shopping Mall on different bases for the period from January to June 2020 as a result of the COVID-19 pandemic; (2) a decrease in rental income due to a decline in usage rate for an advertisement board by the real estate companies; (3) a decrease in fair value of the Group's investment properties, the Jiachao's Shopping Mall; and (4) a substantial increase in finance costs mainly as a result of the two new bank borrowings obtained as well as its higher interest rate charged by the bank throughout the year ended 30 June 2020. Save for the above, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading prospects of the Group since 30 June 2020, the date to which the latest audited financial statements of the Company were made up.

5. CONTINGENT LIABILITIES

The Group has no other material contingent liabilities. The Group is not involved in any current material legal proceedings, nor is the Group aware of such material legal proceedings. The Group would record any loss contingencies when, based on information then available, it is probable that a loss had been incurred and the amount of the loss can be reasonably estimated. The Group confirms that there has not been any material change in the level of its contingent liabilities since 30 June 2020 up to the Latest Practicable Date.

6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE REMAINING GROUP

Set out below is the management discussion and analysis on the Remaining Group for each of the years ended 30 June 2018, 2019 and 2020 (the “**Reporting Periods**”). The financial data in respect of the Remaining Group, for the purpose of this circular, is derived from the consolidated financial statements of the Company for the Reporting Periods.

Operational and Financial Review

For the year ended 30 June 2018, the Remaining Group owned 164 shops in a giant theme shopping mall (the “**Jiacong’s Shops**”) situated in Zhengzhou City, Henan Province, the PRC, through holding the entire equity interests in 鄭州佳聰物業服務有限公司 (Zhengzhou Jiacong Property Services Company Limited*) (“**Zhengzhou Jiacong**”) by an indirect wholly-owned PRC subsidiary of the Company. The Jiacong’s Shops are in a giant theme shopping mall selling textile materials, accessories and products with a gross floor area of approximately 6,931 square meters. All of the Jiacong’s Shops had been leased out to run textile business as at 30 June 2018.

During the year ended 30 June 2018, the Group entered into a sale and purchase agreement to dispose of its entire equity interest in its former subsidiaries, Worthmore Ventures Limited (“**Worthmore**”), Conquer Way Limited and 河南錦藝商業運營管理有限公司 (Henan Art Commercial Operation Management Co., Ltd.*) (collectively referred to as the “**2018 Disposal Group**”) to an independent third party (the “**Purchaser**”). The intended principal activity of the 2018 Disposal Group was the provision of rental, management and operating services to a shopping mall located in the countryside of Zhengzhou City, Longwu Town (the “**Longwu Shopping Mall**”), for a term of 10 years commenced from the mid of 2018. Some preliminary promotional preparation work had been carried out by the 2018 Disposal Group since the lease signed in July 2017. However, the real estate developer of the Longwu Shopping Mall subsequently decided to transfer its title and interests in the Longwu Shopping Mall to the Purchaser. As a result of the negotiations among the real estate developer, the Purchaser and the Group, it is agreed that the Purchaser acquired the entire issued share capital of Worthmore at a consideration of US\$1.00 (equivalent to approximately HK\$7.80). The consideration was determined after arm’s length negotiations with reference to (i) the net liabilities value of the 2018 Disposal Group of approximately HK\$1,697,000 as at 31 May 2018; and (ii) the Purchaser agreed to

settle the outstanding liabilities owed by the 2018 Disposal Group to the Group in the aggregate amount of approximately HK\$40,000 as at 31 May 2018 upon completion of the disposal. The disposal was completed on 31 May 2018.

Turnover

For the years ended 30 June 2018 and 2019, the Remaining Group recorded a turnover of approximately HK\$3,772,000 and HK\$4,067,000, respectively, from the monthly incomes of rental, management and operating services received and receivable from the tenants of the Jiacong's Shops. The Remaining Group did not record any turnover for the year ended 30 June 2020 because the Jiacong's Shops were disposed of in June 2019 and no revenue was generated from the biotechnology segment due to at its preliminary set up stage.

Segment Results

For the years ended 30 June 2018 and 2019, the Remaining Group recorded a profit of property operating segment of approximately HK\$3,095,000 and HK\$3,928,000, respectively, from the rental of the Jiacong's Shops in view of its fully rent-out rate. The Remaining Group did not record any segment results for the year ended 30 June 2020 because the Group carried out property operating segment that was only run by the Target Company and no revenue was generated from the biotechnology segment due to at its preliminary set up stage

Loss for the year

For the year ended 30 June 2018, the Remaining Group recorded a loss of approximately HK\$66,190,000 because the Group incurred a share-based payment expense as a result of the grant of 268,500,000 share options. For the years ended 30 June 2019 and 2020, the Remaining Group recorded a loss of approximately HK\$5,615,000 and HK\$17,130,000, respectively. Increase in the loss for the year ended 30 June 2020 was due to a gain on disposal of Zhengzhou Jiacong during the year ended 30 June 2019 and no revenue generated from the biotechnology segment due to at its preliminary set up stage for both years.

Prospects

In view of achieving the best interests of the Company and its shareholders as a whole, the Group has been putting effort in enlarging its operations of property operating business. Substantial resources have been placed into property operating business to explore future prospects and develop the relevant markets, with a view to enhance the Company's development and to maximise the shareholders' return.

The Group's long-term plan is to focus on property operating aspect rather than on property holding aspect. The Group targets to engage in the provision of rental, management and operating services to more tenants of different kinds of shopping malls in various locations. Therefore, the Company streamlined the Group's property operating business by establishing a company 鄭州中原錦藝商業運營管理有限公司 (Zhengzhou Zhongyuan Jinyi Commercial Operation Management Company Limited*) ("**Zhongyuan Jinyi**", i.e. the Lessee) in the PRC with Jiachao's minority shareholder in the same shareholding proportion as in Jiachao. The ex-tenants of Jiachao were all transferred to Zhongyuan Jinyi in the first quarter of 2021. Consequently, Zhongyuan Jinyi had entered into two short-term tenancy agreements each with Jiahco and the real estate developer of Zone C Shopping Mall for renting the shopping malls owned by them. The Group aims to offer tenancies to more popular brands and diversify the types of tenants to meet the needs and interests of customers from different ages and backgrounds by conducting large scale marketing and promotion activities from time to time so that a stable and constant stream of incomes and fairly consistent cash flow can be continuously generated to the Group.

By aiming to diversify the types of business and increase the shareholders' return, the Group explored biotechnology segment since June 2019. A number of subsidiaries to produce the finished goods, cannabidiol ("**CBD**"), were established thereafter in Honghezhou, Yunnan Province, the PRC, including a subsidiary responsible for the provision of raw material for the purpose of supply stabilisation and quality assurance of CBD. A factory with area of approximately 2,904 square meters and large pieces of land with aggregated area of approximately 1,028,133 square meters were leased for building a production line and planting raw material, respectively. Moreover, the Industrial CBD Cultivation Approval License and the Industrial CBD Trial Production Approval License were already granted by the PRC regulatory body. The trial production was then carried out and relevant result was submitted to the PRC regulatory body. Once the Industrial CBD Production Approval License has been granted, the commercial production is expected to commence accordingly.

The world will be a different place after the pandemic is over. This poses a tremendous challenge to the Group. Nevertheless, the Group has been striving to use all of its resources on hand flexibly to cope with the difficulties and uncertainties happened in the PRC and in the future. Extra prudence is needed in these unprecedented times; the Group can help support their tenants both now and over the long-term by increasing promotion activities to raise the popularity of the shopping malls, paying close attention to business operations, providing policies of assistance for key merchants and following closely with market trends and government-related policies in real time in order to make appropriate management decisions in a timely manner.

By leveraging on the Group's current strategic plan and established strengths, experience and foresight, the Group continues to seize opportunities to penetrate into different areas of property operating and biotechnology markets, explore other new market potential and increase profit margin. Moreover, the Group manages and operates the property operating segment by the current caliber management and competent employees of subsidiaries and builds up biotechnology segment step by step with present and new resources. Simultaneously, the Group continues to implement conservative and stringent cost control policies in order to maintain sufficient working capital by imposing control over operating costs and capital expenditures and strengthening accounts receivable management. The Company will from time to time review the Group's operation, including its business, assets and financial position, and adopt such plans and acts which the Board considers will best benefit the Group and its shareholders as a whole, with an aim to maximise returns to shareholders as far as possible.

Looking forward, the Group continues to place additional resources to realise growth momentum from the development of property operating and biotechnology markets. The exploration of the biotechnology business aims to diversify the types of the Group's business and increase return to the Shareholders. There is no existing plan to dispose of or downsize its current property operating business. The Jiachao's Shopping Mall and Zone C Shopping Mall are situated in Zhengzhou City, the centre and one of the Regional Central Cities of the PRC, and with good economic and demographic fundamentals, which enables the Group to diversify its business operations into property operating market in depth. In respect of the development of the property operating business, the Group will continue to deploy its resources on the property operating business including but not limited to (i) recruit more candidates with high-caliber and experience in property operating business; (ii) explore suitable shopping malls/properties of similar size and scale to the Jiachao's Shopping Mall and the Zone C Shopping Mall to expand the Group's property operating portfolio; and (iii) possible merger and acquisition of asset-light property operating business in the PRC. As regulators in Australia, Europe and the North America had passed rules and regulations to recognise the legal status of cannabis begin widely used in food and beverages apart from medical and industrial use, the Group believes the future prospects of CBD to be increasingly optimistic. The business growth of the Group is expected to accelerate and accordingly, the positive outcome will be gradually reflected in the future along with continuing development of the Belt and Road Initiative and the Internal/External Circular Economy that advocated by the PRC government. By continually diversifying the Group's business, the market value of the Company and the return to its shareholders will be maximised in long-term.

Liquidity and Financial Resources

As at 30 June 2018, the Remaining Group had net current assets and total assets less current liabilities of approximately HK\$871,973,000 and HK\$1,148,398,000, respectively. As at 30 June 2018, the Remaining Group had cash and bank deposits of approximately HK\$761,070,000. The current ratio of the Remaining Group was approximately 382.2%. Shareholders' fund of the Remaining Group as at 30 June 2018 was approximately HK\$1,091,669,000. As at 30 June 2018, the Remaining Group had three bonds measured at amortised costs of approximately HK\$25,237,000, therefore its gross debt gearing ratio (i.e. total borrowings/Shareholders' fund) was approximately 2.3%.

As at 30 June 2019, the Remaining Group had net current assets and total assets less current liabilities of approximately HK\$1,106,755,000 and HK\$1,106,784,000, respectively. As at 30 June 2019, the Remaining Group had cash and bank deposits of approximately HK\$771,491,000. The current ratio of the Remaining Group was approximately 560.3%. Shareholders' fund of the Remaining Group as at 30 June 2019 was approximately HK\$1,070,247,000. As at 30 June 2019, the Remaining Group had five bonds measured at amortised cost of approximately HK\$35,287,000, therefore its gross debt gearing ratio (i.e. total borrowings and bond/Shareholders' fund) was approximately 3.3%.

As at 30 June 2020, the Remaining Group had net current assets and total assets less current liabilities of approximately HK\$1,100,939,000 and HK\$1,114,905,000, respectively. As at 30 June 2020, the Remaining Group had cash and bank deposits of approximately HK\$761,662,000. The current ratio of the Remaining Group was approximately 8,580.5%. Shareholders' fund of the Remaining Group as at 30 June 2020 was approximately HK\$1,074,376,000. As at 30 June 2020, the Remaining Group had six bonds measured at amortised costs of approximately HK\$44,343,000. As at 30 June 2020, the gross debt gearing ratio of the Remaining Group (i.e. total borrowings and bonds/Shareholders' fund) was approximately 3.2%.

Financing

For the year ended 30 June 2018, the Remaining Group arranged three bonds with three independent third parties, all measured at amortised cost, amounted to approximately HK\$25,237,000. For the year ended 30 June 2019, the Remaining Group arranged five bonds with four independent third parties, all measured at amortised cost, amounted to approximately HK\$35,287,000. For the year ended 30 June 2020, the Remaining Group arranged six bonds with five independent third parties, all measured at amortised cost, amounted to approximately HK\$44,343,000.

Treasury Policy

During the Reporting Periods, the Remaining Group adopted conservative treasury policies and had tight controls over its cash management. The Remaining Group's cash and cash equivalents were held in HK\$ and RMB. The Remaining Group's bonds are denominated in HK\$ and have been arranged on a fixed-rate basis.

Capital Structure

As at 30 June 2018, 2019 and 2020, the share capital of the Company comprised ordinary shares only.

Foreign Exchange Risk and Interest Rate Risk

During the Reporting Periods, the Remaining Group was not subject to any significant exposure to foreign exchange rate risk as the majority of its transactions were denominated in RMB. Hence, no financial instrument for hedging was employed.

Charge on Remaining Group's Assets

As at 30 June 2018, 2019 and 2020, the Remaining Group did not have any charge on its assets.

Capital Expenditure

During the Reporting Periods, the Remaining Group did not have any significant capital expenditure.

As at 30 June 2018 and 2019, the Remaining Group did not have any capital commitments. As at 30 June 2020, the Remaining Group had capital commitments of approximately HK\$8,548,000 in respect of the acquisition of property, plant and equipment. The capital commitments for the year ended 30 June 2020 were funded by internally generated resources.

Future Plan for Material Investments or Capital Assets

As at the Latest Practicable Date, the Remaining Group has no plan for material investments or capital assets.

Material Acquisitions and Disposals of Subsidiaries

During the Reporting Periods, the Remaining Group did not have any material acquisitions and disposals of subsidiaries except two disposals listed below.

On 31 May 2018, the Group entered into a sale and purchase agreement to dispose of its entire equity interest in its former subsidiaries, Worthmore Ventures Limited (“**Worthmore**”), Conquer Way Limited and 河南錦藝商業運營管理有限公司 (Henan Art Commercial Operation Management Co., Ltd.*) (collectively referred to as the “**2018 Disposal Group**”) to an independent third party (the “**Worthmore Purchaser**”). The intended principal activity of the 2018 Disposal Group was the provision of rental, management and operating services to a shopping mall located in the countryside of Zhengzhou City, Longwu Town (the “**Longwu Shopping Mall**”), for a term of 10 years commenced from the mid of 2018. Some preliminary promotional preparation work had been carried out by the 2018 Disposal Group since the lease signed in July 2017. However, during the year ended 30 June 2018, the real estate developer of the Longwu Shopping Mall decided to transfer its title and interests in the Longwu Shopping Mall to the Worthmore Purchaser. As a result of the negotiations among the real estate developer, the Worthmore Purchaser and the Group, it is agreed that the Worthmore Purchaser acquired the entire issued share capital of Worthmore at a consideration of US\$1.00 (equivalent to approximately HK\$7.80). The consideration was determined after arm’s length negotiations with reference to (i) the net liabilities value of the 2018 Disposal Group of approximately HK\$1,697,000 as at 31 May 2018; and (ii) the Worthmore Purchaser agreed to settle the outstanding liabilities owed by the 2018 Disposal Group to the Group in the aggregate amount of approximately HK\$40,000 as at 31 May 2018 upon completion of the disposal. The disposal was completed on 31 May 2018.

On 27 June 2019, the Group entered into a sale and purchase agreement to dispose of its entire equity interests in its subsidiary, 鄭州佳聰物業服務有限公司 (Zhengzhou Jiacong Property Services Company Limited* (“**Zhengzhou Jiacong**”)), to an independent third party (the “**Jiacong Purchaser**”). The principal activity of Zhengzhou Jiacong was the holding of 164 shops in a giant theme shopping mall (the “**Jiacong’s Shops**”) situated in Zhengzhou City, Henan Province, the PRC. However, as a consequence of China-US trade dispute and its ongoing impacts, the management of the Group was not optimistic about the future of the wholesale market of the textile industry in the PRC; hence, the management of the Group decided to dispose of Zhengzhou Jiacong to realise the Group’s investment. As a result of the negotiations between the Group and the Jiacong Purchaser, it was agreed that the Jiacong Purchaser acquired the entire equity interests in Zhengzhou Jiacong at a consideration of RMB212,239,000 (equivalent to approximately HK\$241,180,000). The consideration was determined after arm’s length negotiations with reference to normal commercial terms after taking into account of the value of the Jiacong’s Shops owned by Zhengzhou Jiacong. The disposal was completed on 28 June 2019 and the consideration was fully received on 6 September 2019.

Announcement of the Company dated 27 June 2019:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0627/ltn201906271239.pdf>

Supplemental announcement of the Company dated 18 July 2019:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0718/ltn20190718589.pdf>

Staff Policy

As at 30 June 2018, 2019 and 2020, the Remaining Group had 7 employees, 7 employees and 26 employees altogether in the PRC and/or Hong Kong, respectively. During the Reporting Periods, the Remaining Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonus is offered to the Remaining Group's staff depending on their performance. The Remaining Group is required to make contribution to a social insurance scheme in the PRC. Moreover, the Remaining Group and its employees in the PRC are required to make respective contribution to fund the endowment insurance, unemployment insurance, medical insurance, employees' compensation insurance and birth insurance (for employers only) at the rates specified in the relevant PRC laws and regulations. The Remaining Group has adopted a provident fund scheme as required under the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong) for its employees in Hong Kong and also a share option scheme for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-caliber employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest. Moreover, the Remaining Group also provides periodic internal training to its employees.

Contingent Liabilities

At the end of each of the Reporting Periods, the Remaining Group did not have any significant contingent liabilities.

7. OUTLOOK AND PROSPECTS

In view of achieving the best interests of the Company and its Shareholders as a whole, the Group has been putting effort in enlarging its operations of property operating business. Substantial resources have been placed into property operating business to explore future prospects and develop the relevant markets, with a view to enhance the Company's development and to maximise the Shareholders' return.

The Group's long-term plan is to focus on property operating aspect rather than on property holding aspect. The Group targets to engage in the provision of rental, management and operating services to more tenants of different kinds of shopping malls in various locations. Therefore, the Company streamlined the Group's property operating business by establishing a company 鄭州中原錦藝商業運營管理有限公司 (Zhengzhou Zhongyuan Jinyi Commercial Operation Management Company Limited*) ("**Zhongyuan Jinyi**") in the PRC with Jiachao's minority shareholder in the same shareholding proportion as in Jiachao. The ex-tenants of Jiachao were all transferred to Zhongyuan Jinyi in the first quarter of 2021. Consequently, Zhongyuan Jinyi had entered into two short-term tenancy agreements each with Jiahco and the real estate developer of Zone C Shopping Mall for renting the shopping malls owned by them. The Group aims to offer tenancies to more popular brands and diversify the types of tenants to meet the needs and interests of customers from different ages and backgrounds by conducting large scale marketing and promotion activities from time to time so that a stable and constant stream of incomes and fairly consistent cash flow can be continuously generated to the Group.

By aiming to diversify the types of business and increase the Shareholders' return, the Group explored biotechnology segment since June 2019. A number of subsidiaries to produce the finished goods, CBD, were established thereafter in Honghezhou, Yunnan Province, the PRC, including a subsidiary responsible for the provision of raw material for the purpose of supply stabilisation and quality assurance of CBD. A factory with area of approximately 2,904 square meters and large pieces of land with aggregated area of approximately 1,028,133 square meters were leased for building a production line and planting raw material, respectively. Moreover, the Industrial CBD Cultivation Approval License and the Industrial CBD Trial Production Approval License were already granted by the PRC regulatory body. The trial production was then carried out and relevant result was submitted to the PRC regulatory body. Once the Industrial CBD Production Approval License has been granted, the commercial production is expected to commence accordingly.

There may be great changes to the world after the pandemic is over. This poses a tremendous challenge to the Group. Nevertheless, the Group has been striving to use all of its resources on hand flexibly to cope with the difficulties and uncertainties happened in the PRC and in the future. Extra prudence is needed in these unprecedented times. The Group can help support its tenants both now and over the long-term by increasing promotion activities to raise the popularity of the shopping malls, paying close attention to business operations, providing policies of assistance for key merchants and following closely with market trends and government-related policies in real time in order to make appropriate management decisions in a timely manner.

By leveraging on the Group's current strategic plan and established strengths, experience and foresight, the Group continues to seize opportunities to penetrate into different areas of property operating and biotechnology markets, explore other new market potential and increase profit margin. Moreover, the Group manages and operates the property operating segment by the current caliber management and competent employees of subsidiaries and builds up biotechnology segment step by step with present and new resources. Simultaneously, the Group continues to implement conservative and stringent cost control policies in order to maintain sufficient working capital by imposing control over operating costs and capital expenditures and strengthening accounts receivable management. The Company will from time to time review the Group's operation, including its business, assets and financial position, and adopt such plans and acts which the Board considers will best benefit the Group and the Shareholders as a whole, with an aim to maximise returns to Shareholders as far as possible.

On 28 April 2021 (after trading hours), the Vendor entered into a loan agreement with 福建千城綠景觀工程有限公司 (Fujian Qiancheng Lujingguan Engineering Co., Ltd.*), an independent third party, (the "**Borrower**") pursuant to which the Vendor has agreed to lend to the Borrower the loan in the principal amount of RMB250,000,000 for a term of 12 months from the drawdown date at an interest of 7.5% per annum.

The Group will focus its resources on property operating business and has no intention to commence money lending business. The Borrower approached the Group and looked for a source of financing. The entering into of the aforesaid loan agreement is due to (i) the surplus cash position of the Group, (ii) the interest income to be received by the Group and (iii) the credit and repayment ability of the Borrower and its guarantor. Please also refer to announcements of the Company dated 28 April 2021 and 13 May 2021.

After taking into account the cash outflow of the aforesaid loan, as at 30 April 2021, the Group's cash position amounted to approximately HK\$24,029,000. The Group is not expected to incur significant capital expenditure during the coming 12 months, and according to the Directors' estimation based on, among others, (i) the current performance of the Group's property operating business; (ii) the cash outflow pursuant to the Lease Contract Jiachao's and the Lease Contract Zone C; and (iii) the proceeds from the Disposal, the Group's net cash inflow from May 2021 to April 2022 will amount to approximately HK\$251,000,000 and the Group's cash and cash equivalents at the end of each month from May 2021 to April 2022 are all positive balances. Accordingly, no external facilities are required by the Group and the Directors consider the Group has sufficient working capital for the coming 12 months.

* For identification purpose only

Looking forward, the Group continues to place additional resources to realise growth momentum from the development of property operating and biotechnology markets. The Jiachao's Shopping Mall and the Zone C Shopping Mall are situated in Zhengzhou City, the centre and one of the Regional Central Cities of the PRC, and with good economic and demographic fundamentals, which enables the Group to diversify its business operations into property operating market in depth. As regulators in Australia, Europe and the North America had passed rules and regulations to recognise the legal status of cannabis begin widely used in food and beverages apart from medical and industrial use, the Group believes the future prospects of CBD to be increasingly optimistic. The business growth of the Group is expected to accelerate and accordingly, the positive outcome will be gradually reflected in the future along with continuing development of the Belt and Road Initiative and the Internal/External Circular Economy that advocated by the PRC government. By continually diversifying the Group's business, the market value of the Company and the return to its Shareholders will be maximised in long-term.

Set out below are unaudited statements of financial position of the Target Company as at 30 June 2018, 2019 and 2020 and 31 March 2021; unaudited statements of profit or loss and other comprehensive income, unaudited statements of changes in equity, and unaudited statements of cash flows of the Target Company for each of the years ended 30 June 2018, 2019 and 2020 and nine months ended 31 March 2021 and certain explanatory notes of the Target Company (collectively the “**Financial Information**”). The Financial Information has been prepared on the basis set out in Note 2 in this appendix, and in accordance with the accounting policies adopted by the Group and paragraph 68(2)(a)(i) of Chapter 14 of the Listing Rules. The Financial Information is prepared by the Directors solely for the purpose of inclusion in this circular in connection with the Disposal. The Company’s reporting accountants, Elite Partners CPA Limited, (the “**Reporting Accountants**”) were engaged to review the Financial Information which is included in the Financial Information of the Target Company set out on pages IIA-2 to IIA-10 in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and with reference to Practice Note 750 “Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal” issued by the HKICPA.

A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable the reporting accountants to obtain assurance that the reporting accountants would become aware of all significant matters that might be identified in an audit. Accordingly, the Reporting Accountants do not express an audit opinion.

The Reporting Accountants has issued an unmodified review report.

APPENDIX IIA**FINANCIAL INFORMATION OF
THE TARGET COMPANY****UNAUDITED STATEMENTS OF FINANCIAL POSITION**

| | As at 30 June | | | As at |
|--|----------------------|------------------|------------------|------------------|
| | 2018 | 2019 | 2020 | 31 March |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | 5,659 | 3,918 | 2,037 | 59 |
| Investment properties | <u>2,487,000</u> | <u>2,470,000</u> | <u>2,400,000</u> | <u>1,436,000</u> |
| | <u>2,492,659</u> | <u>2,473,918</u> | <u>2,402,037</u> | <u>1,436,059</u> |
| CURRENT ASSETS | | | | |
| Trade and other receivables | 49,427 | 75,552 | 26,348 | 31,187 |
| Amount due from the ultimate holding company | – | – | 9,318 | 9,318 |
| Amount due from a fellow subsidiary | 85,000 | – | – | – |
| Bank balances and cash | <u>5,030</u> | <u>8,644</u> | <u>369,796</u> | <u>271,333</u> |
| | <u>139,457</u> | <u>84,196</u> | <u>405,462</u> | <u>311,838</u> |
| CURRENT LIABILITIES | | | | |
| Other payables | 61,656 | 56,623 | 50,363 | 41,549 |
| Contract liabilities | – | 27,996 | 21,727 | 1,850 |
| Secured bank borrowings | 72,000 | 79,000 | 67,989 | 78,971 |
| Amount due to an immediate holding company | 436,950 | 337,450 | 321,234 | 316,848 |
| Tax liabilities | <u>565</u> | <u>7,961</u> | <u>–</u> | <u>1,548</u> |
| | <u>571,171</u> | <u>509,030</u> | <u>461,313</u> | <u>440,766</u> |
| NET CURRENT LIABILITIES | <u>(431,714)</u> | <u>(424,834)</u> | <u>(55,851)</u> | <u>(128,928)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | <u>2,060,945</u> | <u>2,049,084</u> | <u>2,346,186</u> | <u>1,307,131</u> |

APPENDIX IIA**FINANCIAL INFORMATION OF
THE TARGET COMPANY**

| | As at 30 June | | As at 31 March | |
|--------------------------------|-------------------------|-------------------------|---------------------------|-------------------------|
| | 2018 | 2019 | 2020 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| EQUITY | | | | |
| CAPITAL AND RESERVES | | | | |
| Paid up capital | 20,000 | 20,000 | 20,000 | 20,000 |
| Reserves | <u>1,229,096</u> | <u>1,300,485</u> | <u>1,243,260</u> | <u>526,095</u> |
| TOTAL EQUITY | <u>1,249,096</u> | <u>1,320,485</u> | <u>1,263,260</u> | <u>546,095</u> |
| NON-CURRENT LIABILITIES | | | | |
| Deferred tax liabilities | 376,849 | 372,599 | 355,099 | 114,099 |
| Secured bank borrowings | <u>435,000</u> | <u>356,000</u> | <u>727,827</u> | <u>646,937</u> |
| | <u>811,849</u> | <u>728,599</u> | <u>1,082,926</u> | <u>761,036</u> |
| | <u><u>2,060,945</u></u> | <u><u>2,049,084</u></u> | <u><u>2,346,186</u></u> | <u><u>1,307,131</u></u> |

APPENDIX IIA**FINANCIAL INFORMATION OF
THE TARGET COMPANY****UNAUDITED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME**

| | Year ended 30 June | | | Ninth months ended | |
|--|--------------------|-----------------|-----------------|--------------------|------------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue | 164,175 | 180,744 | 143,592 | 106,540 | 120,396 |
| Cost of sales | <u>(51,062)</u> | <u>(55,284)</u> | <u>(57,238)</u> | <u>(45,668)</u> | <u>(59,160)</u> |
| Gross profit | 113,113 | 125,460 | 86,354 | 60,872 | 61,236 |
| Other revenue | 11,317 | 13,470 | 12,994 | 9,848 | 17,621 |
| Administrative expenses | (11,585) | (13,023) | (13,857) | (8,694) | (3,447) |
| Gain/(loss) on fair value changes on investment properties | 90,000 | (17,000) | (70,000) | – | (964,000) |
| Finance costs | <u>(25,721)</u> | <u>(23,177)</u> | <u>(52,462)</u> | <u>(37,156)</u> | <u>(37,747)</u> |
| Profit/(loss) before taxation | 177,124 | 85,730 | (36,971) | 24,870 | (926,337) |
| Income tax (expense)/credit | <u>(27,280)</u> | <u>(14,341)</u> | <u>20,246</u> | <u>2,957</u> | <u>236,747</u> |
| PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/ (EXPENSE) FOR THE YEAR/ PERIOD ATTRIBUTABLE TO OWNERS OF THE TARGET COMPANY | <u>149,844</u> | <u>71,389</u> | <u>(16,725)</u> | <u>27,827</u> | <u>(689,590)</u> |

APPENDIX IIA**FINANCIAL INFORMATION OF
THE TARGET COMPANY****UNAUDITED STATEMENTS OF CHANGES IN EQUITY**

| | Paid up capital RMB'000 | Retained profits RMB'000 | Statutory reserve fund RMB'000 | Total RMB'000 |
|--|--|---|---|--------------------------|
| As at 1 July 2017 | 20,000 | 1,079,252 | – | 1,099,252 |
| Profit and total comprehensive income for the year | <u>–</u> | <u>149,844</u> | <u>–</u> | <u>149,844</u> |
| As at 30 June 2018 and 1 July 2018 | 20,000 | 1,229,096 | – | 1,249,096 |
| Profit and total comprehensive income for the year | <u>–</u> | <u>71,389</u> | <u>–</u> | <u>71,389</u> |
| As at 30 June 2019 and 1 July 2019 | 20,000 | 1,300,485 | – | 1,320,485 |
| Loss and total comprehensive expense for the year | – | (16,725) | – | (16,725) |
| Dividend paid | – | (40,500) | – | (40,500) |
| Appropriation | <u>–</u> | <u>(4,500)</u> | <u>4,500</u> | <u>–</u> |
| As at 30 June 2020 and 1 July 2020 | 20,000 | 1,238,760 | 4,500 | 1,263,260 |
| Loss and total comprehensive expense for the period | – | (689,590) | – | (689,590) |
| Dividend paid | – | (27,575) | – | (27,575) |
| Appropriation | <u>–</u> | <u>(3,064)</u> | <u>3,064</u> | <u>–</u> |
| As at 31 March 2021 | <u>20,000</u> | <u>518,531</u> | <u>7,564</u> | <u>546,095</u> |

APPENDIX IIA**FINANCIAL INFORMATION OF
THE TARGET COMPANY**

| | Paid up capital | Retained profits | Statutory reserve fund | Total |
|---|----------------------------|-----------------------------|---------------------------------------|-------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| For the nine months ended 31 March 2020 | | | | |
| As at 1 July 2019 | 20,000 | 1,300,485 | – | 1,320,485 |
| Profit and total comprehensive income for the period | – | 27,827 | – | 27,827 |
| Dividend paid | – | (40,500) | – | (40,500) |
| Appropriation | <u>–</u> | <u>(4,500)</u> | <u>4,500</u> | <u>–</u> |
| As at 31 March 2020 | <u><u>20,000</u></u> | <u><u>1,283,312</u></u> | <u><u>4,500</u></u> | <u><u>1,307,812</u></u> |

APPENDIX IIA**FINANCIAL INFORMATION OF
THE TARGET COMPANY****UNAUDITED STATEMENTS OF CASH FLOWS**

| | Year ended 30 June | | | Nine months ended 31 March | |
|---|---------------------------|-----------------|----------------|---------------------------------------|-----------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| CASH FLOWS FROM | | | | | |
| OPERATING ACTIVITIES | | | | | |
| Profit/(loss) before taxation | 177,124 | 85,730 | (36,971) | 24,870 | (926,337) |
| Adjustments for: | | | | | |
| Depreciation of property, plant and equipment | 2,159 | 2,743 | 1,893 | 1,588 | 582 |
| (Gain)/loss on disposal of property, plant and equipment | – | (5) | – | – | 1,402 |
| Finance costs recognised in profit or loss | 25,721 | 23,177 | 52,462 | 37,156 | 37,747 |
| (Gain)/loss on fair value change on investment properties | <u>(90,000)</u> | <u>17,000</u> | <u>70,000</u> | <u>–</u> | <u>964,000</u> |
| Operating cash flows before movements in working capital | 115,004 | 128,645 | 87,384 | 63,614 | 77,394 |
| Decrease/(increase) in trade and other receivables | 5,013 | (26,125) | 49,204 | 16,555 | (4,839) |
| Increase/(decrease) in other payables | 8,532 | (5,033) | (6,260) | (2,932) | (10,106) |
| Increase/(decrease) in contract liabilities | <u>–</u> | <u>27,996</u> | <u>(6,269)</u> | <u>(14,303)</u> | <u>(19,877)</u> |
| Cash generated from operations | 128,549 | 125,483 | 124,059 | 62,934 | 42,572 |
| Income tax paid | <u>(11,282)</u> | <u>(11,195)</u> | <u>(5,215)</u> | <u>(4,179)</u> | <u>(2,705)</u> |
| NET CASH GENERATED FROM OPERATING ACTIVITIES | <u>117,267</u> | <u>114,288</u> | <u>118,844</u> | <u>58,755</u> | <u>39,867</u> |

APPENDIX IIA**FINANCIAL INFORMATION OF
THE TARGET COMPANY**

| | Year ended 30 June | | | Nine months ended | |
|--|--------------------|----------|-----------|-------------------|----------|
| | | | | 31 March | |
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| CASH FLOWS FROM | | | | | |
| INVESTING ACTIVITIES | | | | | |
| Purchases of property, plant and equipment | (1,336) | (1,062) | (12) | (12) | (6) |
| Proceed from disposal of property, plant and equipment | – | 65 | – | – | – |
| Decrease in amount due from the ultimate holding company | – | 85,000 | – | – | – |
| Increase in amount due from a fellow subsidiary | – | – | (9,318) | – | – |
| NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES | (1,336) | 84,003 | (9,330) | (12) | (6) |
| CASH FLOWS FROM | | | | | |
| FINANCING ACTIVITIES | | | | | |
| Proceeds from secured bank borrowings | – | – | 800,000 | 800,000 | – |
| Repayments of secured bank borrowings | (61,000) | (72,000) | (442,500) | (441,210) | (69,908) |
| Dividend paid | – | – | (40,500) | (40,500) | (27,575) |
| Interest paid | (25,721) | (23,177) | (49,146) | (35,866) | (36,455) |
| Decrease in amount due to an immediate holding company | (32,000) | (99,500) | (16,216) | (2,966) | (4,386) |

APPENDIX IIA**FINANCIAL INFORMATION OF
THE TARGET COMPANY**

| | Year ended 30 June | | | Nine months ended 31 March | |
|--|--------------------|------------------|----------------|-------------------------------|------------------|
| | 2018 | 2019 | 2020 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| NET CASH (USED IN)/ GENERATED FROM FINANCING ACTIVITIES | <u>(118,721)</u> | <u>(194,677)</u> | <u>251,638</u> | <u>279,458</u> | <u>(138,324)</u> |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | (2,790) | 3,614 | 361,152 | 338,201 | (98,463) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/ PERIOD | <u>7,820</u> | <u>5,030</u> | <u>8,644</u> | <u>8,644</u> | <u>369,796</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD, represented by bank balances and cash | <u>5,030</u> | <u>8,644</u> | <u>369,796</u> | <u>346,845</u> | <u>271,333</u> |

NOTES TO THE FINANCIAL INFORMATION OF THE TARGET COMPANY

For each of the years ended 30 June 2018, 2019 and 2020 and nine months ended 31 March 2021

1. GENERAL INFORMATION

Zhengzhou Jiachao Property Services Co., Ltd.* (鄭州佳潮物業服務有限公司) (the “**Target Company**”) is a limited company incorporated in the People’s Republic of China (the “**PRC**”). The address of its registered office and principal place of business are Rooms 1105 and 1106, Block 4, 178 Tongbai Road, Zhongyuan District, Zhengzhou City, Henan Province, the PRC. The Target Company is principally engaged in property operating. Its immediate holding company is Zhengzhou Changdun Asset Management Co., Ltd.* (鄭州昌盾資產管理有限公司) (“**Zhengzhou Changdun**”), an indirect wholly-owned subsidiary of Art Group Holdings Limited (the “**Company**”), which is the ultimate holding company.

On 26 April 2021, Zhengzhou Changdun (the “**Vendor**”) and Zhengzhou Fengxiang Investment Co., Ltd.* (鄭州豐祥投資有限公司) (the “**Purchaser**”) entered into a sale and purchase agreement, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to purchase, the 75% equity interests in the Target Company (the “**Disposal**”).

Upon completion of the Disposal, the Target Company will cease to be a subsidiary of the Company.

2. BASIS OF PREPARATION

The Financial Information of the Target Company has been prepared in accordance with paragraph 14.68(2)(a)(i) of the Listing Rules and solely for the purpose of inclusion in this circular to be issued by the Company in connection with the Disposal. For the purpose of preparing and presenting the Financial Information for the years ended 30 June 2018, 2019 and 2020 and nine months ended 31 March 2021, the Target Company has consistently applied the accounting policies adopted by the Company and its subsidiaries in the preparation of the consolidated financial statements of the Company for respective years and periods, which conform with Hong Kong Financial Reporting Standards issued by the HKICPA.

The Financial Information of the Target Company has been prepared under the historical cost convention and on a going concern basis. The Financial Information is presented in Renminbi (RMB) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

The Financial Information of the Target Company does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1 (Revised) “Presentation of Financial Statements” issued by the HKICPA nor an interim financial report as defined in Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the HKICPA.

* For identification only

APPENDIX IIB
**UNAUDITED PROFIT AND LOSS STATEMENTS
OF THE JIACHAO'S SHOPPING MALL**

In accordance with Rule 14.69(4)(b)(i) of the Listing Rules, the Company is required to include in this circular a profit and loss statement for the three preceding financial years on the identifiable net income stream in relation to such assets which must be reviewed by the reporting accountants to ensure that such information has been properly compiled and derived from the underlying ledger.

The unaudited profit and loss statements of identifiable net income stream attributable to the Jiachao's Shopping Mall to be deemed acquired for the years ended 30 June 2018, 2019 and 2020 and nine months ended 31 March 2021 (the “**Relevant Periods**”) (the “**Unaudited Profit and Loss Statements**”), which is carved out from Zhengzhou Jiachao Property Services Co., Ltd* (鄭州佳潮物業服務有限公司) (the “**Zhengzhou Jiachao**”) in this circular, prepared by the directors of the Company are set out below:

| | Year ended 30 June | | | Nine months ended |
|--|--------------------|-----------------|-----------------|--------------------|
| | 2018 | 2019 | 2020 | 31 March |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2021 |
| | | | | HK\$'000 |
| Revenue | 136,251 | 148,351 | 105,423 | 94,362 |
| Cost of sales | <u>(23,865)</u> | <u>(24,784)</u> | <u>(23,205)</u> | <u>(28,623)</u> |
| Gross profit | 112,386 | 123,567 | 82,218 | 65,739 |
| Other revenue (Note) | 10,004 | 11,044 | 10,488 | 17,159 |
| Administrative expenses | (9,550) | (11,427) | (13,060) | (2,424) |
| Finance costs | <u>(30,620)</u> | <u>(26,640)</u> | <u>(58,291)</u> | <u>(44,937)</u> |
| Profit before taxation and fair value changes on investment properties | <u>82,220</u> | <u>96,544</u> | <u>21,355</u> | <u>35,537</u> |
| Gain/(loss) on fair value changes on investment properties | <u>107,143</u> | <u>(19,540)</u> | <u>(77,778)</u> | <u>(1,147,619)</u> |
| Profit/(loss) before taxation | <u>189,363</u> | <u>77,004</u> | <u>(56,423)</u> | <u>(1,112,082)</u> |

Note: It mainly represents income generated from the provision of car parking, electricity and water to tenants.

* For identification only

Pursuant to Rule 14.69(4)(b)(i) of the Listing Rules, the directors of the Company engaged Elite Partners CPA Limited, the reporting accountants of the Company, to perform certain factual finding procedures on the compilation of the Unaudited Profit And Loss Statements as shown above in accordance with Hong Kong Standard on Related Services 4400 “Engagements to perform Agreed-Upon Procedures Regarding Financial Information” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The procedures are performed solely to assist the directors of Art Group Holdings Limited (the “**Company**”) in evaluating whether the amounts shown in the Unaudited Profit and Loss Statements have been properly compiled and derived from the underlying ledger for the purpose of satisfying the requirements under Rule 14.69(4)(b)(i) of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited, and are summarised as follows:

1. To obtain the Unaudited Profit and Loss Statements which were prepared by the management of the Company, and check its arithmetical accuracy;
2. In respect of each of the Unaudited Profit and Loss Statements obtained, compare the revenue shown on the Unaudited Profit and Loss Statements with the relevant amounts in the underlying ledger of the Zhengzhou Jiachao provided by the management of the Company for the Relevant Periods;
3. To compare the aggregate amount of other operating expense (income) stated in the Unaudited Profit and Loss Statements of the Jiachao's Shopping Mall and the Zone C Shopping Mall with the aggregate amount of relevant balance in the underlying ledger of the Zhengzhou Jiachao provided by the management of the Company for the Relevant Periods; and
4. To recalculate the other operating expense (income) stated in the Unaudited Profit and Loss Statements of the Jiachao's Shopping Mall according to the allocation basis determined by the management of the Company to ensure the relevant amount allocated between the Jiachao's Shopping Mall and the Zone C Shopping Mall is arithmetically accurate.

The reporting accountants' factual findings are as follows:

1. With respect to item 1, we obtained the Unaudited Profit and Loss Statements, which were prepared by the management of the Company, and found the amounts in the Unaudited Profit and Loss Statements to be arithmetically accurate.
2. With respect to item 2, we compared the revenue shown on the Unaudited Profit and Loss Statements with the relevant amounts in the underlying ledger of the Zhengzhou Jiachao provided by the management of the Company for the Relevant Periods and found them to be in agreement.

3. With respect to item 3, we have compared the aggregate amount of other operating expense (income) stated in the Unaudited Profit and Loss Statements of the Jiachao's Shopping Mall and the Zone C Shopping Mall with the aggregate amount of relevant balance in the underlying ledger of the Zhengzhou Jiachao provided by the management of the Company for the Relevant Periods and found them to be in agreement.
4. With respect to item 4, we have recalculated the other operating expense (income) stated in the Unaudited Profit and Loss Statements of the Jiachao's Shopping Mall according to the allocation basis determined by the management of the Company to ensure the relevant amount allocated between the Jiachao's Shopping Mall and the Zone C Shopping Mall is arithmetically accurate and found them to be in agreement.

The reporting accountants has performed the above agreed-upon procedures set out in the relevant engagement letter with the Company and reported its factual findings based on the agreed-upon procedures to the directors of the Company. Pursuant to the terms of the relevant engagement letter between the Company and the reporting accountants, the reported factual findings should not be used or relied upon by any other parties for any purpose. In the opinion of the directors of the Company, the Unaudited Profit and Loss Statements have been properly compiled and derived from the underlying ledger. The work performed by the reporting accountants in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, Hong Kong Standards on Assurance Engagements or Hong Kong Standards on Investment Circular Reporting Engagements issued by the HKICPA and consequently no assurance has been expressed by Elite Partners CPA Limited on the Unaudited Profit and Loss Statements of the Jiachao's Shopping Mall.

In accordance with Rule 14.69(4)(b)(i) of the Listing Rules, the Company is required to include in this circular a profit and loss statement for the three preceding financial years on the identifiable net income stream in relation to such assets which must be reviewed by the reporting accountants to ensure that such information has been properly compiled and derived from the underlying ledger.

The unaudited profit and loss statements of identifiable net income stream attributable to the Zone C Shopping Mall to be deemed acquired for the years ended 30 June 2018, 2019 and 2020 and nine months ended 31 March 2021 (the “**Relevant Periods**”) (the “**Unaudited Profit and Loss Statements**”), which is carved out from Zhengzhou Jiachao Property Services Co., Ltd* (鄭州佳潮物業服務有限公司) (the “**Zhengzhou Jiachao**”) in this circular, prepared by the directors of the Company are set out below:

| | Year ended 30 June | | | Nine months ended |
|-------------------------|--------------------|-----------------|-----------------|-------------------|
| | 2018 | 2019 | 2020 | 31 March |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2021 |
| | | | | HK\$'000 |
| Revenue | 59,195 | 59,400 | 54,124 | 48,967 |
| Cost of sales | <u>(36,923)</u> | <u>(38,761)</u> | <u>(40,393)</u> | <u>(41,806)</u> |
| Gross profit | 22,272 | 20,639 | 13,731 | 7,161 |
| Other revenue (Note) | 3,469 | 4,440 | 3,950 | 3,819 |
| Administrative expenses | <u>(4,242)</u> | <u>(3,542)</u> | <u>(2,337)</u> | <u>(1,680)</u> |
| Profit before taxation | <u>21,499</u> | <u>21,537</u> | <u>15,344</u> | <u>9,300</u> |

Note: It mainly represents income generated from the provision of electricity and water to tenants.

Pursuant to Rule 14.69(4)(b)(i) of the Listing Rules, the directors of the Company engaged Elite Partners CPA Limited, the reporting accountants of the Company, to perform certain factual finding procedures on the compilation of the Unaudited Profit And Loss Statements as shown above in accordance with Hong Kong Standard on Related Services 4400 “Engagements to perform Agreed-Upon Procedures Regarding Financial Information” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). The procedures are performed solely to assist the directors of Art Group Holdings Limited (the “**Company**”) in evaluating whether the amounts shown in the Unaudited Profit and Loss Statements have been properly compiled and derived from the underlying ledger for the purpose of satisfying the requirements under Rule 14.69(4)(b)(i) of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited, and are summarised as follows:

1. To obtain the Unaudited Profit and Loss Statements which were prepared by the management of the Company, and check its arithmetical accuracy; and

* For identification only

2. In respect of each of the Unaudited Profit and Loss Statements obtained, compare the revenue shown on the Unaudited Profit and Loss Statements with the relevant amounts in the underlying ledger of the Zhengzhou Jiachao provided by the management of the Company for the Relevant Periods;
3. To compare the aggregate amount of other operating expense (income) stated in the Unaudited Profit and Loss Statements of the Zone C Shopping Mall and the Jiachao's Shopping Mall with the aggregate amount of relevant balance in the underlying ledger of the Zhengzhou Jiachao provided by the management of the Company for the Relevant Periods; and
4. To recalculate the other operating expense (income) stated in the Unaudited Profit and Loss Statements of the Zone C Shopping Mall according to the allocation basis determined by the management of the Company to ensure the relevant amount is allocated between the Zone C Shopping Mall and the Jiachao's Shopping Mall is arithmetically accurate.

The reporting accountants' factual findings are as follows:

1. With respect to item 1, we obtained the Unaudited Profit and Loss Statements, which were prepared by the management of the Company, and found the amounts in the Unaudited Profit and Loss Statements to be arithmetically accurate.
2. With respect to item 2, we compared the revenue shown on the Unaudited Profit and Loss Statements with the relevant amounts in the underlying ledger of the Zhengzhou Jiachao provided by the management of the Company for the Relevant Periods and found them to be in agreement.
3. With respect to item 3, we have compared the aggregate amount of other operating expense (income) stated in the Unaudited Profit and Loss Statements of the Zone C Shopping Mall and the Jiachao's Shopping Mall with the aggregate amount of relevant balance in the underlying ledger of the Zhengzhou Jiachao provided by the management of the Company for the Relevant Periods and found them to be in agreement.
4. With respect to item 4, we have recalculated the other operating expense (income) stated in the Unaudited Profit and Loss Statements of the Zone C Shopping Mall according to the allocation basis determined by the management of the Company to ensure the relevant amount allocated between the Zone C Shopping Mall and the Jiachao's Shopping Mall is arithmetically accurate and found them to be in agreement.

The reporting accountants has performed the above agreed-upon procedures set out in the relevant engagement letter with the Company and reported its factual findings based on the agreed-upon procedures to the directors of the Company. Pursuant to the terms of the relevant engagement letter between the Company and the reporting accountants, the reported factual findings should not be used or relied upon by any other parties for any purpose. In the opinion of the directors of the Company, the Unaudited Profit and Loss Statements have been properly compiled and derived from the underlying ledger. The work performed by the reporting accountants in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, Hong Kong Standards on Assurance Engagements or Hong Kong Standards on Investment Circular Reporting Engagements issued by the HKICPA and consequently no assurance has been expressed by Elite Partners CPA Limited on the Unaudited Profit and Loss Statements of the Zone C Shopping Mall.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The unaudited pro forma financial information (the “**Unaudited Pro Forma Financial Information**”) presented below is prepared in accordance with Rules 4.29 of the Listing Rules to illustrate (a) unaudited pro forma consolidated statement of the financial position of the Remaining Group as if the proposed disposal of 75% equity interests in Zhengzhou Jiachao Property Services Co., Ltd* (鄭州佳潮物業服務有限公司) (the “**Target Company**”) and the very substantial acquisition in relation to the Lease Contract Jiachao’s and the Lease Contract Zone C (the “**Acquisitions**”) (hereinafter collectively referred as the “**Transactions**”) had been completed on 31 December 2020; (b) unaudited pro forma consolidated statement of profit or loss and other comprehensive income; and (c) unaudited pro forma consolidated statement of cash flows of the Remaining Group for the year ended 30 June 2020 as if the Transactions had been completed on 1 July 2019. This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not purport to represent the true picture of the financial position of the Remaining Group as at 31 December 2020 or at any future date had the Transactions been completed on 31 December 2020 or the results and cash flows of the Remaining Group for the year ended 30 June 2020 or for any future period had the Transactions been completed on 1 July 2019.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited condensed consolidated statement of the financial position of the Group as at 31 December 2020 which has been extracted from the unaudited condensed consolidated financial statements of the Group for six months ended 31 December 2020 as set out in the interim report of the Company, the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 30 June 2020 which have been extracted from the audited consolidated financial statements of the Group for the year ended 30 June 2020 as set out in the annual report of the Company, and the unaudited financial information of the Target Company which has been extracted from Appendix IIA as set out in this circular after giving effect to the pro forma adjustments described in the notes and is prepared in accordance with Rules 4.29 and 14.68(2)(a)(ii) of the Listing Rules.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the published interim report of the Group for six months ended 31 December 2020 and the published annual report of the Group for the year ended 30 June 2020 and other financial information included elsewhere in this circular.

* for identification only

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE REMAINING GROUP

As at 31 December 2020

| | Pro forma adjustments | | | | | | | | The Remaining Group |
|--|-----------------------------|----------------------|--------------------|--------------------|--------------------|-----------------------|--------------------|--------------------|---------------------------|
| | The Group (unaudited) | The Target Company | | HK\$'000 Note 4 | HK\$'000 Note 5 | HK\$'000 Note 2(b) | HK\$'000 Note 6 | HK\$'000 Note 7 | |
| | HK\$'000 Note 1 | RMB'000 Note 2(a) | HK\$'000 Note 3 | | | | | | |
| Non-current assets | | | | | | | | | |
| Property, plant and equipment | 18,716 | (59) | (70) | – | – | – | – | – | 18,646 |
| Right-of-use assets | 6,780 | – | – | – | – | – | – | – | 6,780 |
| Rental deposits | – | – | – | – | – | – | (112,614) | 290,548 | 177,934 |
| Investment properties | 2,432,795 | (1,436,000) | (1,709,524) | – | – | – | 1,034,042 | – | 1,757,313 |
| Goodwill | 34,764 | – | – | – | – | (34,764) | – | – | – |
| | <u>2,493,055</u> | <u>(1,436,059)</u> | <u>(1,709,594)</u> | <u>–</u> | <u>–</u> | <u>(34,764)</u> | <u>921,428</u> | <u>290,548</u> | <u>1,960,673</u> |
| Current assets | | | | | | | | | |
| Inventories | 72 | – | – | – | – | – | – | – | 72 |
| Trade and other receivables | 49,858 | (31,187) | (37,127) | – | – | – | – | – | 12,731 |
| Bank balances and cash | <u>352,311</u> | <u>(271,333)</u> | <u>(323,015)</u> | <u>–</u> | <u>366,105</u> | <u>507,891</u> | <u>(82,124)</u> | <u>(290,548)</u> | <u>530,620</u> |
| | <u>402,241</u> | <u>(302,520)</u> | <u>(360,142)</u> | <u>–</u> | <u>366,105</u> | <u>507,891</u> | <u>(82,124)</u> | <u>(290,548)</u> | <u>543,423</u> |
| Current liabilities | | | | | | | | | |
| Other payables | 61,654 | (41,549) | (49,463) | – | – | – | – | – | 12,191 |
| Contract liabilities | 22,101 | (1,850) | (2,202) | – | – | – | – | – | 19,899 |
| Lease liabilities | 1,017 | – | – | – | – | – | 19,231 | – | 20,248 |
| Secured bank borrowings | 80,819 | (78,971) | (94,013) | 13,194 | – | – | – | – | – |
| Bonds | 9,000 | – | – | – | – | – | – | – | 9,000 |
| Amount due to holding company | – | (307,530) | (366,105) | – | 366,105 | – | – | – | – |
| Tax liabilities | <u>2,365</u> | <u>(1,548)</u> | <u>(1,845)</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>520</u> |
| | <u>176,956</u> | <u>(431,448)</u> | <u>(513,628)</u> | <u>13,194</u> | <u>366,105</u> | <u>–</u> | <u>19,231</u> | <u>–</u> | <u>61,858</u> |
| Net current assets/(liabilities) | <u>225,285</u> | <u>128,928</u> | <u>153,486</u> | <u>(13,194)</u> | <u>–</u> | <u>507,891</u> | <u>(101,355)</u> | <u>(290,548)</u> | <u>481,565</u> |
| Total assets less current liabilities | <u>2,718,340</u> | <u>(1,307,131)</u> | <u>(1,556,108)</u> | <u>(13,194)</u> | <u>–</u> | <u>473,127</u> | <u>820,073</u> | <u>–</u> | <u>2,442,238</u> |
| EQUITY | | | | | | | | | |
| Capital and reserves | | | | | | | | | |
| Share capital | 26,888 | – | – | – | – | – | – | – | 26,888 |
| Share premium and reserves | <u>1,263,211</u> | <u>–</u> | <u>–</u> | <u>(126)</u> | <u>–</u> | <u>(14,458)</u> | <u>–</u> | <u>–</u> | <u>1,248,627</u> |
| Equity attributable to owners of the Company | <u>1,290,099</u> | <u>–</u> | <u>–</u> | <u>(126)</u> | <u>–</u> | <u>(14,458)</u> | <u>–</u> | <u>–</u> | <u>1,275,515</u> |
| Non-controlling interests | <u>296,282</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>(162,528)</u> | <u>–</u> | <u>–</u> | <u>133,754</u> |
| Total equity | <u>1,586,381</u> | <u>–</u> | <u>–</u> | <u>(126)</u> | <u>–</u> | <u>(176,986)</u> | <u>–</u> | <u>–</u> | <u>1,409,269</u> |
| Non-current liabilities | | | | | | | | | |
| Lease liabilities | 4,854 | – | – | – | – | – | 820,073 | – | 824,927 |
| Deferred tax liabilities | 318,534 | (114,099) | (135,832) | – | – | – | – | – | 182,702 |
| Secured bank borrowings | 783,231 | (646,937) | (770,163) | (13,068) | – | – | – | – | – |
| Bonds | <u>25,340</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>25,340</u> |
| | <u>1,131,959</u> | <u>(761,036)</u> | <u>(905,995)</u> | <u>(13,068)</u> | <u>–</u> | <u>–</u> | <u>820,073</u> | <u>–</u> | <u>1,032,969</u> |
| | <u>2,718,340</u> | <u>(761,036)</u> | <u>(905,995)</u> | <u>(13,194)</u> | <u>–</u> | <u>(176,986)</u> | <u>820,073</u> | <u>–</u> | <u>2,442,238</u> |

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE REMAINING GROUP

For the year ended 30 June 2020

| | Pro forma adjustments | | | | | | | | | | |
|---|---------------------------|----------------------|--------------------|-----------------------|-----------------------|--------------------|---------------------|---------------------|---------------------|---------------------------|--|
| | The Group (audited) | The Target Company | | | | | | | | The Remaining Group | |
| | HK\$'000 Note 1 | RMB'000 Note 8(a) | HK\$'000 Note 3 | HK\$'000 Note 8(c) | HK\$'000 Note 8(b) | HK\$'000 Note 9 | HK\$'000 Note 10 | HK\$'000 Note 11 | HK\$'000 Note 12 | HK\$'000 | |
| Revenue | 159,547 | (143,592) | (159,547) | – | – | 159,547 | – | – | – | 159,547 | |
| Cost of sales | (63,598) | 57,238 | 63,598 | – | – | (63,598) | – | – | – | (63,598) | |
| Gross profit | 95,949 | (86,354) | (95,949) | – | – | 95,949 | – | – | – | 95,949 | |
| Other revenue | 14,764 | (12,994) | (14,438) | – | – | 14,438 | – | – | 6,856 | 21,620 | |
| Administrative expenses | (29,946) | 13,857 | 15,397 | – | – | (15,397) | – | – | – | (29,946) | |
| Loss on disposal of a subsidiary | – | – | – | – | (767,012) | – | – | – | – | (767,012) | |
| (Loss)/gain on fair value changes on investment properties | (77,778) | 70,000 | 77,778 | – | – | – | 1,294,894 | – | – | 1,294,894 | |
| Gain on fair value change on biological assets | 744 | – | – | – | – | – | – | – | – | 744 | |
| Finance costs | (61,942) | 52,462 | 58,291 | – | – | – | – | (1,214) | – | (4,865) | |
| (Loss)/profit before taxation | (58,209) | 36,971 | 41,079 | - | (767,012) | 94,990 | 1,294,894 | (1,214) | 6,856 | 611,384 | |
| Income tax credit/(expense) | 22,496 | (20,246) | (22,496) | – | – | 3,051 | (323,724) | – | – | (320,673) | |
| (Loss)/profit for the year | (35,713) | 16,725 | 18,583 | – | (767,012) | 98,041 | 971,170 | (1,214) | 6,856 | 290,711 | |
| Other comprehensive (expense)/income | | | | | | | | | | | |
| Items that may be reclassified subsequently to profit or loss: | | | | | | | | | | | |
| Exchange differences on translation from functional currency to presentation currency | (61,261) | – | 48,770 | – | – | – | – | – | – | (12,491) | |
| Recycle of exchange differences upon disposal of foreign operations | – | – | – | – | 91,494 | – | – | – | – | 91,494 | |
| Other comprehensive (expense)/income for the year (net of tax) | (61,261) | – | 48,770 | – | 91,494 | – | – | – | – | 79,003 | |
| Total comprehensive (expense)/income for the year | (96,974) | 16,725 | 67,353 | – | (675,518) | 98,041 | 971,170 | (1,214) | 6,856 | 369,714 | |
| (Loss)/profit for the year attributable to: | | | | | | | | | | | |
| Owners of the Company | (30,658) | 16,725 | 18,583 | (4,646) | (767,012) | 73,531 | 728,377 | (910) | 5,142 | 22,407 | |
| Non-controlling interests | (5,055) | – | – | 4,646 | – | 24,510 | 242,793 | (304) | 1,714 | 268,304 | |
| | (35,713) | 16,725 | 18,583 | – | (767,012) | 98,041 | 971,170 | (1,214) | 6,856 | 290,711 | |
| Total comprehensive (expense)/income for the year attributable to: | | | | | | | | | | | |
| Owners of the Company | (79,731) | 16,725 | 67,353 | (16,837) | (675,518) | 73,531 | 728,377 | (910) | 5,142 | 101,407 | |
| Non-controlling interests | (17,243) | – | – | 16,837 | – | 24,510 | 242,793 | (304) | 1,714 | 268,307 | |
| | (96,974) | 16,725 | 67,353 | – | (675,518) | 98,041 | 971,170 | (1,214) | 6,856 | 369,714 | |

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE REMAINING GROUP

For the year ended 30 June 2020

| | Pro forma adjustments | | | | | | | | | | |
|---|------------------------|--------------------|-----------|----------|----------|-----------|----------|-------------|----------|----------|---------------------|
| | The Group (audited) | The Target Company | | | | | | | | | The Remaining Group |
| | HK\$'000 | RMB'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | Note 1 | Note 13(a) | Note 3 | Note 5 | Note 14 | Note 8(b) | Note 9 | Note 10 | Note 11 | Note 12 | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | | | | | | |
| (Loss)/profit before taxation | (58,209) | 36,971 | 41,079 | - | - | (767,012) | 94,990 | 1,294,894 | (1,214) | 6,856 | 611,384 |
| Adjustments for: | | | | | | | | | | | |
| Interest income | (126) | - | - | - | - | - | - | - | - | (6,856) | (6,982) |
| Depreciation of property, plant and equipment | 2,142 | (1,893) | (2,104) | - | - | - | - | - | - | - | 38 |
| Loss on disposal of property, plant and equipment | 1,144 | - | - | - | - | - | - | - | - | - | 1,144 |
| Loss on disposal of a subsidiary | - | - | - | - | - | 767,012 | - | - | - | - | 767,012 |
| Finance costs recognised in profit or loss | 61,942 | (52,462) | (58,291) | - | - | - | - | - | 1,214 | - | 4,865 |
| Loss/(gain) on fair value change on investment properties | 77,778 | (70,000) | (77,778) | - | - | - | - | (1,294,894) | - | - | (1,294,894) |
| Gain on fair value change on biological assets | (744) | - | - | - | - | - | - | - | - | - | (744) |
| Operating cash flows before movements in working capital | 83,927 | (87,384) | (97,094) | - | - | - | 94,990 | - | - | - | 81,823 |
| Increase in biological assets | (690) | - | - | - | - | - | - | - | - | - | (690) |
| Decrease/(increase) in trade and other receivables | 12,284 | (49,204) | (54,670) | - | - | - | 54,670 | - | - | - | 12,284 |
| (Decrease)/Increase in other payables | (6,243) | 6,260 | 6,956 | - | - | - | (6,956) | - | - | - | (6,243) |
| (Decrease)/increase in contract liabilities | (6,966) | 6,269 | 6,966 | - | - | - | (6,966) | - | - | - | (6,966) |
| Cash generated from/(used in) operations | 82,312 | (124,059) | (137,842) | - | - | - | 135,738 | - | - | - | 80,208 |
| Income tax paid | (5,792) | 5,215 | 5,792 | - | - | - | (5,792) | - | - | - | (5,792) |
| NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES | | | | | | | | | | | |
| | 76,520 | (118,844) | (132,050) | - | - | - | 129,946 | - | - | - | 74,416 |

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

| | Pro forma adjustments | | | | | | | | | | |
|---|---------------------------|--------------------|-----------|----------|-----------|-----------|----------|----------|----------|----------|---------------------------|
| | The Group (audited) | The Target Company | | | | | | | | | The Remaining Group |
| | HK\$'000 | RMB'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | Note 1 | Note 13(a) | Note 3 | Note 5 | Note 14 | Note 8(b) | Note 9 | Note 10 | Note 11 | Note 12 | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | | | | | | |
| Purchases of property, plant and equipment | (6,463) | 12 | 13 | – | – | – | – | – | – | – | (6,450) |
| Interest received | 126 | – | – | – | – | – | – | – | – | – | 126 |
| Net cash inflow from disposal of a subsidiary | 224,710 | – | – | – | – | 474,838 | – | – | – | – | 699,548 |
| Refund of the intercompany balance from the Target Company | – | – | – | 349,464 | – | – | – | – | – | – | 349,464 |
| Payment for rental deposits | – | – | – | – | (277,341) | – | – | – | – | – | (277,341) |
| Prepayment of rent | – | – | – | – | (78,390) | – | – | – | – | – | (78,390) |
| Increase in amount from the ultimate holding company | – | 9,318 | 10,353 | – | – | – | – | – | – | – | 10,353 |
| NET CASH GENERATED FROM INVESTING ACTIVITIES | 218,373 | 9,330 | 10,366 | 349,464 | (355,731) | 474,838 | – | – | – | – | 697,310 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | | | | | | | |
| Decrease in amount due to a substantial shareholder | (234,312) | – | – | – | – | – | – | – | – | – | (234,312) |
| Proceeds from secured bank borrowings | 888,890 | (800,000) | (888,890) | – | – | – | – | – | – | – | – |
| Repayments of secured bank borrowings | (491,667) | 442,500 | 491,667 | – | – | – | – | – | – | – | – |
| Repayment of lease liabilities | (2,503) | – | – | – | – | – | – | – | (17,948) | – | (20,451) |
| Proceeds from issue of bond | 9,000 | – | – | – | – | – | – | – | – | – | 9,000 |
| Dividend paid to non-controlling interest | (11,250) | 40,500 | 45,000 | – | – | – | – | – | – | – | 33,750 |
| Interest paid | (58,202) | 49,146 | 54,607 | – | – | – | – | – | (1,214) | – | (4,809) |
| Decrease in amount to an immediate holding company | – | 16,216 | 18,018 | – | – | – | – | – | – | – | 18,018 |
| NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES | 99,956 | (251,638) | (279,598) | – | – | – | – | – | (19,162) | – | (198,804) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 394,849 | (361,152) | (401,282) | 349,464 | (355,731) | 474,838 | 129,946 | – | (19,162) | – | 572,922 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | | | | | | | | | | |
| | 32,377 | (8,644) | (9,822) | – | – | 9,822 | – | – | – | – | 32,377 |
| Effect of foreign exchange rate changes | (8,131) | – | 4,736 | – | – | – | – | – | – | – | (3,395) |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR represented by bank balances and cash | | | | | | | | | | | |
| | 419,095 | (369,796) | (406,368) | 349,464 | (355,731) | 484,660 | 129,946 | – | (19,162) | – | 601,904 |

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

Notes:

1. The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 31 December 2020 as set out in 2020 published interim report of the Company (“**Interim Condensed Financial Statements**”) and the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 30 June 2020 as set out in 2020 published annual report of the Company (“**Annual Financial Statements**”) respectively.
2. The following pro forma adjustments have been made to the unaudited pro forma consolidated statement of financial position of the Remaining Group, assuming the Disposal had taken place on 31 December 2020:
 - (a) The adjustment represents the deconsolidation of assets and liabilities of the Target Company to be disposed of. The amounts have been extracted from the unaudited financial information of the Target Company as at 31 March 2021 as set out in Appendix IIA to this circular, with certain reclassification being made to bring them in line with presentation of the unaudited pro forma consolidated statement of financial position of the Remaining Group, where appropriate.
 - (b) The adjustment represents the estimated net loss on the Disposal which is calculated as follows:

| | |
|--|------------------------|
| | <i>HK\$'000</i> |
| Consideration (<i>note i</i>) | 511,357 |
| Less: Estimated costs and expenses of the Disposal (<i>note ii</i>) | <u>(3,466)</u> |
| Estimated net proceeds received from the Disposal | 507,891 |
| Less: Net assets of the Target Company as at 31 March 2021 (<i>note iii</i>) | (650,113) |
| Add: Non-controlling interests as at 31 March 2021 (<i>note iv</i>) | <u>162,528</u> |
| | 20,306 |
| Less: Goodwill as at 31 December 2020 | <u>(34,764)</u> |
| Estimated net loss on the Disposal | <u><u>(14,458)</u></u> |

- (i) The Consideration under the Sale and Purchase Agreement payable by the Purchaser to the Remaining Group in respect of the Disposal is RMB429,540,000.
- (ii) The amount includes the estimated professional expenses and stamp duty directly incurred for the Disposal amounting to approximately HK\$3,466,000 which will be borne by the Remaining Group and are assumed to be settled in cash upon the completion of the Disposal.
- (iii) The amount extracted from the unaudited financial information of the Target Company as at 31 March 2021 as set out in Appendix IIA to this circular.
- (iv) The amount represents 25% of the net assets of the Target Company as at 31 March 2021 attributable to non-controlling interest.

The actual financial effects of the Disposal are to be determined based on the consideration and the carrying amount of net assets of the Target Company at the completion date, which may be substantially different from the estimated amounts used in the preparation of the Unaudited Pro Forma Financial Information.

3. For the purpose of preparation of the Unaudited Pro Forma Financial Information, the exchange rates adopted are as follows:

| | |
|--|--------------------|
| As at 31 March 2021 | HK\$1.00 = RMB0.84 |
| As at 30 June 2020 | HK\$1.00 = RMB0.91 |
| As at 1 July 2019 | HK\$1.00 = RMB0.88 |
| Average rate for the year ended 30 June 2020 | HK\$1.00 = RMB0.90 |

No representation is made that the Renminbi (“**RMB**”) amounts have been, could have been or could be converted to Hong Kong Dollar (“**HK\$**”), or vice versa, at those rates or at any other rates or at all.

4. The adjustment represents reversal of interest on the secured bank borrowings for the period.
5. The adjustment represents settlement of intercompany balance between the Target Company and the Remaining Group in accordance with the Sale and Purchase Agreement upon the completion of the Disposal as if the Disposal taken place at 31 December 2020 for the unaudited pro forma consolidated statement of financial position of the Remaining Group or 1 July 2019 for the unaudited pro forma consolidated statement of cash flows of the Remaining Group.
6. The adjustment represented the initial recognition of lease liabilities with amount of approximately RMB705,015,000 (equivalent to approximately HK\$839,304,000), the right-of-use assets with amount of approximately RMB868,595,000 (equivalent to approximately HK\$1,034,042,000), prepayment of rent with amount of approximately RMB68,984,000 (equivalent to approximately HK\$82,124,000) and imputed interest adjustments on rental deposits paid with amount of approximately RMB94,596,000 (equivalent to approximately HK\$112,614,000) in relation to the Lease Contract Jiacho’s and the Lease Contract Zone C (the “**Head Leases**”) upon the completion of the Acquisitions as if the Acquisitions take place on 31 December 2020.

As the Remaining Group intends to enter into arrangements to sublease the leased assets to third parties, assuming the subleases have been entered into and are classified as operating leases, the Remaining Group, as the intermediate lessor, will continue to account for the lease liabilities and right-of-use assets on the Head Leases in accordance with Hong Kong Financial Reporting Standard 16 *Leases* (“**HKFRS 16**”).

The right-of-use assets will be presented as investment properties and subsequently measured at fair value assuming that the right-of-use assets meet the definition of investment property in accordance with Hong Kong Accounting Standard 40 *Investment Property* (“**HKAS 40**”). The adjustment for the Acquisitions have been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the impact to the Group had the Acquisitions been completed on the actual date of completion.

The adjustment is expected to have a continue financial effect on the Remaining Group due to the change in fair value of investment property, annual amortization of the interest portion of rental deposit and lease liabilities.

7. The adjustment represents the rental deposits of approximately RMB244,060,000 (equivalent to approximately HK\$290,548,000) paid by the Remaining Group upon commencement of the lease agreements as if the Acquisitions take place on 31 December 2020. This adjustment is expected to have a continuing financial effect on the Remaining Group as the rental deposits can be refundable upon expiry of the lease agreements.

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

8. The following pro forma adjustments have been made to the unaudited pro forma consolidated profit or loss account and statement of comprehensive income of the Remaining Group, assuming the Disposal had taken place on 1 July 2019:

- (a) The adjustment represents the exclusion of income and expenses of the Target Company to be disposed of for the year ended 30 June 2020. The amounts have been extracted from the unaudited financial information of the Target Company for the year ended 30 June 2020 as set out in Appendix II to this circular.

- (b) The adjustment represents the estimated loss on the Disposal:

| | <i>HK\$'000</i> |
|---|-------------------------|
| Consideration (<i>note i</i>) | 488,114 |
| Less: Estimated costs and expenses of the Disposal (<i>note ii</i>) | <u>(3,454)</u> |
| Estimated net proceeds received from the Disposal | 484,660 |
| Less: Net assets of the Target Company as at 30 June 2019 (<i>note iii</i>) | (1,500,552) |
| Add: Non-controlling interests as at 30 June 2019 (<i>note iv</i>) | 375,138 |
| Less: Exchange reserve (<i>note v</i>) | <u>(91,494)</u> |
| | (732,248) |
| Less: Goodwill as at 30 June 2019 | <u>(34,764)</u> |
| Estimated net loss on the Disposal | <u><u>(767,012)</u></u> |

- (i) The Consideration under the Sale and Purchase Agreement payable by the Purchaser to the Remaining Group in respect of the Disposal is RMB429,540,000.
- (ii) The amount includes the estimated professional expenses and stamp duty directly incurred for the Disposal amounting to approximately HK\$3,454,000 which will be borne by the Remaining Group and are assumed to be settled in cash.
- (iii) The amount represents the carrying amount of net assets of the Target Company as at 30 June 2019, which is extracted from the unaudited financial information of the Target Company as at 30 June 2019 as set out in Appendix IIA to this circular.
- (iv) The amount represents 25% of the net assets of the Target Company as at 30 June 2019 attributable to non-controlling interest.
- (v) The adjustments represent recycling of exchange reserve in other comprehensive income to profit or loss as a result of the Disposal been completed on 1 July 2019.
- (c) The adjustment represents the reversal of the share of results and other comprehensive income to non-controlling interest.
9. The adjustment represents the operating results of the leased assets which are included in the Unaudited Profit or Loss Statements of the Jiachao's Shopping Mall and the Zone C Shopping Mall for the year ended 30 June 2020 as set out in Appendix IIB and IIC of this circular.

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

Assuming the Transactions had taken place on 1 July 2019 and the existing leases between the Target Company and lessees leasing the leased assets (“**Original Leases**”) had been superseded by the new leases between the Remaining Group and the lessees with the same terms as contained in the Original Leases on 1 July 2019 (“**New Leases**”), the Directors is in opinion that there is no change for the expected cash flow and financial performance between the Original Leases and New Leases for the year ended 30 June 2020 for the purpose of the preparation of pro forma financial information.

The income tax is calculated based on Enterprise Income Tax rate of the People’s Republic of China at 25%.

10. The adjustment represents fair value change on the investment properties as if the Acquisitions is completed on 1 July 2019. The right-of-use assets will be presented as investment properties assuming that the right-of-use assets meet the definition of investment property in accordance with HKAS 40. The right-of-use assets is initially measured at cost and subsequently measured at fair value. Any change in fair value of investment properties will be recognised in profit or loss.

In preparing the unaudited pro forma financial information, a valuation of the right-of-use assets which classified as investment properties is prepared by the independent professional valuer and adopted income approach for calculating the fair value as at 30 June 2020. The fair value of leased assets as at 30 June 2020 is calculated as if the yield rate, the market rent and occupancy rate of the leased assets are remained at the same as the valuation date of the Acquisitions on 31 March 2021, except for adjusting the remaining lease term. The adjustment is expected to have a continuing effect on the Group.

As if the Acquisitions completed on 1 July 2019, the difference in fair value of the investment properties between 1 July 2019 and 30 June 2020 is set out as below:

| | <i>HK\$’000</i> |
|--|-------------------------|
| Investment properties | |
| Initial recognition at 1 July 2019 | 987,040 |
| Fair value gain on investment properties | 1,294,894 |
| Exchange realignment | <u>(46,769)</u> |
| Balance at 30 June 2020 | <u><u>2,235,165</u></u> |

11. The adjustment represents interest expenses of approximately RMB1,093,000 (equivalent to approximately HK\$1,214,000) incurred for the lease liabilities as if the Acquisitions is completed on 1 July 2019. Under HKFRS 16, all leases are required to be capitalised as right-of-use assets and lease liabilities. The lease liability should be recognised at the present value of the lease payments that are not yet paid at the date of commencement of the lease. Subsequent to the commencement date, the Remaining Group shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; and (ii) reducing the carrying amount to reflect the lease payments made. The principal portion of lease payments of approximately RMB16,153,000 will be made (equivalent to approximately HK\$17,948,000 for the year ended 30 June 2020 as if the Acquisitions is completed on 1 July 2019). The adjustment is expected to have a continuing effect on the Group.

APPENDIX III

**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE REMAINING GROUP**

12. The adjustment represents the interest income occurred for the rental deposits as if the Acquisitions is completed on 1 July 2019. Refundable rental deposits paid are accounted for under HKFRS 9 and initially measured at fair value. The rental deposits should be recognised at the present value of the rental deposits that are paid at the date of commencement of the lease. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets, i.e. investment properties. Subsequent to the commencement date, the Remaining Group shall measure the rental deposits by increasing the carrying amount to reflect interest income on the rental deposits. The adjustment is expected to have a continuing effect on the Group.
13. The following pro forma adjustments have been made to the unaudited pro forma consolidated statement of cash flows assuming the Disposal had taken place on 1 July 2019:
- (a) The adjustment represents the exclusion of cash flows of the Target Company for the year ended 30 June 2020 as if the Disposal had been completed on 1 July 2019. The amounts are extracted from the unaudited statements of cash flows of the Target Company for the year ended 30 June 2020, as set out in Appendix IIA to this circular.
- (b) The adjustment represents the net cash inflow from the Disposal.

HK\$'000

| | |
|--|-----------------------|
| Consideration (<i>note i</i>) | 488,114 |
| Less: Estimated costs and expenses of the Disposal (<i>note ii</i>) | <u>(3,454)</u> |
| Estimated net proceeds received from the Disposal | 484,660 |
| Less: Cash and cash equivalents held by the Target Company as at 1 July 2019 | <u>(9,822)</u> |
| Net cash proceeds from completion of the Transaction | <u><u>474,838</u></u> |

- (i) The Consideration under the Sale and Purchase Agreement payable by the Purchaser to the Remaining Group in respect of the Disposal is RMB429,540,000.
- (ii) The amount includes the estimated professional expenses and stamp duty directly incurred for the Disposal amounting to approximately HK\$3,454,000 which will be borne by the Remaining Group and are assumed to be settled in cash.
14. The adjustment represents the rental deposits and prepayment of rent of approximately RMB244,060,000 (equivalent to approximately HK\$277,341,000) and approximately RMB68,984,000 (equivalent to approximately HK\$78,390,000) respectively paid by the Remaining Group upon commencement of the lease agreements as if the Acquisitions take place on 1 July 2019. This adjustment is expected to have a continuing financial effect on the Remaining Group as the rental deposits can be refundable upon expiry of the lease agreements.
15. No adjustment have been made to adjust any trading results or other transaction of the Group or the Remaining Group entered into subsequent to 30 June 2020 and 31 December 2020.
16. All the proforma adjustment, except those stated in the notes, will not have a continues effect on the Remaining Group in the subsequent reporting periods.

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

10/F, 8 Observatory Road,
Tsim Sha Tsui, Kowloon
Hong Kong

28 May 2021

The Board of Directors

Art Group Holdings Limited

Unit 1407, 14/F

China Merchants Tower, Shun Tak Centre

168-200 Connaught Road Central

Hong Kong

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Art Group Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2020, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 30 June 2020 and related notes as set out on pages III-2 to III-10 of Appendix III of the Company’s circular dated 28 May 2021 (the “**Circular**”), in connection with the proposed disposal of 75% equity interests in the Target Company and very substantial acquisition in relation to the lease contracts (the “**Transactions**”) issued by the Company. The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages III-2 to III-10 of Appendix III of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Transactions on the Group’s consolidated financial position as at 31 December 2020 as if the Transactions had taken place on 31 December 2020 and on the Group’s consolidated financial performance and consolidated cash flows for the year ended 30 June 2020 as if the Transactions had been taken place at 1 July 2019. As part of this process, information about the consolidated financial position has been extracted by the Directors from the Group’s unaudited condensed consolidated financial statements as included in the interim report for six months ended 31 December 2020, on which an review report has been published, and information about the Group’s consolidated financial performance and consolidated cash flows has been extracted by the Directors from the Group’s consolidated financial statements as included in the annual report for the year ended 30 June 2020, on which an audit report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of the unaudited pro forma financial information included in the Circular is solely to illustrate the impact of the Transactions on unadjusted financial statements of the Group as if the Transactions had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2020 and for the year ended 30 June 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Elite Partners CPA Limited

Certified Public Accountants

Siu Jimmy

Practicing Certificate P05898

Hong Kong

The following is the text of a letter and a valuation certificate prepared for the purpose of incorporation in this circular received from International Valuation Limited, an independent valuer, in connection with its valuation as at 31 March 2021 of the property interests.



INTERNATIONAL VALUATION LIMITED
國 際 評 估 有 限 公 司

Suite 1213, 12/F,
Houston Centre,
63 Mody Road,
Tsim Sha Tsui,
Kowloon
Hong Kong

28 May 2021

The Board of Directors
Art Group Holdings Limited
Unit 1407, 14/F
China Merchants Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

Re: Valuation of:–

- (1) The Property Interest of a Shopping Mall situated at No. 36 Mianfang West Road, Zhongyuan District, Zhengzhou City, Henan Province, The People’s Republic of China (The “PRC”) to be Disposed;**
- (2) The Property Interest of a Shopping Mall situated at No. 36 Mianfang West Road, Zhongyuan District, Zhengzhou City, Henan Province, The PRC to be Rented and**
- (3) The Property Interest of a Shopping Mall situated at No. 40 Mianfang West Road, Zhongyuan District, Zhengzhou City, Henan Province, The PRC to be Rented**

1. INSTRUCTIONS, PURPOSE AND VALUATION DATE

In accordance with the instructions from Art Group Holdings Limited (the “**Company**”) and its subsidiaries (together the “**Group**”) to value the property interests situated in the PRC, we confirm that we have made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at 31 March 2021 for transaction purposes.

2. BASIS OF VALUATION

Our valuation of the property interests represents their market value which in accordance with the HKIS Valuation Standards 2020 Edition issued by The Hong Kong Institute of Surveyors (“HKIS”) is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

Our valuations have been prepared in accordance with generally accepted valuation procedures and in compliance with the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

3. VALUATION METHODOLOGY

We have valued the property interests on open market basis, which are subject to existing various tenancy agreements and will be subject to long lease agreements. Income Capitalisation Method is adopted by capitalizing the rental income derived from the existing various tenancies during the tenancy periods, if any, with due provision for the reversionary potential of each constituent portion of the properties with market rental at market capitalisation rate. During the course of Income Capitalisation Method, market rental of the properties are derived by comparables letting evidences within the relevant localities, and market capitalisation rate are arrived by Market Approach.

4. VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the owner sells the property interests on the open market in its existing state without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the value of the property interests.

Unless stated as otherwise, we have assumed that the properties have been constructed, occupied and used in full compliance with, and without contravention of all laws, except only where otherwise stated. We have further assumed that, for any use of the properties upon which this valuation is based, all required licenses, permit, certificate and authorizations have been obtained.

We have assumed that all consents, approvals and licences from relevant government authorities for the developments have been obtained without onerous conditions or delays. We have also assumed that the design and construction of the properties are in compliance with the local planning regulations and have been approved by the relevant authorities.

Unless otherwise, in valuing the property interests, we have assumed that the Group has an enforceable title to the property interests and has free and uninterrupted rights to use, occupy or assign the property interests for the whole of the respective unexpired land use term as granted and that any premium payable has already been fully paid.

5. TITLE INVESTIGATION

We have been provided with copies of the title documents relating to the properties. Due to the restrictions of the land registration system in the PRC, we have not carried out any land title searches in the PRC. Moreover, we have not inspected the original documents to verify ownership or to ascertain any amendments which may not appear on the copies handed to us. We are also unable to ascertain the title of the properties in the PRC and we have therefore relied on the legal opinion given by the Company's PRC legal adviser – Henan Ruiyi Law Firm* (河南睿翼律師事務所) in relation to the legal title of the property interests. All legal documents disclosed in this report, if any, are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the properties set out in this report.

As the properties are held under long term land use rights under Immovable Property Right Certificates or State-owned Land Use Right Certificate, we have assumed that the owners of the property interests have free and uninterrupted rights to use or transfer the property interests for the whole of the unexpired term of the respective land use rights. In our valuations, we have assumed that the property interests can be transferred, sublet or mortgaged on the open market without payment of any additional land premium to the relevant government authorities.

6. LIMITING CONDITIONS

Inspection of the properties has been carried out by Mr. Patrick Lee in January 2020, however, we have not carried out an inspection recently because of the likelihood of spreading of the coronavirus disease. In accordance with the HKIS Valuation Standards 2020, we have relied on the information and the photos for the properties provided by the Company. We have assumed that there is no material difference in the properties between our last inspection in January 2020 and the date of valuation in this valuation. We are unable to report and comment on the properties. We have assumed that the properties are finished and maintained in reasonable conditions commensurate their age and use. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to any of the services. All dimensions, measurements and areas are only approximations.

Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the copies of documents handed to us are correct.

We have relied to a very considerable extent on the information provided by the Company and have accepted information therein on such matters as planning approvals, statutory notices, easements, tenure, occupation, tenancy details, floor area and the identification of the properties.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company which are material to the valuation. We have also been advised by the Company that no material fact has been omitted from information so supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, we have assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their value.

The conclusion of value is based on generally accepted valuation procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgement in arriving at the valuation, you are urged to consider carefully the nature of such assumptions which are disclosed in this report and should exercise caution when interpreting this report.

This valuation is to be used for the purpose stated herein. Any use or reliance for any other purpose, by you or third parties, is invalid. No reference to our name or our valuation in whole or in part, in any document you prepare and/or distribute to third parties may be made without written consent.

Neither the whole nor any part of this letter and the certified opinion of value attached nor any reference thereto shall be included in any document, circular or statement without prior consent of the form and context in which they will respectively appear. This letter and certified opinion of value are only for the use of the party to whom it is addressed and no responsibility shall be accepted to any third party for the whole or any part of its content.

We hereby certify that we have neither present nor prospective interest in the Company or the value reported.

7. GENERAL SERVICE CONDITIONS

This report is subject to the General Service Conditions which are attached at the end of this report.

8. REMARKS

Unless otherwise stated, all monetary sums stated in our valuations are in Renminbi (“**RMB**”), the lawful currency of the PRC.

We enclose herewith “Property Particulars and Opinion of Value”.

Yours faithfully
For and on behalf of
International Valuation Limited

Patrick Lee
BSc., MHKIS
Director (Real Estate)

Mr. Patrick Lee is a Corporate Member from the General Practice Division of the Hong Kong Institute of Surveyors. He has over 20 years post qualification experience in the valuation of properties in Hong Kong and the PRC.

Property Particulars and Opinion of Value

Group I – Property Interest to be disposed by the Group in the PRC

| No. | Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 31 March 2021 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|------------|--|---|--------------------------|--|--------|--|---------|-----------|---------|-----------|---------|-----------|---------|------------------|------------|------------------|--------|--|---------|----------|---------|-----------|---------|-----------|---------|------------------|------------|------------------|----------|--|---------|------------------|--------|--------------------------|---|--|
| 1. | A shopping mall (“ Jiaochao’s Shopping Mall ”) located at No. 36 Mian Fang West Road, Zhongyuan District, Zhengzhou City, Henan Province, The PRC | <p>The shopping mall is a twin 4-storey commercial buildings plus 3 basements and was completed in 2012.</p> <p>The property comprises the whole of Levels 1, 2, 3 and 4 of both commercial buildings (namely Zones A and B respectively) and commercial space in Basement Level 1 of the shopping mall with a total gross floor area of approximately 125,188.32 sq.m. with area breakdown which is listed as follows:</p> <table><thead><tr><th>Portion</th><th>Gross Floor Area (sq.m.)</th></tr></thead><tbody><tr><td>Zone A</td><td></td></tr><tr><td>Level 1</td><td>11,650.00</td></tr><tr><td>Level 2</td><td>12,131.34</td></tr><tr><td>Level 3</td><td>12,239.91</td></tr><tr><td>Level 4</td><td><u>12,263.62</u></td></tr><tr><td>Sub-total:</td><td><u>48,284.87</u></td></tr><tr><td>Zone B</td><td></td></tr><tr><td>Level 1</td><td>9,523.61</td></tr><tr><td>Level 2</td><td>10,631.62</td></tr><tr><td>Level 3</td><td>10,440.28</td></tr><tr><td>Level 4</td><td><u>11,754.40</u></td></tr><tr><td>Sub-total:</td><td><u>42,349.91</u></td></tr><tr><td>Basement</td><td></td></tr><tr><td>Level 1</td><td><u>34,553.54</u></td></tr><tr><td>Total:</td><td><u><u>125,188.32</u></u></td></tr></tbody></table> <p>The land use rights of the property were granted for terms expiring on 29 March 2052 and 30 July 2053 for commercial service use.</p> | Portion | Gross Floor Area (sq.m.) | Zone A | | Level 1 | 11,650.00 | Level 2 | 12,131.34 | Level 3 | 12,239.91 | Level 4 | <u>12,263.62</u> | Sub-total: | <u>48,284.87</u> | Zone B | | Level 1 | 9,523.61 | Level 2 | 10,631.62 | Level 3 | 10,440.28 | Level 4 | <u>11,754.40</u> | Sub-total: | <u>42,349.91</u> | Basement | | Level 1 | <u>34,553.54</u> | Total: | <u><u>125,188.32</u></u> | <p>As at the date of valuation, except for a portion of the property with an area of approximately 472.99 sq.m. which is vacant, the other portion of the property was leased by Lessor Jiachao’s to various shops subject to various tenancies with the latest expiring date on 31 December 2033 at a total monthly rental of RMB4,035,733 exclusive of marketing fees, management fees and services fees.</p> | <p>RMB1,436,000,000</p> <p><i>(75% interest attributable to the Group: RMB1,077,000,000)</i></p> |
| Portion | Gross Floor Area (sq.m.) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Zone A | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 1 | 11,650.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 2 | 12,131.34 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 3 | 12,239.91 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 4 | <u>12,263.62</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sub-total: | <u>48,284.87</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Zone B | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 1 | 9,523.61 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 2 | 10,631.62 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 3 | 10,440.28 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 4 | <u>11,754.40</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sub-total: | <u>42,349.91</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Basement | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 1 | <u>34,553.54</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total: | <u><u>125,188.32</u></u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Notes:

- (1) Pursuant to 4 Immovable Property Right Certificates – 豫(2019)鄭州市不動產權第0232365, 0232906, 0233721 and 0233675 issued by 鄭州市國土資源局 on 25 and 26 June 2019, the land use rights of Levels 1, 2, 3 and 4 of Zone A of the property with a total gross floor area of approximately 48,284.87 sq.m. is held by Zhengzhou Jiachao Property Services Co., Ltd. (鄭州佳潮物業服務有限公司) (“**Lessor Jiachao’s**”), in which the Company has a 75% interest indirectly, and subject to a term commencing on 30 March 2012 and expiring on 29 March 2052 for commercial service use.
- (2) Pursuant to 89 Immovable Property Right Certificates issued by 鄭州市國土資源局 on 24, 25 and 26 June 2019, the land use rights of Levels 1, 2, 3 and 4 of Zone B of the property with a total gross floor area of approximately 42,349.91 sq.m. is held by Lessor Jiachao’s and subject to a term commencing on 30 March 2012 and expiring on 29 March 2052 for commercial service use.
- (3) Pursuant to 3 Immovable Property Right Certificates – 豫(2019)鄭州市不動產權第0241450, 0241107 and 0241110 issued by 鄭州市自然資源和規劃局 on 2 July 2019, the land use rights of the commercial space D02, D03 and D04 at Basement 1 of the property with a total gross floor area of approximately 34,553.54sq.m., is held by Lessor Jiachao’s and subject to a term commencing on 31 July 2013 and expiring on 30 July 2053 for commercial service use.
- (4) Pursuant to a contract 固定資產貸款合同 – 中原銀(鄭州)物業字2019第080020號 made between Lessor Jiachao’s and Zhongyuan Bank Co., Ltd. Zhengzhou Branch (中原銀行股份有限公司鄭州分行)(“**Zhongyuan Bank**”) on 29 July 2019 and a contract 最高額抵押合同 – 中原銀(鄭州)最抵字2019第080020-2號 made between Lessor Jiachao’s and Zhongyuan Bank on 1 August 2019, except for Levels 3 and 4 of Zone A, Level 4 of Zone B and D02, D03 and D04 at Basement 1, the other 76 units of the property are subject to a mortgage in favour of Zhongyuan Bank in the amount of RMB800,000,000 from 29 July 2019 to 29 July 2029.
- (5) Pursuant to a lease contract (“**Lease Contract Jiachao’s**”) entered into between Lessor Jiachao’s and Zhengzhou Zhongyuan Jinyi Commercial Operation Management Co., Ltd. (鄭州中原錦藝商業運營管理有限公司) (“**Lessee**”), in which the Company has a 75% interest indirectly, on 26 April 2021, the property interest will be rented by the Lessee for a term of 15 years at a monthly rental of RMB3,505,272.96, inclusive of tax, for the 1st and 2nd year, with a rental increase of 5% for every 2 years thereafter and, as advised by the Company, the assumed rent commencement date is 1 July 2021. The Lessee has an option to renew the Lease Contract Jiachao’s by serving a written notice to Lessor Jiachao’s six months in advance before the expiry of the Lease Contract Jiachao’s.
- (6) Pursuant to the Lease Contract Jiachao’s, the Lessee has the right to sublet, operate and manage the property, but the expiry date of various tenancies with various shops entered or to be entered cannot go beyond the expiry date of the Lease Contract Jiachao’s.

- (7) In assessing the market value of the property interest, we have based on the future rental income, to be received by Lessor Jiachao's, of the Lease Contract Jiachao's and the market rental to be received by Lessor Jiachao's after the expiry of the Lease Contract Jiachao's whilst the rental income of the existing tenancies or future tenancies with various shops, to be received by Lessee, during the lease period of the Lease Contract Jiachao's have not been taken into account.
- (8) In valuing the market value of the property interest, we have adopted a capitalisation rate of 4.5%, derived from open market value per sq.m. and monthly open market rental per sq.m., and a monthly open market rental of RMB152.2 per sq.m., derived from comparables asking/letting evidences in the locality.
- (9) We have been provided with a legal opinion regarding the property issued by the Company's PRC legal advisor which are summarised below:
- a) Pursuant to 96 Immovable Property Right Certificates which are legal and effective, the land use rights of the property is held by Lessor Jiachao's;
 - b) Lessor Jiachao's can occupy, transfer, sublet or mortgage the land use rights of the property;
 - c) 76 units of the property are subject to a mortgage in favour of Zhongyuan Bank and
 - d) Pursuant to the Lease Contract Jiachao's which is legal and effective, Lessee has obtained the right to sublet, operate and manage the property, and is entitled to the corresponding operating profit.

Group II – Property Interest to be rented by the Lessee in the PRC

| | | | | Market Value in existing state as at 31 March 2021 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|------------|---|--|--------------------------|--|--------|--|---------|-----------|---------|-----------|---------|-----------|---------|------------------|------------|------------------|--------|--|---------|----------|---------|-----------|---------|-----------|---------|------------------|------------|------------------|----------|--|---------|------------------|--------|--------------------------|---|------------------|
| No. | Property | Description and tenure | Particulars of occupancy | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2. | A shopping mall (Jiaochao's Shopping Mall) located at No. 36 Mian Fang West Road, Zhongyuan District, Zhengzhou City, Henan Province, The PRC | <p>The shopping mall is a twin 4-storey commercial buildings plus 3 basements and was completed in 2012.</p> <p>The property comprises the whole of Levels 1, 2, 3 and 4 of both commercial buildings (namely Zones A and B respectively) and commercial space in Basement Level 1 of the shopping mall with a total gross floor area of approximately 125,188.32 sq.m. with area breakdown which is listed as follows:–</p> <table><thead><tr><th>Portion</th><th>Gross Floor Area (sq.m.)</th></tr></thead><tbody><tr><td>Zone A</td><td></td></tr><tr><td>Level 1</td><td>11,650.00</td></tr><tr><td>Level 2</td><td>12,131.34</td></tr><tr><td>Level 3</td><td>12,239.91</td></tr><tr><td>Level 4</td><td><u>12,263.62</u></td></tr><tr><td>Sub-total:</td><td><u>48,284.87</u></td></tr><tr><td>Zone B</td><td></td></tr><tr><td>Level 1</td><td>9,523.61</td></tr><tr><td>Level 2</td><td>10,631.62</td></tr><tr><td>Level 3</td><td>10,440.28</td></tr><tr><td>Level 4</td><td><u>11,754.40</u></td></tr><tr><td>Sub-total:</td><td><u>42,349.91</u></td></tr><tr><td>Basement</td><td></td></tr><tr><td>Level 1</td><td><u>34,553.54</u></td></tr><tr><td>Total:</td><td><u><u>125,188.32</u></u></td></tr></tbody></table> <p>The land use rights of the property were granted for terms expiring on 29 March 2052 and 30 July 2053 for commercial service use.</p> | Portion | Gross Floor Area (sq.m.) | Zone A | | Level 1 | 11,650.00 | Level 2 | 12,131.34 | Level 3 | 12,239.91 | Level 4 | <u>12,263.62</u> | Sub-total: | <u>48,284.87</u> | Zone B | | Level 1 | 9,523.61 | Level 2 | 10,631.62 | Level 3 | 10,440.28 | Level 4 | <u>11,754.40</u> | Sub-total: | <u>42,349.91</u> | Basement | | Level 1 | <u>34,553.54</u> | Total: | <u><u>125,188.32</u></u> | <p>As at the date of valuation, except for a portion of the property with an area of approximately 472.99 sq.m. which is vacant, the other portion of the property was leased by Lessor Jiachao's to various shops subject to various tenancies with the latest expiring date on 31 December 2033 at a total monthly rental of RMB4,035,733 exclusive of marketing fees, management fees and services fees.</p> | RMB1,107,000,000 |
| Portion | Gross Floor Area (sq.m.) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Zone A | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 1 | 11,650.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 2 | 12,131.34 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 3 | 12,239.91 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 4 | <u>12,263.62</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sub-total: | <u>48,284.87</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Zone B | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 1 | 9,523.61 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 2 | 10,631.62 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 3 | 10,440.28 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 4 | <u>11,754.40</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sub-total: | <u>42,349.91</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Basement | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 1 | <u>34,553.54</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total: | <u><u>125,188.32</u></u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Notes:

- (1) Pursuant to 4 不動產權證 – 豫(2019)鄭州市不動產權第0232365, 0232906, 0233721 and 0233675 issued by 鄭州市國土資源局 on 25 and 26 June 2019, the land use rights of Levels 1, 2, 3 and 4 of Zone A of the property with a total gross floor area of approximately 48,284.87 sq.m. is held by Lessor Jiachao's and subject to a term commencing on 30 March 2012 and expiring on 29 March 2052 for commercial service use.
- (2) Pursuant to 89 不動產權證 issued by 鄭州市國土資源局 on 24, 25 and 26 June 2019, the land use rights of Levels 1, 2, 3 and 4 of Zone B of the property with a total gross floor area of approximately 42,349.91 sq.m. is held by Lessor Jiachao's and subject to a term commencing on 30 March 2012 and expiring on 29 March 2052 for commercial service use.
- (3) Pursuant to 3 不動產權證 – 豫(2019)鄭州市不動產權第0241450 , 0241107 and 0241110 issued by 鄭州市自然資源和規劃局 on 2 July 2019, the land use rights of the commercial space D02, D03 and D04 at Basement 1 of the property with a total gross floor area of approximately 34,553.54 sq.m., is held by Lessor Jiachao's and subject to a term commencing on 31 July 2013 and expiring on 30 July 2053 for commercial service use.
- (4) Pursuant to a contract 固定資產貸款合同 – 中原銀(鄭州)物業字2019第080020號 made between Lessor Jiachao's and Zhongyuan Bank on 29 July 2019 and a contract 最高額抵押合同 – 中原銀(鄭州)最抵字2019第080020-2號 made between Lessor Jiachao's and Zhongyuan Bank on 1 August 2019, except for Levels 3 and 4 of Zone A, Level 4 of Zone B and D02, D03 and D04 at Basement 1, the other 76 units of the property are subject to a mortgage in favour of Zhongyuan Bank in the amount of RMB800,000,000 from 29 July 2019 to 29 July 2029.
- (5) Pursuant to the Lease Contract Jiachao's entered into between Lessor Jiachao's and Lessee on 26 April 2021, the property interest will be rented by the Lessee for a term of 15 years at a monthly rental of RMB3,505,272.96, inclusive of tax, for the 1st and 2nd year, with a rental increase of 5% for every 2 years thereafter and, as advised by the Company, the assumed rent commencement date is 1 July 2021. The Lessee has an option to renew the Lease Contract Jiachao's by serving a written notice to Lessor Jiachao's six months in advance before the expiry of the Lease Contract Jiachao's.
- (6) Pursuant to the Lease Contract Jiachao's, the Lessee has the right to sublet, operate and manage the property, but the expiry date of various tenancies with various shops entered or to be entered cannot go beyond the expiry date of the the Lease Contract Jiachao's.
- (7) In assessing the market value of the property interest to be rented by the Lessee, we have based on the rental income, to be received by the Lessee, of the existing tenancies of various shops from the rent commencement date upto the expiry date of the Lease Contract Jiachao's whilst the rental cost, to be paid by the Lessee, relating to the Lease Contract Jiachao's has not been taken into account.
- (8) In valuing the market value of the property interest to be rented by the Lessee, we have adopted a capitalisation rate of 4.5%, derived from open market value per sq.m. and monthly open market rental per sq.m., and a monthly open market rental of RMB152.2 per sq.m., derived from comparables asking/letting evidences in the locality.

- (9) The differences in assumptions adopted in the market value of Jiachao's Shopping Mall (to be disposed of by the Group) (Property 1) and the market value of Jiaochao's Shopping Mall (to be leased by the Group) (Property 2) are as follows:

| | Property 1 | Property 2 |
|---------------------|--|--|
| Initial Rental | Rental to be received by Lessor Jiachao's (the landlord) based on the 15-year Lease Contract Jiachao's commencing from 1 July 2021 | Rental to be received by the Group from the tenancies of the existing individual tenants during the 15-year lease period of the Lease Contract Jiachao's commencing from 1 July 2021 |
| Subsequent Rental | Open Market Rental to be received by Lessor Jiachao's (the landlord) from 1 July 2036 until the end of the land use term, i.e. 29 March 2052 | N/A |
| Duration | From 1 July 2021 to 29 March 2052, i.e. about 31 years | From 1 July 2021 to 30 June 2036, i.e. 15 years |
| Capitalisation Rate | 4.5% | 4.5% |

- (10) We have been provided with a legal opinion regarding the property issued by the Company's PRC legal advisor which are summarised below:
- a) Pursuant to 96 Immovable Property Right Certificates which are legal and effective, the land use rights of the property is held by Lessor Jiachao's;
 - b) Lessor Jiachao's can occupy, transfer, sublet or mortgage the land use rights of the property;
 - c) 76 units of the property are subject to a mortgage in favour of Zhongyuan Bank and
 - d) Pursuant to the Lease Contract Jiachao's which is legal and effective, Lessee has obtained the right to sublet, operate and manage the property, and is entitled to the corresponding operating profit.

Group II – Property Interest to be rented by the Lessee in the PRC

| | | | | Market Value in existing state as at 31 March 2021 | | | | | | | | | | | | | | | | | | |
|------------|---|---|--------------------------|--|--------|--|---------|-----------|---------|-----------|---------|-----------|---------|-----------|---------|-----------|------------|-----------------|------------|-------------------------|--|----------------|
| No. | Property | Description and tenure | Particulars of occupancy | | | | | | | | | | | | | | | | | | | |
| 3. | A shopping mall (Zone C Shopping Mall) located at No. 40 Mian Fang West Road, Zhongyuan District, Zhengzhou City, Henan Province, The PRC | <p>The shopping mall comprises a 5-storey commercial podium plus 2 basements of a 28-storey composite buildings (including 2 basements) and was completed in 2015.</p> <p>The property comprises the whole of Levels 1, 2, 3, 4 and 5 of a commercial building (namely Zone C) and commercial space in Basement Level 1 of the shopping mall with a total gross floor area of approximately 80,117.99 sq.m. with area breakdown which is listed as follows:-</p> <table><thead><tr><th>Portion</th><th>Gross Floor Area (sq.m.)</th></tr></thead><tbody><tr><td>Zone C</td><td></td></tr><tr><td>Level 5</td><td>14,374.98</td></tr><tr><td>Level 4</td><td>14,111.14</td></tr><tr><td>Level 3</td><td>15,037.58</td></tr><tr><td>Level 2</td><td>14,582.88</td></tr><tr><td>Level 1</td><td>15,318.48</td></tr><tr><td>Basement 1</td><td><u>6,692.93</u></td></tr><tr><td>Sub-total:</td><td><u><u>80,117.99</u></u></td></tr></tbody></table> <p>The land use rights of the property were granted for terms expiring on 29 June 2052 for commercial service use.</p> | Portion | Gross Floor Area (sq.m.) | Zone C | | Level 5 | 14,374.98 | Level 4 | 14,111.14 | Level 3 | 15,037.58 | Level 2 | 14,582.88 | Level 1 | 15,318.48 | Basement 1 | <u>6,692.93</u> | Sub-total: | <u><u>80,117.99</u></u> | <p>As at the date of valuation, except for a portion of the property with an area of approximately 157.93 sq.m. which is vacant, the other portion of the property was leased by Lessor Jiachao's to various shops subject to various tenancies with the latest expiring date on 22 January 2031 at a total monthly rental of RMB1,559,796 exclusive of marketing fees, management fees and services fees.</p> | RMB927,000,000 |
| Portion | Gross Floor Area (sq.m.) | | | | | | | | | | | | | | | | | | | | | |
| Zone C | | | | | | | | | | | | | | | | | | | | | | |
| Level 5 | 14,374.98 | | | | | | | | | | | | | | | | | | | | | |
| Level 4 | 14,111.14 | | | | | | | | | | | | | | | | | | | | | |
| Level 3 | 15,037.58 | | | | | | | | | | | | | | | | | | | | | |
| Level 2 | 14,582.88 | | | | | | | | | | | | | | | | | | | | | |
| Level 1 | 15,318.48 | | | | | | | | | | | | | | | | | | | | | |
| Basement 1 | <u>6,692.93</u> | | | | | | | | | | | | | | | | | | | | | |
| Sub-total: | <u><u>80,117.99</u></u> | | | | | | | | | | | | | | | | | | | | | |

Notes:

- (1) Pursuant to one State-owned Land Use Right Certificate – Zheng Guo Yon (2012) No.0308 issued by 鄭州市國土資源局 on 17 September 2012, the land use rights of Zone C of the property is held by Zhengzhou Hanyuan Real Estate Co., Ltd. (鄭州翰園置業有限公司) (“**Lessor Zone C**”) for a term expiring on 29 June 2052 for commercial service use.

- (2) Pursuant to the following six Building Ownership Certificates all registered on 11 August 2016, the building ownership of the property is vested in Lessor Zone C and is for commercial service use. The property has a total gross floor area of approximately 80,117.99 sq.m.

| Level | No. | Gross Floor Area |
|-------|------------|------------------|
| 5 | 1601236968 | 14,374.98 |
| 4 | 1601236967 | 14,111.14 |
| 3 | 1601236966 | 15,037.58 |
| 2 | 1601236965 | 14,582.88 |
| 1 | 1601236964 | 15,318.48 |
| -1 | 1601236963 | 6,692.93 |
| | | <u>80,117.99</u> |

- (3) Pursuant to a lease contract (“**Lease Contract Zone C**”) entered into between Lessor Zone C and Lessee on 26 April 2021, the property interest will be rented by the Lessee for a term of 15 years at a monthly rental of RMB2,243,303.72, inclusive of tax, for the 1st and 2nd year, with a rental increase of 5% for every 2 years thereafter and as advised by the Company, the assumed rent commencement date is 1 July 2021. The Lessee has an option to renew the Lease Contract Zone C by serving a written notice to the Lessor Zone C six months in advance before the expiry of the Lease Contract Zone C.
- (4) Pursuant to the Lease Contract Zone C, the Lessee has the right to sublet, operate and manage the property, but the expiry date of various tenancies with various shops entered or to be entered cannot go beyond the expiry date of the Lease Contract Zone C.
- (5) In assessing the market value of the property interest to be rented by the Lessee, we have based on the rental income, to be received by the Lessee, of the existing tenancies of various shops from the rent commencement date upto the expiry date of the Lease Contract Zone C whilst the rental cost, to be paid by the Lessee, relating to the Lease Contract Zone C has not been taken into account.
- (6) In valuing the market value of the property interest to be rented by the Lessee, we have adopted a capitalisation rate of 4.5%, derived from open market value per sq.m. and monthly open market rental per sq.m., and a monthly open market rental of RMB152.2 per sq.m., derived from comparables asking/letting evidences in the locality.
- (7) We have been provided with a legal opinion regarding the property issued by the Company’s PRC legal advisor which are summarised below:
- Pursuant to the State-owned Land Use Right Certificate and the six Building Ownership Certificates, the land use rights and building ownership rights of the property is held by Lessor Zone C;
 - Lessor Zone C can occupy, transfer, sublet or mortgage the land use rights of the property and
 - Pursuant to the Lease Contract Zone C which is legal and effective, Lessee has obtained the right to sublet, operate and manage the property, and is entitled to the corresponding operating profit.

General Service Conditions

The services provided by International Valuation Limited will be performed in accordance with professional valuation standards. Our fee is not contingent in any way upon our conclusions of value. We assume, without independent verification, the accuracy of all data provided to us. We will act as an independent valuer and reserves the right to use sub-consultants if deemed appropriate. All files, work papers, or documents developed by us during the course of the engagement will be our property.

Unless otherwise stated and defined, Contract (Rights of Third Parties) Ordinance (Cap 623) is not applicable to this service engagement. Our report is to be used only for the specific purpose stated herein and any other use is prohibited. No reliance may be made by any third party on the report or part thereof without our prior written consent. You may show our report in its entirety including this General Services Conditions to those third parties who need to review the information contained herein. No one should rely on our report as a substitute for their own due diligence. No reference to our name or our report, in whole or in part, in any document you prepare and/or distribute to third parties may be made without our written consent.

You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses, or liabilities, including all fees of lawyers, including ours and the parties successfully suing us, to which we may become subject in connection with this engagement except in respect of our own negligence. Your obligation for indemnification and reimbursement shall extend to any person working for International Valuation Limited, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless the nature of the claim, such liability will be limited to the amount of fees we received for this engagement.

We reserve the right to include your company / firm name in its company list for future business promotion, but we will maintain the confidentiality of all documents provided to us, and the contents of our valuation report, subject to legal or administrative process of proceedings. These conditions can only be modified by written documents executed by both parties. We also reserve the right to recall all copies of this report to correct any error or omission. Our opinion of value shall not be valid unless and until our service charge for this engagement has been settled in full.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests and short positions of Directors and chief executive in Shares and debentures

As at the Latest Practicable Date, the Directors and chief executive of the Company had the following interests and short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange:

Long positions

(a) Shares

| Name of Director | Capacity | Percentage of the issued share capital of the Company | |
|------------------|--|---|--------|
| | | Number of issued Shares held | |
| Mr. Chen Jindong | Held by spouse (Note 1) | 369,100,000 | 13.73% |
| Mr. Chen Jinyan | Beneficial owner and held by controlled corporation (Note 2) | 597,280,000 | 22.21% |

Notes:

- (1) Among the 369,100,000 Shares, 324,340,000 Shares are held by Jinjie Limited, a company incorporated in the British Virgin Islands (the “BVI”), the entire issued share capital of which is beneficially owned by the spouse of Mr. Chen Jindong, Ms. Lin Lin and 44,760,000 Shares are held by Ms. Lin Lin. Mr. Chen Jindong is deemed to be interested in 369,100,000 Shares.
- (2) Among the 597,280,000 Shares, 593,480,000 Shares are held by Fully Chain Limited, a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Mr. Chen Jinyan and 3,800,000 Shares are held by Mr. Chen Jinyan. Mr. Chen Jindong is the younger brother of Mr. Chen Jinyan.

Long positions*(b) Share options*

| Name of Director | Capacity | Number of Share options held | Number of underlying Shares |
|-------------------------|------------------|---|--|
| Mr. Lin Ye | Beneficial owner | 2,080,000 | 2,080,000 |
| Mr. Yang Zeqiang | Beneficial owner | 2,080,000 | 2,080,000 |

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Notifiable interests and short positions of substantial shareholders and other persons in Shares

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, no substantial Shareholders of the Company within the meaning of the Listing Rules and any other persons (in each case other than the Directors and chief executive of the Company) had an interest or a short position in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

As at the Latest Practicable Date, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions – Ordinary shares of HK\$0.01 each of the Company

| Name of Shareholders | Capacity | Number of Shares held | Percentage of the issued share capital of the Company |
|----------------------|---|--------------------------|---|
| Ms. Lin Lin | Beneficial owner and interest in a controlled corporation | 369,100,000 | 13.73% |
| Mr. Chen Jinqing | Interest in a controlled corporation (<i>Note</i>) | 166,000,000 | 6.17% |
| Dresdner VPV N. V. | Investment manager | 139,755,200 | 5.20% |

Note: The Shares are held by Ultimate Name Limited, a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Mr. Chen Jinqing. Mr. Chen Jinqing is the youngest brother of Mr. Chen Jinyan and Mr. Chen Jindong.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company were not aware of any substantial Shareholder of the Company within the meaning of the Listing Rules or other person (in each case other than a Director or chief executive of the Company) who had, as at the Latest Practicable Date, an interest or a short position in Shares or underlying Shares which was required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO.

(c) Interests in 10% or more of shares in subsidiaries

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, the following persons who (not being a member of the Group or a Director or chief executive of the Company) were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the subsidiaries of the Company or in any options in respect of such capital.

| Name of subsidiary | Name of shareholder | Capacity | Percentage of equity interests |
|--|---|------------------|---------------------------------------|
| 鄭州佳潮物業服務有限公司 (Zhengzhou Jiachao Property Services Company Limited*) | 河南第一紡織有限公司 (Henan Diyi Textile Company Limited*) | Beneficial owner | 25% |
| 鄭州中原錦藝商業 營運管理有限公司 (Zhengzhou Zhongyuan Jinyi Commercial Operation Management Company Limited*) | 河南第一紡織有限公司 (Henan Diyi Textile Company Limited*) | Beneficial owner | 25% |

3. DIRECTORS' SERVICE CONTRACTS**Executive Directors**

Each of the executive Directors has entered into a service contract with the Company. The service contract of Mr. Chen Jinyan is for an initial term of two years commencing from 1 September 2020 and the service contract of Mr. Chen Jindong is for an initial term of one year commencing from 1 September 2020, unless terminated by not less than three months' notice in writing served by either the Director or the Company. In certain other circumstances, each service contract can also be terminated by the Company, including but not limited to serious breaches of the Directors' obligations under the service contract or serious misconduct.

The current basic annual salaries of the executive Directors are as follows:

| Name of Director | Amount (HK\$) |
|-------------------------|--------------------------|
| Executive Directors | |
| Mr. Chen Jinyan | 1,800,000 |
| Mr. Chen Jindong | 1,800,000 |

There is no discretionary bonus arrangement for any of the executive Directors.

Independent non-executive Directors

Letters of appointment have been signed by the Company with four independent non-executive Directors. The independent non-executive Directors have been appointed for a term of one year commencing from 11 April, 19 September, 15 October and 1 December each year respectively. Save for directors' fees of HK\$36,000 per annum for one of the independent non-executive Directors, of HK\$96,000 per annum for one of the independent non-executive Directors and HK\$120,000 per annum for two of the independent non-executive Directors, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into any service contract with the Remaining Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation, other than statutory compensation).

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective close associates (as defined in the Listing Rules) was interested in any business apart from the business of the Remaining Group, which competes or is likely to compete, either directly or indirectly, with the business of the Remaining Group.

5. INTERESTS OF DIRECTORS OR EXPERTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date:

- (a) none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Remaining Group; and

- (b) none of the Directors or experts named in the section headed “8. Experts and Consents” in this appendix had any direct or indirect interest in any assets which had been, since 30 June 2020 (the date to which the latest published audited accounts of the Company were made up), acquired, disposed of by, or leased to any member of the Remaining Group, or were proposed to be acquired, disposed of by, or leased to any member of the Remaining Group.

6. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business of the Remaining Group, were entered into by the Company and its subsidiaries during the period commencing two years preceding the date of this circular and are or may be material:

- (i) the Sale and Purchase Agreement;
- (ii) the Lease Contract Jiachao's;
- (iii) the Lease Contract Zone C;
- (iv) the loan agreement dated 28 April 2021 entered into between the Vendor as the lender, 福建千城綠景觀工程有限公司 (Fujian Qiancheng Lujingguan Engineering Co., Ltd.*) as the borrower and 河南第一紡織有限公司 (Henan Diyi Textile Co., Ltd.*) in respect of a loan in the principal amount of RMB250,000,000. Details of which are set out in the Company's announcements dated 28 April 2021 and 13 May 2021; and
- (v) the sale and purchase agreement dated 27 June 2019 entered into between one purchaser and the Vendor in relation to the disposal of the entire equity interests in Zhengzhou Jiacong with 164 shops inside a giant theme shopping mall selling textile materials, accessories and products situated in Zhengzhou City for rental purpose as its principal asset at a consideration of RMB212,239,000 (equivalent to approximately HK\$241,180,000). Details of which are set out in the Company's announcement dated 27 June 2019 and 18 July 2019.

7. MATERIAL ADVERSE CHANGE

The annual results of the Group for the year ended 30 June 2020 experienced a loss when compared with that for the years ended 30 June 2018 and 2019 due to a number of adverse factors including (1) a reduction of rental, management and operating service charges to more than 280 tenants (including tenants of the short-term leases) of the Jiachao's Shopping Mall and the Zone C Shopping Mall on different bases for the period from January to June 2020 as a result of the COVID-19 pandemic; (2) a decrease in rental income due to a decline in usage rate for an advertisement board by the real estate companies; (3) a decrease in fair value of the Group's investment properties, the Jiachao's Shopping Mall; and (4) a substantial increase in finance costs mainly as a result of the two new bank borrowings obtained as well as its higher interest rate charged by the bank throughout the year ended 30 June 2020. Save as the above, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading prospects of the Group since 30 June 2020, the date to which the latest audited financial statements of the Company were made up.

8. EXPERTS AND CONSENTS

The following is the qualification of the expert or professional adviser who has given opinion or advice contained in this circular:

| Name | Qualification |
|--------------------------------------|----------------------------------|
| Elite Partners CPA Limited | Certified Public Accountants |
| International Valuation Limited | Independent Professional Valuers |
| Henan Ruiyi Law Firm* (河南睿翼律師事務所) | PRC Legal Advisers |

As at the Latest Practicable Date, each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the above experts did not have any shareholding in any member of the Remaining Group or any right (whether legally enforceable or not) to subscribe for securities in any member of the Remaining Group.

As at the Latest Practicable Date, each of the above experts was not interested, directly or indirectly, in any assets which have been or are proposed to be acquired or disposed of by or leased to any member of the Remaining Group since 30 June 2020, the date to which the latest audited financial statements of the Company were made up.

9. LITIGATION

As at the Latest Practicable Date, neither the Company nor any member of the Remaining Group was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any member of the Remaining Group.

10. GENERAL

- (1) The registered office of the Company is located at 2nd Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman KY1-1103, Cayman Islands.
- (2) The head office and principal place of business of the Company in Hong Kong is located at Unit 1407, 14th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.
- (3) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (4) The principal share registrar and transfer office is Tricor Services (Cayman Islands) Limited, 2nd Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman KY1-1103, Cayman Islands.
- (5) The company secretary of the Company is Ms. Yeow Mee Mooi. Ms. Yeow, aged 58, graduated from The University of Southwestern Louisiana, the United States of America, with a bachelor degree in business administration. Ms. Yeow further obtained her post graduate diploma in financial management from The University of New England, Australia. Ms. Yeow is a certified practicing accountant of The Hong Kong Institute of Certified Public Accountants and a certified practicing accountant of CPA Australia. Ms. Yeow has over 29 years' taxation, auditing and commercial experience in Hong Kong. Ms. Yeow is now a director of a management consulting firm in Hong Kong.
- (6) In the event of any inconsistency, the English texts of the circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at Unit 1407, 14th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the accountants' report on the Target Company, the text of which is set out in Appendix IIA to this circular;
- (c) the accountants' report in respect of the unaudited pro forma financial information of the Remaining Group, the text of which is set out in Appendix III to this circular;
- (d) the Valuation Report prepared by International Valuation Limited in respect of the Jiachao's Shopping Mall and the Zone C Shopping Mall, the text of which are set out in Appendix IV to this circular;
- (e) the letters of consent referred to under the paragraph headed "8. Experts and Consents" in this appendix;
- (f) the annual reports of the Company for the years ended 30 June 2019 and 30 June 2020;
- (g) the service contracts referred to in the paragraph headed "3. Directors' Service Contracts" in this appendix;
- (h) the material contracts referred to in the paragraph headed "6. Material Contracts" in this appendix; and
- (i) this circular.

* For identification purpose only

NOTICE OF EGM



ART GROUP HOLDINGS LIMITED

錦藝集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 565)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Art Group Holdings Limited (the “**Company**”) (the “**EGM**”) will be held at Unit 1603-1604, 16/F, Causeway Bay Plaza I, 489 Hennessy Road, Causeway Bay, Hong Kong on Friday, 18 June 2021 at 3:20 p.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the sale and purchase agreement dated 26 April 2021 (the “**Sale and Purchase Agreement**”) entered into between Zhengzhou Changdun Asset Management Co., Ltd.* (鄭州昌盾資產管理有限公司) as the vendor and Zhengzhou Fengxiang Investment Co., Ltd.* (鄭州豐祥投資有限公司) as the purchaser (a copy of which has been produced to the meeting and marked “A” and initialled by the chairman of the meeting for the purpose of identification) in relation to the sale and purchase of 75% equity interests of Zhengzhou Jiachao Property Services Co., Ltd.* (鄭州佳潮物業服務有限公司) at a consideration of RMB429,540,000, and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and
- (b) any one or more of the directors of the Company be and is/are hereby authorised to do all such acts and things, to sign, execute and amend all such documents for and on behalf of the Company and to take such steps as he/she/they may in his/her/their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder.”

NOTICE OF EGM

2. “**THAT:**

- (a) the lease contract dated 26 April 2021 (the “**Lease Contract Jiachao’s**”) entered into by Zhengzhou Jiachao Property Services Co., Ltd.* (鄭州佳潮物業服務有限公司) as the lessor and Zhengzhou Zhongyuan Jinyi Commercial Operation Management Co., Ltd.* (鄭州中原錦藝商業運營管理有限公司) as the lessee (a copy of which has been produced to the meeting and marked “**B**” and initialled by the chairman of the meeting for the purpose of identification) in relation to the lease of a shopping mall situated at No. 36 Mianfang West Road, Zhongyuan District, Zhengzhou City, Henan Province, the People’s Republic of China for a term of 15 years commencing from a date to be mutually agreed at an initial monthly rental of RMB3,505,272.96, and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and
- (b) any one or more of the directors of the Company be and is/are hereby authorised to do all such acts and things, to sign, execute and amend all such documents for and on behalf of the Company and to take such steps as he/she/they may in his/her/their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Lease Contract Jiachao’s and the transactions contemplated thereunder.”

3. “**THAT:**

- (a) the lease contract dated 26 April 2021 (the “**Lease Contract Zone C**”) entered into by Zhengzhou Hanyuan Real Estate Co., Ltd.* (鄭州翰園置業有限公司) as the lessor and Zhengzhou Zhongyuan Jinyi Commercial Operation Management Co., Ltd.* (鄭州中原錦藝商業運營管理有限公司) as the lessee (a copy of which has been produced to the meeting and marked “**C**” and initialled by the chairman of the meeting for the purpose of identification) in relation to the lease of a shopping mall situated at No. 40 Mianfang West Road, Zhongyuan District, Zhengzhou City, Henan Province, the People’s Republic of China for a term of 15 years commencing from a date to be mutually agreed at an initial monthly rental of RMB2,243,303.72, and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and

NOTICE OF EGM

- (b) any one or more of the directors of the Company be and is/are hereby authorised to do all such acts and things, to sign, execute and amend all such documents for and on behalf of the Company and to take such steps as he/she/they may in his/her/their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Lease Contract Zone C and the transactions contemplated thereunder.”

Yours faithfully,
For and on behalf of the Board
Art Group Holdings Limited
Chen Jinyan
Chairman

Hong Kong, 28 May 2021

Registered office:

2nd Floor, Century Yard
Cricket Square
P.O. Box 902
Grand Cayman KY1-1103
Cayman Islands

Head office and principal place of business in Hong Kong:

Unit 1407, 14th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Notes:

1. Any shareholder entitled to attend and vote at the EGM is entitled to appoint one or, if he is holder of more than one share, more proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.
2. Where there are joint registered holders of any shares, any one of such persons may vote at the above meeting or at any adjournment thereof, either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present at the above meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

NOTICE OF EGM

3. The register of members of the Company will be closed from Tuesday, 15 June 2021 to Friday, 18 June 2021 (both days inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 11 June 2021.
4. In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed must be deposited at the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM (or any adjournment thereof).
5. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney or other person duly authorised.
6. Delivery of the form of proxy will not preclude a member from attending and voting in person at the EGM convened and, in such event, the form of proxy shall be deemed to be revoked.
7. The translation into Chinese language of the above notice is for reference only. In case of any inconsistency, the English version shall prevail.
8. To prevent and control the spread of COVID-19, the Company will implement the following precautionary measures at the EGM, including:
 - (i) all attendees will be subject to compulsory body temperature checks at the entrance of the EGM venue;
 - (ii) all attendees will be required to wear surgical face masks throughout the EGM;
 - (iii) maintaining proper distance between seats; and
 - (iv) no beverage or refreshments will be served, and no corporate gifts will be distributed at the EGM.

Any person who does not comply with the precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry into the EGM venue. The Company reminds the Shareholders that they may exercise their voting rights by appointing the chairman of the EGM as their proxy to vote according to their indicated voting instructions as an alternative to attending the EGM in person.

Subject to the development of the COVID-19 situation, the Company may implement and/or adjust precautionary measures for the EGM and may issue further announcement(s) on such measures as and when appropriate.

* *For identification purpose only*