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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 or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Build King Holdings Limited, you should at once hand this circular 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 the transferee.

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BUILD KING HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00240)

MAJOR AND CONNECTED TRANSACTION — PROPOSED FORMATION OF JOINT VENTURE THROUGH THE TRANSFER AND RK COMMITMENT AND NOTICE OF SPECIAL GENERAL MEETING

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

BALLAS
C A P I T A L
A subsidiary of Crosby

Capitalized terms used on this cover page shall have the same meanings as defined in this circular, unless the context requires otherwise.

A letter from the Board is set out on pages 6 to 17 of this circular. A letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent BK Shareholders is set out on pages 20 to 45 of this circular. A letter from the Independent Board Committee is set out on pages 18 to 19 of this circular.

A notice convening the BK SGM to be held at Units 601-605A, 6th Floor, Tower B, Manulife Financial Centre, 223 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong at 1:00 p.m., on Friday, 13 January 2023 is set out on pages SGM-1 to SGM-2 of this circular. Whether or not you intend to attend such meeting, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of Build King in Hong Kong, Tricor Progressive Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the BK SGM or any adjourned meeting if they so wish.

PRECAUTIONARY MEASURES AT THE SPECIAL GENERAL MEETING

Please refer to Appendix VII (Notice of Special General Meeting) in this circular for measures being taken to safeguard the health and well-being of the Shareholders who are attending the BK SGM in person, including:

- body temperature check
- health declaration
- wearing surgical face mask
- access restriction for quarantine participants according to the Department of Health of Hong Kong
- any other additional precautionary measures in accordance with the prevailing requirements or guidelines of the Government and/or regulatory authorities, or as considered appropriate in light of the development of the COVID-19 pandemic
- no refreshment

Any Shareholder who refuses to co-operate with the precautionary measures will not be admitted to the venue. For the health and well-being of the Shareholders, **Build King would like to encourage the Shareholders to exercise their right to vote at the BK SGM by appointing the Chairman of the BK SGM as their proxy and to return their proxy forms by the time specified above, instead of attending the BK SGM in person.**

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DEFINITIONS

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

“associate”	has the meaning ascribed to it under the Listing Rules
“Balancing Transaction(s)”	the transfer of shares of the Project Company from Wise Start to Shine Precious and/or the issue of shares of the Project Company to Shine Precious such that the shareholding by the JV Parties in the Project Company after the exercise of the Loan Redemption Right by Wise Start is proportionate to the shareholder loans due from the Project Company to the respective JV Parties (on the basis that Shine Precious has advanced shareholder loans up to the RK Commitment)
“BK SGM”	means the special general meeting of Build King to be convened and held to consider and, if thought fit, to approve the transactions contemplated under the Investment Agreement
“Board”	the board of Directors
“Bonds and Perpetual Securities”	the various senior guaranteed notes and senior guaranteed perpetual capital securities, all listed on the Singapore Exchange, issued by RKP Overseas Finance 2016 (A) Limited, RKI Overseas Finance 2017 (A) Limited, RKPF Overseas 2019 (A) Limited, RKPF Overseas 2019 (E) Limited, RKPF Overseas 2020 (A) Limited and guaranteed by Road King
“Build King”	Build King Holdings Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 240)
“Build King Group”	Build King and its subsidiaries
“Completion”	completion of the Transfer
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration payable by Wise Start to Shine Precious for the Transfer
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Cost of Sale Shares”	HK\$15,700, being the consideration ascribed to the Sale Shares
“Development Company”	深圳市盛世盈豐投資發展有限公司, a company established in the PRC which is the developer of the Project and is indirectly wholly-owned by the Project Company
“Director(s)”	the director(s) of Build King

DEFINITIONS

“Enlarged Group”	the Build King Group and the Project Group upon the Completion
“Extension Agreement”	the Extension Agreement dated 23 November 2022 entered into between Shine Precious and Wise Start in relation to the extension of the Long Stop Date
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent BK Shareholders”	the Shareholders other than Wai Kee and Mr. Zen Wei Peu, Derek and its/his associates who are required by the Listing Rules to abstain from voting at the BK SGM on the resolutions approving the Investment Agreement and the transactions contemplated thereunder
“Independent Board Committee”	the independent board committee of Build King, comprising all the Independent Non-executive Directors, namely Mr. Ho Tai Wai, David, Mrs. Ling Lee Ching Man, Eleanor, Mr. Lo Yiu Ching, Dantes and Ms. Ng Cheuk Hei, Shirley
“Independent Financial Adviser”	Ballas Capital Limited, a licensed corporation which is licensed to carry out type 1 (Dealing in Securities) and type 6 (Advising on Corporate Finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent BK Shareholders in respect of the proposed transactions contemplated under the Investment Agreement
“Independent Non-executive Director(s)”	the independent non-executive director(s) of Build King
“Independent RK Shareholders”	the shareholders of Road King other than Wai Kee and Mr. Zen Wei Peu, Derek and its/his associates who are required by the Listing Rules to abstain from voting at the RK SGM on the resolutions approving the Investment Agreement and the transactions contemplated thereunder
“Investment Agreement”	the Investment Agreement regarding the Project Company dated 6 October 2022 entered into between Shine Precious, Wise Start, Road King and Build King
“JV Parties”	collectively, Shine Precious and Wise Start, and each a “JV Party”
“Latest Practicable Date”	19 December 2022, being the latest date by which certain information in this circular is ascertained prior to publication
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Loan Redemption Right”	the right granted to Wise Start under the Investment Agreement to require the Project Company to repay the shareholder loans (or part thereof) due to Wise Start on specified redemption dates
“Long Stop Date”	31 January 2023 (or such later date as the JV Parties may agree in writing)
“Management Company”	深圳市盛世盈豐物業管理有限公司, a company established in the PRC which manages the residential development on the Site and is wholly-owned by the Development Company
“percentage ratios”	has the meaning ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China, which for the purposes of this circular does not include Hong Kong, the Macau Special Administrative Region of the PRC or Taiwan
“Project”	an urban renewal project involving the demolition and resettlement and re-development of the Site
“Project Company”	Rainbow Triumph Limited (彩喜有限公司), an investment-holding company incorporated in the British Virgin Islands which indirectly wholly-owns the Development Company
“Project Financing”	from time to time, the borrowings and financing sought from banks or other financial institutions to finance the development of the Project
“Project Group”	the Project Company and its subsidiaries
“Redemption”	the redemption of all or part of the Sale Loans pursuant to exercise of the Loan Redemption Right by Wise Start
“Redemption Price”	the price at which the relevant amount of the Sale Loans will be repaid to Wise Start upon exercise of the Loan Redemption Right by Wise Start
“RK Commitment”	further shareholder loans from the Road King Group that Shine Precious commits to advance to the Project Company which, when aggregated with existing shareholder loans due to the Road King Group immediately following Completion, shall amount to HK\$3,200,000,000
“RK SGM”	means the special general meeting of Road King to be convened and held to consider and, if thought fit, to approve the transactions contemplated under the Investment Agreement
“RMB”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“Road King”	Road King Infrastructure Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 1098)
“Road King Group”	Road King and its subsidiaries
“Sale Loans”	shareholder loans due from the Project Company to Shine Precious, in the principal amount of HK\$800,000,000
“Sale Shares”	2,000 shares of the Project Company, representing 20% of the issued shares of the Project Company as at the date of the Investment Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	the holder(s) of the Shares
“Share(s)”	the ordinary share(s) of par value of HK\$0.10 each in the capital of Build King
“Shine Precious”	Shine Precious Limited (耀貴有限公司), a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of Road King
“Site”	the site at which the Project is situated, located at Haitao Garden, 58 Haitao Road, Yantian District, Shenzhen, the PRC with a development site area of approximately 44,339.4 sq.m.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsisting Guarantees”	the subsisting guarantees given by any member of the Project Group in respect of the Bonds and Perpetual Securities or other bonds and perpetual securities issued by the Road King Group
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Transfer”	the sale and purchase of the Sale Shares, and the assignment of the Sale Loans on the terms of the Investment Agreement
“Unaudited Pro Forma Financial Information”	the unaudited pro forma condensed consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2022 and related notes as set out in Appendix IV to this circular
“Wai Kee”	Wai Kee Holdings Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 610)
“Wai Kee Group”	Wai Kee and its subsidiaries

DEFINITIONS

“Wise Start”	Wise Start Global Limited (啟智環球有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of Build King
“WK SGM”	means the special general meeting of Wai Kee to be convened and held to consider and, if thought fit, to approve the transactions contemplated under the Investment Agreement
“%”	per cent.
“sq.m.”	square meter(s)

LETTER FROM THE BOARD



BUILD KING HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00240)

Executive Directors:

Mr. Zen Wei Peu, Derek (*Chairman,
Chief Executive Officer and Managing Director*)
Mr. Chang Kam Chuen, Desmond
Mr. Lui Yau Chun, Paul
Mr. Tsui Wai Tim

Non-executive Directors:

Mr. David Howard Gem
Mr. Chan Chi Hung, Anthony

Independent Non-executive Directors:

Mr. Ho Tai Wai, David
Mrs. Ling Lee Ching Man, Eleanor
Mr. Lo Yiu Ching, Dantes
Ms. Ng Cheuk Hei, Shirley

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Place of Business in

Hong Kong:

Units 601-605A, 6th Floor
Tower B, Manulife Financial Centre
223 Wai Yip Street
Kwun Tong, Kowloon
Hong Kong

23 December 2022

To the Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION —
PROPOSED FORMATION OF JOINT VENTURE THROUGH
THE TRANSFER AND RK COMMITMENT**

INTRODUCTION

References are made to the joint announcement of Build King and Wai Kee dated 6 October 2022 in respect of the formation of a “joint venture” between Shine Precious and Wise Start in relation to the Project pursuant to the Investment Agreement and the supplemental joint announcement of Build King and Wai Kee dated 23 November 2022 in relation to the extension of the Long Stop Date. The Investment Agreement provides that (i) Shine Precious shall sell and assign, and Wise Start shall purchase and take assignment of, the Sale Shares and Sale Loans; (ii) Shine Precious shall provide the RK Commitment; and (iii) Wise Start shall have the Loan Redemption Right, upon the exercise of which Shine Precious may require certain Balancing Transactions to be effected.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) further details of the Investment Agreement; (ii) a valuation report on the Site; (iii) the recommendation from the Independent Board Committee; (iv) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent BK Shareholders; (v) accountants' report in respect of the Project Group; (vi) Unaudited Pro Forma Financial Information; (vii) a notice of the BK SGM; and (viii) other information as required to be disclosed under the Listing Rules so as to enable you to make an informed decision on whether to vote for or against the ordinary resolution to be proposed at the BK SGM in relation to the Investment Agreement and the transactions contemplated thereunder.

THE INVESTMENT AGREEMENT

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

- Date** : 6 October 2022
- Parties** :
- (1) Shine Precious
 - (2) Wise Start
 - (3) Road King (as guarantor of the obligations of Shine Precious under the Investment Agreement and guarantor of the Redemption obligation of the Project Company)
 - (4) Build King (as guarantor of the obligations of Wise Start under the Investment Agreement)

Information on the parties is set out under "Reasons for and the benefits of the entering into the Investment Agreement" below.

- Consideration for Transfer** : The Consideration is HK\$800,015,700, of which HK\$15,700 is attributable to the Sale Shares (as Cost of Sale Shares) and HK\$800,000,000 is attributable to the Sale Loans. The Consideration is payable in cash on Completion.

The Consideration was arrived at after arm's length negotiations between the parties to the Investment Agreement. Build King took into account (i) the unaudited consolidated net deficit of the Project Company as at 31 August 2022 attributable to the Sale Shares; (ii) the nominal and paid up capital of the Sale Shares; (iii) the principal amount of the Sale Loans; (iv) no commercial value being attributable by an independent valuer to the Site as the Development Company has not yet obtained valid title of the Site or signed a land grant contract for the Project given that the Project is still in its resettlement and demolition phase; (v) the development plan of the Project (including its projected funding requirements) as described in "Information of the Project Group and the Project" below; and (vi) the intended 80:20 equity interests of the Road King Group and the Build King Group in the Project Company following Completion. The Build King Group intends to finance the payment of the Consideration from internal resources.

LETTER FROM THE BOARD

Conditions Precedent for Transfer : The obligations of the parties to the Investment Agreement to proceed to Completion are conditional upon the following conditions being satisfied:

- (a) resolutions being passed by the Independent RK Shareholders in the RK SGM to approve the transactions contemplated under the Investment Agreement as required by the Listing Rules;
- (b) resolutions being passed by the Independent BK Shareholders in the BK SGM to approve the transactions contemplated under the Investment Agreement as required by the Listing Rules;
- (c) resolutions being passed by the shareholders of Wai Kee in the WK SGM to approve the transactions contemplated under the Investment Agreement as required by the Listing Rules; and
- (d) the delivery of a fairness opinion to the trustee(s) of the Bonds and Perpetual Securities to the extent required under their terms and conditions.

Under the terms of the Investment Agreement, none of the conditions precedent above can be waived. As at the Latest Practicable Date, none of the conditions precedent above have been satisfied.

Completion of Transfer : Completion is to take place on the third business day following the day on which the conditions precedent are fulfilled (or such later date as the parties may agree in writing).

Business of the Project Company : The development of the Project (including the demolition of buildings on the Site and the resettlement of owners of land and/or buildings on the Site), the sale of units on the Site and the management of the completed development and other activities that are wholly incidental thereto, unless otherwise agreed between the JV Parties.

Funding of the Project Company and the RK Commitment : The JV Parties agree that working capital requirements of the Project Company are to be met first, to the extent practicable, by way of external borrowings or financing to be sought from banks or financial institutions.

Shine Precious has agreed, subject to Completion taking place, to provide further shareholder loans to the Project Company, as the board of the Project Company may from time to time require for any of the following purposes:

- (a) to fund working capital of the Project Group;
- (b) to fund any Redemption; and/or
- (c) to ensure that shareholder loans outstanding immediately prior to any repayment of the same (except for the purpose of any Redemption) is proportionate to the then shareholding of the JV Parties in the Project Company.

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Such additional loans, when aggregated with all shareholder loans due to the Road King Group from the Project Company immediately following Completion, shall amount to the RK Commitment.

The RK Commitment was determined after arm's length negotiations between the parties with reference to the development plan of the Project (including its projected funding requirements) as described in "Information of the Project Group and the Project" below, the principal amount of Sale Loans and the amount of additional advances that Shine Precious would need to make so that the total amount of shareholder loans provided by the respective JV Parties will become proportionate to the shareholding of the JV Parties in the Project Company immediately following Completion.

Loan Redemption Right : Wise Start has the Loan Redemption Right to require the Project Company to repay (i) up to 50% of the principal amount of the Sale Loans due to Wise Start on the day immediately preceding the first anniversary of Completion; and (ii) up to the balance of shareholder loans due to Wise Start on 28 February 2025 (or if any of these two days is not a business day, the next following business day).

The Redemption Price is to be an amount calculated using the following formula:

$$P + [P/L \times (E - S) \times 20\%]$$

where

P = the principal amount of the Sale Loans being redeemed pursuant to the exercise of the Loan Redemption Right

L = the principal amount of the Sale Loans

E = the consolidated net asset value of the Project Company as at a date that falls within 3 calendar months prior to the date of the relevant redemption notice delivered in accordance with the terms of the Investment Agreement with the inventory of properties comprised in the Project marked to market value as at the same date. The "market value" of such properties shall be the amount specified in a valuation report issued by an independent property valuer for this purpose and includes, if valid title to the Site has not then been obtained by the Project Group, the indicative market value of such properties based on assumptions no more favourable than those adopted in the valuation report of the Site set out in the circular despatched by Road King to its shareholders, which is also set out in Appendix V to this circular;

S = the consolidated net asset value of the Project Company as at 31 August 2022 as shown in the accountants report on the Project Company set out in Appendix II to this circular,

LETTER FROM THE BOARD

provided, where (E - S) is an amount less than zero, then it shall be deemed to be zero.

The Redemption Price is to be payable within five business days after determination of the Redemption Price, subject to extension to such longer period as a JV Party may specify in writing to the other JV Party for the purpose of allowing Road King, Build King and/or Wai Kee a reasonable time to comply with the applicable requirements of the Listing Rules.

Balancing Transactions : At any time following a Redemption, Shine Precious shall effect the Balancing Transactions by (i) requiring Wise Start to transfer to Shine Precious some or all of its shares in the Project Company at Cost of Sale Shares attributable to each share; or (ii) (if Wise Start fails promptly (and in any event within five business days) to effect such transfer in accordance with the request of Shine Precious) requiring the Project Company to issue to Shine Precious additional shares at nominal value, in each case, such that Wise Start's shareholding interest in the Project Company is reduced to such proportion as the principal amount of Wise Start's shareholder loans then outstanding bears to HK\$4,000,000,000 (being the aggregate of the Sale Loans and RK Commitment).

Investor rights : For so long as (i) Wise Start's shareholder loans to the Project Company represents no less than 20% of the total amount of shareholder loans then outstanding; and (ii) Wise Start remains a subsidiary of Build King, amongst other things:

- (a) Wise Start shall be entitled to appoint and remove one director to the board of the Project Company (where such board will comprise no less than five directors); and
- (b) Wise Start will have customary information rights on the Project Group, and veto rights for changes to the share capital of or issue of shares by the Project Company (except for a Balancing Transaction), disposal of any interest in any member of the Project Group or the Project and/or any borrowings or encumbrances (except for any Subsisting Guarantees, any Project Financing and encumbrances granted in connection with such Project Financing and/or disposals in connection with the sale or pre-sale of units developed), any change of the business of the Project Company, its constitutional documents, liquidation of any member of the Project Group, and non-arm's length related party transactions.

Distribution and Proportionality of Shareholder Loans : The Project Company shall not make any distribution by way of dividends or otherwise unless no shareholder loan remains outstanding. Unless otherwise agreed between the JV Parties and save to the extent of the RK Commitment, no advances shall be made other than by way of shareholder loans the principal amount of which shall be proportionate to the shareholding of the JV Parties in the Project Company.

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Transfer of shareholding interest : Wise Start may not transfer any shares of the Project Company held by it without the consent of Shine Precious.

In addition, any transfer of shares in the Project Company by a JV Party will be subject to the right of first refusal of the other JV Party, and customary tag-along and drag along rights. Any such transfers will be subject to the compliance with Listing Rules applicable at the time to Road King, Wai Kee and/or Build King (as the case may be).

Termination : Prior to Completion, (i) if any of the conditions precedent are not fulfilled by a JV Party on or before the Long Stop Date, the Investment Agreement will terminate at the end of that day; or (ii) if any JV Party fails to comply with its Completion obligations, or if there is a material breach by a JV Party of the representations and warranties given in the Investment Agreement, the other JV Party may, by notice in writing to such JV Party, terminate the Investment Agreement.

Following Completion, if a JV Party is liquidated, dissolved, becomes bankrupt or insolvent, enters into any composition, reconstruction or arrangement with its creditors in respect of a significant proportion of its assets, is in material breach of its obligations under the Investment Agreement, or (in the case of Shine Precious only) the Subsisting Guarantees are enforced against the Project Group, the other JV Party may terminate the Investment Agreement by giving 30 days' written notice. In addition, the non-defaulting JV Party has the right to:

- (a) (if Wise Start is in default) Shine Precious may require Wise Start to sell its shares in the Project Company and to assign its shareholder loans in the Project Company to Shine Precious at the Cost of Sale Shares attributable to the relevant shares held by Wise Start and the principal amount of the shareholder loans due from the Project Company to Wise Start at the relevant time; or
- (b) (if Shine Precious is in default) Wise Start may require Shine Precious to buy Wise Start's shares in the Project Company and to assign its shareholder loans to Shine Precious at the Cost of Sale Shares and Redemption Price attributable to those shares and shareholder loans at the relevant time.

Any such transfers will be subject to the compliance with Listing Rules applicable at the time to Road King, Wai Kee and/or Build King (as the case may be).

The Investment Agreement will also terminate on the date when either JV Party ceases to hold any shares of the Project Company, or if a resolution is passed to wind up the Project Company or a liquidator is otherwise appointed.

Upon termination of the Investment Agreement, no JV Party will have any obligation towards the other save for antecedent breaches and (in the case of a termination after Completion) the rights of the parties in relation to the sale and purchase of shares and shareholder loan described above.

LETTER FROM THE BOARD

INFORMATION OF THE PROJECT GROUP AND THE PROJECT

The Project Company is an investment holding company incorporated in the British Virgin Islands. Through its wholly-owned subsidiaries, it wholly-owns the Development Company which is the developer of the Project and is the 100% holding company of the Management Company.

The Development Company was established to engage in the development of the Site. It received planning approval for its resettlement and development project from the Shenzhen Urban Planning and Land Resources Committee in 2011. Its registered capital is RMB50 million, all of which has been fully paid up. The Road King Group acquired the Development Company in stages since April 2014. The Development Company was accounted for as a wholly-owned subsidiary of Road King since 2019. The sellers of the Development Company were independent third parties that are not connected persons of Wai Kee or Build King. The original acquisition cost of the Development Company to the Road King Group was RMB550 million. Each acquisition price was determined after arms' length negotiations with the sellers. The Road King Group agreed its acquisition price based on its internal valuation and assessment of the total investment and development cost of such project, projected development timeline and sales price, in line with usual practice for its investments in property development projects. The Management Company was established for and its current business is the management of the current residential development (to be demolished) on the Site. Save for the Development Company and the Management Company, other members of the Project Group are investment holding companies.

The Project is an urban renewal project referred to as Haitao Garden at the Site located at Haitao Garden, 58 Haitao Road, Yantian District, Shenzhen, the PRC and was built in the 1980s. It involves the demolition and resettlement of a total of 58 residential buildings with some commercial facilities, covering a development site area of 44,339.4 sq.m. (with planned gross floor area of 242,980 sq.m.), and the re-development of the Site thereafter. Under the current development plan, subject to the relevant regulatory approvals being obtained, the Project entails a new property development project that has 223,780 sq.m. gross floor area for residential use, 12,600 sq.m. gross floor area for commercial use and 6,600 sq.m. gross floor area for ancillary public facilities.

As at 15 August 2022 and as at the Latest Practicable Date, the Development Company has entered into contracts with well over 95% of the 1,282 owners on the Site covering over 95% of the gross floor area for resettlement purposes. This entitles the Development Company to local district government-assisted mediation of resettlement terms with the remaining owners or, failing which, the exercise of resumption rights by the local government and on-sale of resumption properties to the Development Company. After the Development Company has acquired the property interests of all the owners of the existing properties on the Site (subject to its urban renewal proposal remaining valid, the renewal project remaining part of the Shenzhen Municipal Bureau of Urban Planning and Land Resources' development plan and all materials required for qualification as the developer have been submitted to the relevant governmental authorities), it can then apply to become the developer of the Project (實施主體). Following the demolition of the existing buildings on the Site and the cancellation of the property registration of those buildings, the developer of the Project can then formally apply for the relevant planning and construction approvals for the Project and enter into land use rights grant contract with the relevant state-owned land authority in which the land premium payable for proposed development (including the increase in plot ratio) will be specified. Pursuant to the applicable PRC laws, once the land use rights grant contract has been entered into with the competent land administration department and the land premium and deed tax have been paid in accordance with the

LETTER FROM THE BOARD

requirements thereunder, there is no material legal impediment for the developer of the Project to obtain the land use rights to the Site. As such, as at the Latest Practicable Date, the Directors did not foresee any major obstacles for the Development Company to successfully become the developer of the Project and obtain the land use rights to the Site, which the Directors note is a view shared by the directors of Road King.

Given (i) the nature and progress of the Project (including the fact that the Project Company has contracts to acquire over 95% of the gross floor area from over 95% of the owners on the Site); (ii) the likelihood of the Development Company becoming the developer of the Project; (iii) the fact that the Project Company does not have land use right certificates for the Site is due only to the stage of the resettlement project as described above, (iv) the depth of experience and track record of the Road King Group in property development in the PRC; and (v) the indicative valuation of the Site set out in note 4 to the valuation report set out in Appendix V to this circular, and (vi) the recovery of the Sale Loans is effectively backed up by the Loan Redemption Right which is guaranteed by Road King (which had, as at 30 June 2022, consolidated net assets exceeding HK\$34,800 million), i.e. the Build King Group is not relying only on the credit risk of the Project Company for the recoverability of the Sale Loans, the Directors are of the view that the Transfer is fair and reasonable and in the interest of Build King and its shareholders as a whole.

The Project Group plans to commence demolition and construction works by the end of 2023 and pre-sales of the residential Project units in 2025. The Project Group is not entitled to any compensation for the demolition of the existing buildings and the resettlement of the owners on the Site.

The Site is well located with seafront at its South-eastern side and park facilities across the street at the Western boundary of the Site. The Site is within walking distance from a shopping centre, five star hotel, retail shops, schools and hospitals, and the Sha Tau Kok border crossing between mainland China and Hong Kong. It also has access to the public transportation network such as buses and subway to the central business districts in Shenzhen, Luohu and Hong Kong. Other urban renewal projects in the vicinity are also expected to contribute to the gentrification and attractiveness of this area and the population of this area is expected to increase.

The audited consolidated net profit (loss) of the Project Group before and after taxation for each of the years ended 31 December 2020 and 2021 and the eight months ended 31 August 2022 extracted from the accountants' report of the Project Group as set out in Appendix II to this circular were as follows:

	For the year ended 31 December		For the eight months ended
	2020	2021	31 August 2022
	HK\$ million	HK\$ million	HK\$ million
Net profit (loss) before taxation	(4.6)	(3.1)	0.4
Net profit (loss) after taxation ¹	(4.6)	(0.7)	0.4

Note 1: The reduced losses in the year ended 31 December 2021 and the net profit recorded in the eight months ended 31 August 2022 were mainly attributable to interest income receivable on funds advanced by the Development Company to owners of existing properties on the Site in order to secure the release of mortgages of those properties, to facilitate completion of the transfer of those properties to the Development Company in the year ended 31 December 2021 and the eight months ended 31 August 2022, respectively.

LETTER FROM THE BOARD

The audited consolidated net deficit of the Project Company as at 31 August 2022 extracted from the accountants' report of the Project Group set out in Appendix II to this circular was approximately HK\$8.6 million and the Site is booked at cost. Please refer to the valuation report set out in Appendix V to this circular for further information on the valuation on the Site. As at 31 August 2022, the Road King Group has advanced shareholder loan in the principal amount of approximately HK\$2,134 million to the Project Group. To fund completion of re-settlement and demolition works and subsequent development works, the Road King Group has budgetted total financing for the Project Group (inclusive of external financing) of approximately HK\$4,500 million and HK\$5,900 million up to the end of December 2023 and February 2025, respectively.

REASONS FOR AND THE BENEFITS OF ENTERING INTO THE INVESTMENT AGREEMENT

Wai Kee is an investment holding company and the principal activities of its group companies include property development and investment, toll road, investment and asset management, construction, sewage treatment and steam fuel, construction materials and quarrying.

Build King is an investment holding company and its group companies are principally engaged in the undertaking of construction projects in Hong Kong and the PRC and are also engaged in environmental and waste management and marine engineering. Wise Start is principally engaged in investment holding.

Road King is an investment holding company and the Road King Group is principally engaged in property development and investment in the PRC and Hong Kong, with a focus on residential developments, investment and asset management businesses, and development, operation and management of toll roads through infrastructure joint ventures in the PRC and Indonesia. Shine Precious is principally engaged in investment holding.

The Build King Group's investment under the terms of the Investment Agreement provides the Build King Group an opportunity to generate returns to shareholders by expanding its property project investment portfolio to include the Project, leveraging the expertise of Road King in the development and sale of residential property projects in the Guangdong - Hong Kong - Macao Bay area and other parts of the PRC.

The Project is well located in an area for residential development in the vicinity of schools, hospital and commercial complexes and reasonably accessible to Shenzhen and Hong Kong. The terms of the Investment Agreement allow the Build King Group the flexibility of managing its investment portfolio to optimize its mix at the end of the first year and shortly after the second year of its investment through the Redemption if Wise Start elects to exercise its Loan Redemption Rights. The Balancing Transactions ensure that proportionality between the JV Parties' shareholding and shareholder loans (including the RK Commitment) can be maintained after any redemption of the Sale Loans pursuant to an exercise of Loan Redemption Right.

Following Completion, the Build King Group's equity interest in the Project Company will be accounted for as interest in an associate using the equity method and its shareholder loan interest and interest under the Loan Redemption Right will be accounted for as financial assets at fair value through profit or loss in the consolidated financial statements of the Build King Group. As shown in the Unaudited Pro Forma Financial Information, the investment (after taking into account transaction related expenses) is not expected to have any significant impact on the total assets and total liabilities of the Enlarged Group. Such Unaudited Pro Forma Financial Information has been prepared on the conservative assumption that the Build King Group

LETTER FROM THE BOARD

expects to exercise the Loan Redemption Right on the first anniversary of Completion. In this connection, the Board will, after Completion, review from time to time, the Build King Group's working capital requirements for existing and new projects, and the progress of the Project, to determine whether or not it is appropriate and in the interests of Build King and its Shareholders as a whole to exercise such Loan Redemption Right.

Mr. Zen Wei Peu, Derek is the vice chairman of the board of directors, chief executive officer, an executive director and a controlling shareholder of Wai Kee, and the chairman of the Board, chief executive officer, managing director and a shareholder of Build King. Mr. Zen Wei Peu, Derek is also the chairman of the board of directors, an executive director and a shareholder of Road King. Accordingly, Mr. Zen Wei Peu, Derek has abstained from voting on the board resolution of Build King approving the terms of the Investment Agreement.

IMPLICATIONS UNDER THE LISTING RULES

Wai Kee is a majority shareholder of Build King. As at the Latest Practicable Date, Wai Kee (through its subsidiaries) is interested in 721,235,033 Shares, representing approximately 58.08% of the Shares in issue. Accordingly, Wai Kee is a substantial shareholder of Build King and therefore a connected person of Build King under the Listing Rules. As at the Latest Practicable Date, Wai Kee (through its subsidiaries) is interested in 336,608,428 shares of Road King, representing approximately 44.92% of Road King's shares in issue. Road King and Shine Precious are therefore associates of Wai Kee and connected persons of Build King under the Listing Rules. Accordingly, certain transactions contemplated under the Investment Agreement constitute connected transactions of Build King under the Listing Rules.

As one or more of the applicable percentage ratios in respect of the formation of the "joint venture" with respect to the Project through the Transfer and the RK Commitment are more than 25% but less than 100% for Build King, the formation of the "joint venture" contemplated under the Investment Agreement constitutes a major and connected transaction for Build King and is therefore subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

Build King will, prior to any exercise of its Loan Redemption Right, comply with the requirements of Chapter 14A of the Listing Rules in relation to the Balancing Transactions arising from such exercise to which Rule 14A.79 of the Listing Rules applies. The board of Wai Kee has resolved that Build King may (subject to its compliance with the requirements of the Listing Rules) exercise the Loan Redemption Rights should the aggregate fair value of the Sale Shares not exceed HK\$400 million.

THE BK SGM AND REGISTER OF MEMBERS

The BK SGM will be held on 13 January 2023 for the purposes of providing the Independent BK Shareholders with an opportunity to consider and, if thought fit, approving the Investment Agreement and the transactions contemplated thereunder. As required under the Listing Rules, votes at the BK SGM will be taken by way of a poll.

LETTER FROM THE BOARD

The register of members of Build King will be closed from Thursday, 12 January 2023 to Friday, 13 January 2023, both dates inclusive, during which period no transfer of Shares will be registered. In order to qualify for attending the BK SGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with Build King's branch share registrar in Hong Kong, Tricor Progressive Limited at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong no later than Wednesday, 11 January 2023 at 4:00 p.m.

A form of proxy for use at the BK SGM is enclosed. Whether or not you are able to attend and vote at the BK SGM in person, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to Build King's branch share registrar in Hong Kong, Tricor Progressive Limited at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding of the BK SGM or any adjournment thereof (as the case may be). Completion and return of a form of proxy will not preclude you from attending and voting in person at the BK SGM or any adjournment thereof (as the case may be) should you so wish and in such case, the form of proxy shall be deemed to be revoked.

The notice of the BK SGM is set out on pages SGM-1 to SGM-2 of this circular. Wai Kee, being a substantial shareholder of Build King and Road King, and its associates will abstain from voting at the BK SGM on the resolution for approving the transactions contemplated under the Investment Agreement. As Mr. Zen Wei Peu, Derek holds, as at the Latest Practicable Date, 23,649,000 shares of Road King (being approximately 3.16% of Road King's shares in issue), 249,424,078 shares of Wai Kee (being approximately 31.45% of Wai Kee's shares in issue) and 123,725,228 Shares (being approximately 9.96% of the Shares in issue), he will also abstain from voting at the BK SGM on the resolution to approve the transactions contemplated under the Investment Agreement pursuant to Rule 2.15 of the Listing Rules.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising the Independent Non-executive Directors, namely Mr. Ho Tai Wai, David, Mrs. Ling Lee Ching Man, Eleanor, Mr. Lo Yiu Ching, Dantes and Ms. Ng Cheuk Hei, Shirley, has been established to advise the Independent BK Shareholders in relation to the terms of the Investment Agreement. The recommendations of the Independent Board Committee, based on the advice of the Independent Financial Adviser, is set out in its letter on pages 18 to 19 of this circular.

Ballas Capital Limited has been appointed as the Independent Financial Adviser for the purpose of advising the Independent Board Committee and the Independent BK Shareholders in respect of the terms of the Investment Agreement. The advice of the Independent Financial Adviser is set out in its letter on pages 20 to 45 of this circular.

ADDITIONAL INFORMATION

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

LETTER FROM THE BOARD

RECOMMENDATION

Taking into account the letters from the Independent Board Committee and the Independent Financial Advisor which are respectively set out on pages 18 to 19 and pages 20 to 45 of this circular and all other factors stated above as a whole, the Directors (including the Independent Non-executive Directors) are of the view that the terms of the Investment Agreement (including but not limited to the terms of the Transfer, RK Commitment, Loan Redemption Right and Balancing Transactions) are on normal commercial terms, and such terms are fair and reasonable and in the interests of Build King and its Shareholders as a whole. As such, the Directors recommend the Independent BK Shareholders to vote in favour of the resolution to be proposed at the BK SGM.

Yours faithfully
By Order of the Board
Build King Holdings Limited
Chang Kam Chuen Desmond
Company Secretary

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee, which has been prepared for the purpose of incorporation into this circular, setting out its recommendation to the Independent BK Shareholders in respect of the Investment Agreement and the transactions contemplated thereunder.



BUILD KING HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 00240)

23 December 2022

To the Independent BK Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION — PROPOSED FORMATION OF JOINT VENTURE THROUGH THE TRANSFER AND RK COMMITMENT

We refer to the circular issued by Build King to the Shareholders dated 23 December 2022 (the “**Circular**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent BK Shareholders in respect of the terms of the Investment Agreement and the transactions contemplated thereunder, details of which are set out in the Circular. Ballas Capital Limited has been appointed as the Independent Financial Adviser to advise us and the Independent BK Shareholders in this regard. Details of the advice of the Independent Financial Adviser, together with the principal factors and reasons the Independent Financial Adviser has taken into consideration, are set out in the “Letter from the Independent Financial Adviser” set out on pages 20 to 45 of the Circular. Your attention is also drawn to the “Letter from the Board” in the Circular and the additional information set out in the appendices to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the advice of, and the principal factors and reasons considered by and the opinion of the Independent Financial Adviser as stated in its letter, we consider that the Investment Agreement, though not entered into in the ordinary and usual course of business of the Build King Group, and the transactions contemplated thereunder (including the Transfer, RK Commitment, Loan Redemption Right and Balancing Transactions) are on normal commercial terms, fair and reasonable so far as the Independent BK Shareholders are concerned, and in the interests of Build King and the Shareholders as a whole. Accordingly, we recommend the Independent BK Shareholders to vote in favour of the resolution to be proposed at the BK SGM in respect of the Investment Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Independent Board Committee of
Build King Holdings Limited
Ho Tai Wai, David
Ling Lee Ching Man, Eleanor
Lo Yiu Ching, Dantes
Ng Cheuk Hei, Shirley
Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent BK Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent BK Shareholders in respect of the Investment Agreement and the transactions contemplated thereunder.

BALLAS

C A P I T A L

A subsidiary of Crosby

5/F, Capital Centre,
151 Gloucester Road,
Wanchai, Hong Kong

23 December 2022

*To the Independent Board Committee and
the Independent BK Shareholders*

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION - PROPOSED FORMATION OF JOINT VENTURE THROUGH THE TRANSFER AND RK COMMITMENT

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent BK Shareholders in respect of the Investment Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in this circular of Build King (the “**Circular**”) to the Shareholders dated 23 December 2022, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 6 October 2022 (after trading hours), Build King and Wai Kee jointly announced that Road King, Build King, Shine Precious and Wise Start entered into the Investment Agreement in relation to the formation of the “joint venture” between Shine Precious and Wise Start for the purpose of the development of the Project. The Investment Agreement provides that (i) Shine Precious has agreed to sell and assign, and Wise Start has agreed to purchase and take assignment of, the Sale Shares and Sale Loans; (ii) Shine Precious has agreed to provide the RK Commitment; and (iii) Wise Start shall have the Loan Redemption Right, upon the exercise of which Shine Precious may require certain Balancing Transactions to be effected. Following Completion, the Project Company will be owned as to 80% by Shine Precious and 20% by Wise Start and will remain a subsidiary of Road King.

Wai Kee is a majority shareholder of Build King. As at the Latest Practicable Date, Wai Kee (through its subsidiaries) was interested in 721,235,033 Shares, representing approximately 58.08% of the Shares in

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

issue. Accordingly, Wai Kee is a substantial shareholder of Build King and therefore a connected person of Build King under the Listing Rules. As at the Latest Practicable Date, Wai Kee (through its subsidiaries) was interested in 336,608,428 shares of Road King, representing approximately 44.92% of Road King's shares in issue. Road King and Shine Precious are therefore associates of Wai Kee and connected persons of Build King under the Listing Rules. Accordingly, certain transactions contemplated under the Investment Agreement constitute connected transactions of Build King under the Listing Rules.

As one or more of the applicable percentage ratios in respect of the formation of the "joint venture" with respect to the Project through the Transfer and the RK Commitment are more than 25% but less than 100% for Build King, the formation of the "joint venture" contemplated under the Investment Agreement constitutes a major and connected transaction for Build King and is therefore subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

Build King will, prior to any exercise of its Loan Redemption Right, comply with the requirements of Chapter 14A of the Listing Rules in relation to the Balancing Transactions arising from such exercise to which Rule 14A.79 of the Listing Rules applies.

Wai Kee, being a substantial shareholder of Build King and Road King, and its associates will abstain from voting at the BK SGM on the resolution for approving the transactions contemplated under the Investment Agreement. As Mr. Zen Wei Peu, Derek held, as at the Latest Practicable Date, 23,649,000 shares of Road King (being approximately 3.16% of Road King's shares in issue), 249,424,078 shares of Wai Kee (being approximately 31.45% of Wai Kee's shares in issue) and 123,725,228 Shares (being approximately 9.96% of the Shares in issue), he will also abstain from voting at the BK SGM on the resolution to approve the transactions contemplated under the Investment Agreement pursuant to Rule 2.15 of the Listing Rules.

An Independent Board Committee comprising the Independent Non-executive Directors, namely Mr. Ho Tai Wai, David, Mrs. Ling Lee Ching Man, Eleanor, Mr. Lo Yiu Ching, Dantes and Ms. Ng Cheuk Hei, Shirley, has been established pursuant to the Listing Rules to advise the Independent BK Shareholders in relation to the terms of the Investment Agreement.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the Directors and the senior management of Build King.

The Directors have declared in a responsibility statement set out in Appendix VI to the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained and representations made in the Circular and that there are no other matters the omission of which would make any statement in the Circular misleading. We have also assumed that the information and the representations made by the Directors as contained or referred to in the Circular were true and accurate at the time they were made and continue to be so up to the date of the BK SGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the senior management of Build King. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation, we consider that we have taken reasonable steps and reviewed sufficient information, including but not limited to, the Investment Agreement, the property valuation report on the Site (the “**Valuation Report**”) prepared by RHL Appraisal Limited (the “**Valuer**”) as set out in Appendix V to the Circular, the accountants report of the Project Group as set out in Appendix II to the Circular, the joint announcement of Build King and Wai Kee dated 6 October 2022 in relation to the Investment Agreement, the annual report of Build King for the year ended 31 December 2021 (the “**2021 Annual Report**”) and the interim report of Build King for the six months ended 30 June 2022 (the “**2022 Interim Report**”). We have not, however, conducted an independent verification of the information provided, representations made or opinion expressed by the Directors and/or the senior management of Build King, nor have we conducted any form of in-depth investigation into the businesses and affairs or prospects of Road King, Build King, Shine Precious, Wise Start and the Project Group or any of their respective subsidiaries or associates.

INDEPENDENCE DECLARATION

We are not associated or connected with Road King, Build King, Shine Precious, Wise Start and the Project Company or their respective core connected persons or associates. In the two years immediately preceding the Latest Practicable Date, we were engaged as the independent financial adviser to Build King pursuant to (i) the framework agreement dated 11 November 2020 entered into between Build King and Wai Kee in relation to the continuing sale and purchase of concrete from 1 January 2021 to 31 December 2023; and (ii) the framework agreement dated 30 November 2022 entered into between Build King and Wai Kee in relation to the continuing sale and purchase of concrete from 1 January 2023 to 31 December 2025. Save for the aforesaid transaction and this appointment as the independent financial adviser in relation to the Investment Agreement and the transactions contemplated thereunder, we did not have any other relationship with or interests in Build King, the counterparties of the transactions contemplated under the Investment Agreement, or their respective core connected persons or associates nor had we acted as an independent financial adviser to other transactions of Build King that could reasonably be regarded as hindrance to our independence as defined under the Listing Rules. Accordingly, we consider we are eligible to give independent advice on the Investment Agreement and the transactions contemplated thereunder.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and advice in relation to the Investment Agreement and the transactions contemplated thereunder, we have considered the following principal factors and reasons:

A) **Background and reasons for entering into the Investment Agreement**

(i) Principal business of the Build King Group

Build King is an investment holding company and its group companies are principally engaged in the undertaking of construction projects in Hong Kong and the PRC and are also engaged in environmental and waste management and marine engineering. Wise Start is principally engaged in investment holding.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) Financial information of the Build King Group

Set out below is a summary of the audited consolidated financial information of the Build King Group for each of the years ended 31 December 2020 and 2021 and the unaudited consolidated financial information of the Build King Group for the six months ended 30 June 2022 as extracted from the 2021 Annual Report and the 2022 Interim Report, respectively.

	For the year ended		For the six months	
	31 December		ended 30 June	
	2020	2021	2021	2022
	<i>HK\$ million</i>			
Types of service				
- Construction contract	7,566.8	9,912.6	4,630.7	5,750.4
- Sewage treatment plant operation	35.1	57.5	27.3	27.5
- Steam fuel plant operation	26.5	59.9	19.8	55.1
	<u>7,628.4</u>	<u>10,030.0</u>	<u>4,677.8</u>	<u>5,833.0</u>
Total revenue				
	688.6	739.6	342.4	487.1
Gross profit				
	9.0%	7.4%	7.3%	8.4%
Gross profit margin				
Profit attributable to owners of Build King	<u>440.9</u>	<u>294.5</u>	<u>147.4</u>	<u>199.2</u>

	As at 30 June
	2022
	<i>HK\$ million</i>
Non-current assets	1,140.2
Current assets	<u>5,591.7</u>
	6,731.9
Current liabilities	4,765.0
Non-current liabilities	<u>57.5</u>
	<u>4,822.5</u>
Net assets	<u>1,909.4</u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the year ended 31 December 2021 (“FY2021”)

The Build King Group recorded revenue of approximately HK\$10,030.0 million for FY2021, representing an increase of approximately 31.5% as compared to that of approximately HK\$7,628.4 million for the year ended 31 December 2020 (“FY2020”). According to the 2021 Annual Report, such increase in revenue was mainly attributable to the increase in turnover from construction work of approximately HK\$2,345.8 million arising from (i) an over 15% increase in turnover from civil engineering division which reached HK\$5.3 billion; and (ii) an increase of approximately 75% in turnover from building division which reached HK\$4.2 billion.

Despite the 31.5% increase in revenue, gross profit only increased by approximately HK\$51 million in FY2021 as a result of the decrease in gross profit margin from approximately 9.0% for FY2020 to approximately 7.4% for FY2021, reflecting the severe market competition for the new projects in FY2021.

For FY2021, the Build King Group recorded profit attributable to owners of Build King of approximately HK\$294.5 million, representing a decrease of approximately HK\$146.4 million or 33.2% as compared to the previous year. Based on the 2021 Annual Report, despite the increase in turnover, such decrease of profit was mainly attributable to (i) the government subsidy of HK\$116 million received in 2020 which was one-off; (ii) the net loss of investment in China property bonds of HK\$54 million after taking into account the decrease of market values and accrued interest income; and (iii) the increase in tax expenses by three times as a result of timing difference in utilization of tax losses.

For the six months ended 30 June 2022 (“1H2022”)

The Build King Group recorded revenue of approximately HK\$5,833.0 million for 1H2022, representing an increase of approximately 24.7% as compared to that of approximately HK\$4,677.8 million recorded for the six months ended 30 June 2021 (“1H2021”). With reference to the 2022 Interim Report, such increase was in line with the increasing trend of outstanding works on hand since FY2021. However, management considered that the turnover growth rate was in fact lower than the budget because the fifth wave of COVID-19 caused intermittent closure of many construction sites in the first half year of 2022.

For 1H2022, the Build King Group recorded gross profit of approximately HK\$487.1 million, representing an increase of approximately 42.3% compared to that of the previous year. Such increase was primarily due to the increase in revenue together with the improvement of gross profit margin from approximately 7.3% for 1H2021 to approximately 8.4% for 1H2022 which was mainly attributable to significant contribution from few projects where major additional works were concluded with reasonable profits. The increase in gross profit was partially offset by the decrease in fair value of financial assets measured through profit and loss. As a result, Build King recorded profit attributable to owners of Build King of approximately HK\$199.2 million for 1H2022, representing an increase of approximately 35.1% as compared to that of approximately HK\$147.4 million recorded in the previous year.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 30 June 2022, total assets of the Build King Group amounted to approximately HK\$6,731.9 million, which mainly comprised (i) contract assets of approximately HK\$2,674.8 million; (ii) bank balances and cash of approximately HK\$1,721.9 million; (iii) debtors, deposits and prepayments of approximately HK\$696.8 million; (iv) property, plant and equipment of approximately HK\$513.9 million; and (v) intangible assets of approximately HK\$349.0 million. As at 30 June 2022, total liabilities of the Build King Group amounted to approximately HK\$4,822.5 million, which mainly comprised (i) creditors and accrued charges of approximately HK\$3,598.6 million; (ii) contract liabilities of approximately HK\$569.1 million; and (iii) bank loans of approximately HK\$371.9 million. As at 30 June 2022, the Build King Group recorded net current assets and net assets of approximately HK\$826.7 million and approximately HK\$1,909.4 million, respectively.

(iii) Background information of the Project Group and the Project

The Project Company is an investment holding company incorporated in the British Virgin Islands. Through its wholly-owned subsidiaries, it wholly-owns the Development Company which is the developer of the Project and is the 100% holding company of the Management Company.

The Development Company was established to engage in the development of the Site. It received planning approval for its resettlement and development project from the Shenzhen Urban Planning and Land Resources Committee in 2011. Its registered capital is RMB50 million, all of which has been fully paid up. The Road King Group acquired the Development Company in stages since April 2014. The Development Company was accounted for as a wholly-owned subsidiary of Road King since 2019. The sellers of the Development Company were independent third parties that are not connected persons of Wai Kee or Build King. The original acquisition cost of the Development Company to the Road King Group was RMB550 million. Each acquisition price was determined after arms' length negotiations with the sellers. The Road King Group agreed its acquisition price based on its internal valuation and assessment of the total investment and development cost of such project, projected development timeline and sales price, in line with usual practice for its investments in property development projects. The Management Company was established for and its current business is the management of the current residential development (to be demolished) on the Site. Save for the Development Company and the Management Company, other members of the Project Group are investment holding companies.

The Project is an urban renewal project referred to as Haitao Garden at the Site located at Haitao Garden, 58 Haitao Road, Yantian District, Shenzhen, the PRC and was built in the 1980s. It involves the demolition and resettlement of a total of 58 residential buildings with some commercial facilities, covering a development site area of 44,339.4 sq.m. (with planned gross floor area of 242,980 sq.m.), and the re-development of the Site thereafter. Under the current development plan, subject to the relevant regulatory approvals being obtained, the Project entails a new property development project that has 223,780 sq.m. gross floor area for residential use, 12,600 sq.m. gross floor area for commercial use and 6,600 sq.m. gross floor area for ancillary public facilities.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 15 August 2022 and as at the Latest Practicable Date, the Development Company has entered into contracts with well over 95% of the 1,282 owners on the Site covering over 95% of the gross floor area for resettlement purposes. This entitles the Development Company to local district government-assisted mediation of resettlement terms with the remaining owners or, failing which, the exercise of resumption rights by the local government and on-sale of resumption properties to the Development Company. As stated in the Letter from the Board, after the Development Company has acquired the property interests of all the owners of the existing properties on the Site (subject to its urban renewal proposal remaining valid, the renewal project remaining part of the Shenzhen Municipal Bureau of Urban Planning and Land Resources' development plan and all materials required for qualification as the developer have been submitted to the relevant governmental authorities), it can then apply to become the developer of the Project (實施主體). Following the demolition of the existing buildings on the Site and the cancellation of the property registration of those buildings, the developer of the Project can then formally apply for the relevant planning and construction approvals for the Project and enter into land use rights grant contract with the relevant state-owned land authority in which the land premium payable for proposed development (including the increase in plot ratio) will be specified. Pursuant to the applicable PRC laws, once the land use rights grant contract has been entered into with the competent land administration department and the land premium and deed tax have been paid in accordance with the requirements thereunder, there is no material legal impediment for the developer of the Project to obtain the land use rights to the Site. As such, as at the Latest Practicable Date, the Directors did not foresee any major obstacles for the Development Company to successfully become the developer of the Project and obtain the land use rights to the Site, which the Directors note is a view shared by the directors of Road King. The Project Group plans to commence demolition and construction works by the end of 2023 and pre-sales of the residential Project units in 2025. The Project Group is not entitled to any compensation for the demolition of the existing buildings and the resettlement of the owners on the Site.

The Site is well located with seafront at its South-eastern side and park facilities across the street at the Western boundary of the Site. The Site is within walking distance from a shopping centre, five-star hotel, retail shops, schools and hospitals, and the Sha Tau Kok border crossing between mainland China and Hong Kong. It also has access to the public transportation network such as buses and subway to the central business districts in Shenzhen, Luohu and Hong Kong. Other urban renewal projects in the vicinity are also expected to contribute to the gentrification and attractiveness of this area and the population of this area is expected to increase.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iv) *Financial information of the Project Group*

Financial performance

The following is a summary of the audited financial results of the Project Group for each of the three years ended 31 December 2019, 2020, 2021 and the eight months ended 31 August 2022 (the “**Track Record Period**”) as extracted from the financial information of the Project Group set out in Appendix II to this Circular. Details on the management discussion and analysis on the Project Group are set out in Appendix III to the Circular.

	For the year ended 31 December			For the eight
	2019	2020	2021	months ended
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	31 August 2022
				<i>HK\$'000</i>
Revenue	758	143	5	—
Gross loss	(2,769)	(3,199)	(3,288)	(1,451)
Other income (including the interest income)	246	271	2,962	3,952
Net (loss)/profit before taxation	(3,611)	(4,595)	(3,095)	441
Net (loss)/profit after taxation	(3,611)	(4,595)	(744)	441

As disclosed in the Circular, the Project Group was in the course of acquiring the remaining property interests on the Site during the Track Record Period and has yet to commence construction works on the Site. Accordingly, during the Track Record Period, the Project Group has not generated any revenue from property sales but has received income from the provision of property management services and incurred cost of management services, other income and administrative expenses. The revenue and expenses of the Project Group were insignificant during the Track Record Period.

During the Track Record Period, the revenue of the Project Group was mainly generated from property management services. For the years ended 31 December 2019, 2020 and 2021, the Project Group recorded a net loss of approximately HK\$3.6 million, HK\$4.6 million and HK\$0.7 million, respectively, while the Project Group recognized a net profit of approximately HK\$0.4 million for the eight months ended 31 August 2022. As illustrated in the above table, the revenue generated from the property management services demonstrated a decreasing trend from approximately HK\$0.8 million in 2019 to nil for the eight months ended 31 August 2022 which was due to the fact that an increasing number of existing properties on the Site were vacated and sold to the Project Group under its resettlement efforts. Other operating expenses for the Track Record Period, which mainly comprised charitable donations, office utilities expenses, bank and other tax charges, etc., outweighed the only income of the revenue of the Project Group during the three years ended 31 December 2021. For the eight months ended 31 August 2022, the Project Group recorded a small net profit of approximately HK\$0.4 million, which was mainly attributable to the increase in interest income on the funds advanced by the Development Company to owners of existing properties on the Site in order to secure the release of mortgages and facilitate completion of the transfer of those properties to the Project Group.

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Financial position

Set out below is a summary of the audited financial position of the Project Group as at 31 August 2022 as extracted from the financial information of the Project Group set out in Appendix II to the Circular.

	As at 31 August 2022 <i>HK\$ million</i>
Assets	
Inventory of properties	3,117.1
Other assets	<u>192.6</u>
Total Assets	3,309.7
Liabilities	
Amount due to related parties	2,134.3
Bank borrowings	1,177.1
Other liabilities	<u>6.9</u>
Total Liabilities	<u>3,318.3</u>
Net liabilities	<u><u>8.6</u></u>

As at 31 August 2022, the Project Group recorded total assets of approximately HK\$3,309.7 million, which mainly consisted of the properties under development for sale with carrying value of HK\$3,117.1 million. Such carrying value mainly included the land costs, resettlement/demolition compensation costs, design costs and other upfront costs before commencement of the construction, capitalized borrowing costs and development-related overheads. As of 31 August 2022, the other assets of the Project Group mainly comprised (i) loan receivables from property owners of about HK\$126 million; and (ii) bank balances and cash of about HK\$58 million.

As at 31 August 2022, the total liabilities of the Project Group amounted to approximately HK\$3,318.3 million. The major liabilities of the Project Group as of 31 August 2022 included (i) the shareholder loan due to Road King Group in the principal amount of approximately HK\$2,134.3 million and total bank loans (including the short-term and long-term bank loans) of approximately HK\$1,177.1 million. The shareholder loan due to Road King Group and the bank loans as at 31 August 2022 were mostly used to fund the re-settlement in relation to the Site.

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(v) *Reasons for and Benefits of the Investment Agreement*

Leveraging on the benefits of partnership and diversifying the portfolio

As stated in the 2021 Annual Report and 2022 Interim Report, construction work is the core business of the Build King Group, representing over 98% of its turnover, and almost all of which were carried out in Hong Kong. Although the Build King Group is specialised in construction work (including civil engineering construction work and commercial and residential construction work), the Build King Group from time to time considers different investment opportunities, including but not limited to property investment and development in different regions other than Hong Kong, that can bring additional investment return and diversify its revenue and risk.

The Build King Group has been engaging in the business of property investment and development for years. In July 2017, the Build King Group together with a wholly owned subsidiary of Wai Kee invested in a joint venture, namely Lion Trade Global Limited, which was jointly established with an independent third party and holds a residential property in the United States of America for rental and capital appreciation purpose. In August 2018, another joint venture in Malaysia which engages in property development activities, namely Ruyi Residence Development Sdn. Bhd. (“**Ruyi Residence**”), was formed with other two independent third parties. In March 2022, the Build King Group acquired further interest in Ruyi Residence from an independent joint venture partner and Ruyi Residence became a non-wholly owned subsidiary of the Build King Group. As advised by the management of Build King, it has been Build King’s strategy to identify suitable investment opportunities to enhance return to its shareholders.

With reference to the Letter from the Board, the investment under the terms of the Investment Agreement provides the Build King Group an opportunity to generate returns to shareholders by expanding its property project investment portfolio to include the Project, leveraging the expertise of Road King in the development and sale of residential property projects in the Guangdong — Hong Kong — Macao Bay area and other parts of the PRC.

The Build King Group is principally engaged in construction business in Hong Kong while Road King is principally engaged in property development and investment in the PRC and Hong Kong. Taking into account (a) Road King’s extensive experience and expertise in property development and investment in the PRC; (b) the fact that Road King is a credible and reliable business partner of the Build King Group; (c) the Build King Group’s overall business strategy in continuously seeking other business or investment opportunities for a more attractive return and diversifying its business portfolio; and (d) the prospects of the Project, we concur with Build King’s view that the entering into the Investment Agreement (i) allows the Build King Group to benefit from Road King’s expertise and experience to expand its footprint in the PRC; and (ii) gives the Build King Group an opportunity to diversify its earnings and business portfolio and enhance the return to the Shareholders.

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Prospect of the Shenzhen property sector

The Project is an urban renewal project at the Site located in Yantian District, Shenzhen. The Project is well located in an area for residential development in the vicinity of schools, hospital and commercial complexes and reasonably accessible to Shenzhen and Hong Kong with around 40 minutes by car from Yantian District to Luohu Port and Futian central business district. The Project Group plans to commence demolition and construction works by the end of 2023 and pre-sales of the residential units in 2025.

As stated in the Valuation Report, the Site is located in coastal area of Sha Tau Kok, which is in the Northwest of Yantian District, with a total Site area of 1.49 square kilometers. Currently, Sha Tau Kok has a total population of around 20,247 and the population is expected to increase as there are many new residential developments under planning. The subject locality is a well-established harbor living area surrounded by residential development, parks, retail, school and other public facilities. Residential areas nearby include high-rise apartments and low-rise villas. The average price for residential properties with age under 20 years range around RMB50,000 to RMB80,000 per square metre (the “psm”), Podium retail and street shops are located immediately next to the Site. The average monthly retail rental range around RMB100 to 300 psm. There is also a grand shopping centre of around 100,000 sq.m. within walking distance. The Site has a good public transport network which can be easily reached by public transportation including buses and subway. The Site is located in the middle of Sha Tou Jiao Station and Hai Shan Station of Shenzhen Metro Line 2 within walking distance. Meanwhile the Site is very close to Sha Tau Kok border with a distance of around 800 meters.

The Shenzhen Residential Q1/2022 report as published by Savills plc (China) (“Savills”) in May 2022 stated that the Shenzhen first-hand residential citywide transaction price decreased by 17.2% quarter-over-quarter (“QoQ”) to an average of RMB71,375 psm in Q1/2022 while the new supply of first-hand commodity residential properties decreased by 88.2% QoQ and 63.1% year-over-year (“YoY”) to 293,018 sq.m. with only 6 projects obtaining registries and launching permits during 1Q/2022. According to Shenzhen Residential Q2/2022 report and Shenzhen Residential Q3/2022 report published by Savills in August and November 2022, respectively, the property developers became more proactive in launching new projects onto the market during Q2/2022 and Q3/2022 as the result of Shenzhen government’s continued efforts in stabilizing the residential property market development with the cuts in the five-year Loan Prime Rate by the Central Bank of the PRC from 4.90% to 4.75% in May 2022 and then further to 4.30% in August 2022 which has reached the lowest level across all the first-tier cities in the PRC. As at Q3/2022, the citywide new supply of first-hand commodity residential properties surged by 54.8% QoQ to 2.0 million sq.m., along with 19 projects obtaining project registries and launching permits. The Shenzhen first-hand residential citywide transaction price continued to dip, though the pace of decline has narrowed to 7.6% YoY to an average of RMB68,848 psm during Q3/2022. Savills forecasted that the transactional activities would increase again due to the supply expansion and an influx of supportive policies which were aimed at boosting market confidence.

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Furthermore, the PRC government has introduced a package of economic stimulus measures, including tax reduction, the issuance of consumer vouchers to encourage consumption, and lower interest rates on house loans to boost domestic investment and consumption confidence, China will remain an important market for domestic and foreign companies, as stated in the Post-Lockdown Recovery Outlook and Emergent Opportunities for Real Estate Market in Mainland China published by Cushman & Wakefield plc (China) (“**Cushman & Wakefield**”) in July 2022. In the short term, Cushman & Wakefield believed that some companies might experience operational difficulties but in the long term, given the recovery, business would get back to a normal footing. In addition, comparing with the annual transaction area of the last five years (2017-2021) which averaged 4.4 million sq.m., Savills believed that the size of the new supply remained inadequate to meet the purchasing demand, and the transaction volume and the sales prices of Shenzhen’s first-hand residential property market should increase again in the remaining of 2022.

According to the article of China’s 16-Point Plan to Rescue Its Ailing Property Sector published by BNN Bloomberg on 13 November 2022, China has unveiled a sweeping rescue package to stabilise its real estate market, as regulators seek to promote the “stable and healthy development” of the industry. The banking regulator and central bank issued a 16-point set of internal directives to shore up liquidity in the embattled sector, including but not limited to (i) extending the developers’ outstanding bank loans and trust borrowings due within the next six months for a year; (ii) encouraging the trust companies to provide developers funding support over mergers and acquisitions, rental properties and retirement homes; (iii) offering special loans to ensure property projects are delivered; (iv) offering additional financial support to those major lenders of residential projects that are facing construction delays; (v) “temporarily” easing the restrictions on bank lending to property developers by giving extra time to meet the requirement; and (vi) supporting local governments to “reasonably” set down-payment thresholds and mortgage rate floors in a city-specific approach to accommodate basic and improving housing demand and optimising purchasing rules on first homes by new city dwellers.

Yantian District, the only area in the Greater Bay Area that is connected to Hong Kong by water and land, is currently one of the most active areas in the Greater Bay Area for economic development. As stated in a news article published by Hong Kong Commercial Daily on 6 September 2022, Yantian District maintained a GDP growth rate of 5.2% in the first half of 2022, ranking fourth in among the ten districts in Shenzhen. According to 2022 National Economic and Social Development Plan of Yantian District (鹽田2022年國民經濟和社會發展計畫) published by Yantian District People’s Government of Shenzhen on 26 April 2022, Yantian aims for a high quality comprehensive construction of a modern, international and innovative coastal city that is livable, business-friendly and travel-friendly by improving social security system, implementing satisfactory education system, improving medical services, creating a civilized and friendly city, and expanding the supply of high-quality public services. Moreover, according to an article published by Wenweipo (文匯報) on 7 June 2022, Yantian District will speed up the establishment of a regional cooperation mechanism for the integrated development of Shenzhen-Hong Kong-Sha Tau Kok District (the “**Cooperation Zone**”) this year (Sha Tau Kok is located in the Southwest of Yantian District and as the forefront of the Cooperation Zone) and

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make every effort to build the International Tourism and Consumption Cooperation Zone. By 2025, important progress of the construction of rail facilities for sea, land and air in the Cooperation Zone will be made. The three-dimensional integrated transportation system will be basically formed in the east of Shenzhen (including Yantian) and Hong Kong.

Notwithstanding the recent depressed property market in the PRC, we are of the view that the risk relating to the Project is relatively lower than the other property projects in the PRC in general for the following reasons:

- (a) the Project is located in Sha Tau Kok, which is close to the Hong Kong border and is expected to benefit from the Greater Bay Area initiative promulgated by the central government;
- (b) while the PRC property market is yet to rebound and volatility may continue, there is sign of the market beginning to stabilize with the support of the central government policies such as tax reduction, interest rates cuts on house loans, extending the developers' outstanding loans and offering special loans and "temporarily" easing the restrictions on bank lending;
- (c) Shenzhen's GDP (which covers Sha Tau Kok where the Project is located) amounted to approximately RMB3 trillion in 2021, representing approximately 6.7% YoY growth, placing it third among all other major cities in PRC, and has set a GDP growth target of 6% for 2022 as stated in Global Times on 11 April 2022. As such, we believe there will be a strong demand for residential properties in Shenzhen in the long term; and
- (d) the Project was first acquired by the Road King Group in 2014 and it spent the last eight years to purchase the existing properties on the Site. Up to the Latest Practicable Date, the Project Group has successfully acquired over 95% of the existing properties on the Site. Based on the Project Company's estimation, it should be able to acquire all the existing properties on the Site and commence demolition in 2023. By investing in the Project at this stage, Build King is able to reduce the uncertainty and risk relating to the time required to acquire all the existing properties on the Site which means shortening the investing period in the Project.

Our view

Having considered (i) management's positive view on the prospects of the Project and the property market in Yantian District and Shenzhen as a whole; (ii) our view of the resilience of the Shenzhen property market as elaborated above; (iii) Road King's extensive experience and track record in property development in the PRC and it being a reliable joint venture partner; (iv) the Project representing an opportunity for the Build King Group to expand its investment portfolio; (v) the target to pre-sell the properties in 2025 which provides a long enough period of development timespan for the market to recover; and (vi) the terms of the Investment Agreement (as discussed below), we concur with the Directors that the entering into of the Investment Agreement and the transactions contemplated thereunder are in the interests of Build King and the Shareholders as a whole though not in the ordinary and usual course of business of the Build King Group.

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B) Principal terms of the Investment Agreement

The principal terms of the Investment Agreement are set out below.

- Date** : 6 October 2022
- Parties** : (1) Shine Precious
(2) Wise Start
(3) Road King (as guarantor of the obligations of Shine Precious under the Investment Agreement and guarantor of the Redemption obligation of the Project Company)
(4) Build King (as guarantor of the obligations of Wise Start under the Investment Agreement)
- Consideration for Transfer** : The Consideration is HK\$800,015,700, of which HK\$15,700 is attributable to the Sale Shares (as Cost of Sale Shares) and HK\$800,000,000 is attributable to the Sale Loans. The Consideration is payable in cash on Completion.
- Conditions Precedent for Transfer** : The obligations of the parties to the Investment Agreement to proceed to Completion are conditional upon certain conditions as set out in the Letter from the Board.
- Under the terms of the Investment Agreement, none of the conditions precedent as set out in the Letter from the Board can be waived. As at the Latest Practicable Date, none of the conditions precedent have been satisfied.
- Completion of Transfer** : Completion is to take place on the third business day following the day on which the conditions precedent are fulfilled (or such later date as the parties may agree in writing).
- Business of the Project Company** : The development of the Project (including the demolition of buildings on the Site and the resettlement of owners of land and/or buildings on the Site), the sale of units on the Site and the management of the completed development and other activities that are wholly incidental thereto, unless otherwise agreed between the JV Parties.
- Loan Redemption Right** : Wise Start has the Loan Redemption Right to require the Project Company to repay (i) up to 50% of the principal amount of the Sale Loans due to Wise Start on the day immediately preceding the first anniversary of Completion; and (ii) up to the balance of shareholder loans due to Wise Start on 28 February 2025 (or if any of these two days is not a business day, the next following business day).

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The Redemption Price is to be an amount calculated using the following formula:

$$P + [P/L \times (E - S) \times 20\%]$$

where

P = the principal amount of the Sale Loans being redeemed pursuant to the exercise of the Loan Redemption Right

L = the principal amount of the Sale Loans

E = the consolidated net asset value of the Project Company as at a date that falls within 3 calendar months prior to the date of the relevant redemption notice delivered in accordance with the terms of the Investment Agreement with the inventory of properties comprised in the Project marked to market value as at the same date. The “market value” of such properties shall be the amount specified in a valuation report issued by an independent property valuer for this purpose and includes, if valid title to the Site has not then been obtained by the Project Group, the indicative market value of such properties based on assumptions no more favourable than those adopted in the valuation report of the Site set out in the Circular;

S = the consolidated net asset value of the Project Company as at 31 August 2022 as shown in the accountants report on the Project Company set out in the Circular,

provided, where (E - S) is an amount less than zero, then it shall be deemed to be zero.

Balancing Transactions : At any time following a Redemption, Shine Precious shall effect the Balancing Transactions by (i) requiring Wise Start to transfer to Shine Precious some or all of its shares in the Project Company at Cost of Sale Shares attributable to each share; or (ii) (if Wise Start fails promptly (and in any event within five business days) to effect such transfer in accordance with the request of Shine Precious) requiring the Project Company to issue to Shine Precious additional shares at nominal value, in each case, such that Wise Start’s shareholding interest in the Project Company is reduced to such proportion as the principal amount of Wise Start’s shareholder loans then outstanding bears to HK\$4,000,000,000 (being the aggregate of the Sale Loans and RK Commitment).

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- Investor rights** : For so long as (i) Wise Start's shareholder loans to the Project Company represents no less than 20% of the total amount of shareholder loans then outstanding; and (ii) Wise Start remains a subsidiary of Build King, amongst other things:
- (a) Wise Start shall be entitled to appoint and remove one director to the board of the Project Company (where such board will comprise no less than five directors); and
 - (b) Wise Start will have customary information rights on the Project Group, and veto rights for changes to the share capital of or issue of shares by the Project Company (except for a Balancing Transaction), disposal of any interest in any member of the Project Group or the Project and/or any borrowings or encumbrances (except for any Subsisting Guarantees, any Project Financing and encumbrances granted in connection with such Project Financing and/or disposals in connection with the sale or pre-sale of units developed), any change of the business of the Project Company, its constitutional documents, liquidation of any member of the Project Group, and non-arm's length related party transactions.
- Termination** : Prior to Completion, (i) if any of the conditions precedent are not fulfilled by a JV Party on or before the Long Stop Date, the Investment Agreement will terminate at the end of that day; or (ii) if any JV Party fails to comply with its Completion obligations, or if there is a material breach by a JV Party of the representations and warranties given in the Investment Agreement, the other JV Party may, by notice in writing to such JV Party, terminate the Investment Agreement.
- Following Completion, if a JV Party is liquidated, dissolved, becomes bankrupt or insolvent, enters into any composition, reconstruction or arrangement with its creditors in respect of a significant proportion of its assets, is in material breach of its obligations under the Investment Agreement, or (in the case of Shine Precious only) the Subsisting Guarantees are enforced against the Project Group, the other JV Party may terminate the Investment Agreement by giving 30 days' written notice. In addition, the non-defaulting JV Party has the right to:
- (a) (if Wise Start is in default) Shine Precious may require Wise Start to sell its shares in the Project Company and to assign its shareholder loans in the Project Company to Shine Precious at the Cost of Sale Shares attributable to the relevant shares held by Wise Start and the principal amount of the shareholder loans due from the Project Company to Wise Start at the relevant time; or

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- (b) (if Shine Precious is in default) Wise Start may require Shine Precious to buy Wise Start's shares in the Project Company and to assign its shareholder loans to Shine Precious at the Cost of Sale Shares and Redemption Price attributable to those shares and shareholder loans at the relevant time.

Any such transfers will be subject to the compliance with the Listing Rules applicable at the time to Road King, Wai Kee and/or Build King (as the case may be).

The Investment Agreement will also terminate on the date when either JV Party ceases to hold any shares of the Project Company, or if a resolution is passed to wind up the Project Company or a liquidator is otherwise appointed.

C) Evaluation of the Key Terms of the Investment Agreement

(i) *Assessment of the Consideration*

The Consideration is HK\$800,015,700, of which HK\$15,700 is attributable to the Sale Shares (as Cost of Sale Shares) and HK\$800,000,000 is attributable to the Sale Loans. The Consideration is payable in cash on Completion. The Consideration was arrived at after arm's length negotiations between the parties to the Investment Agreement. As stated in the Letter from the Board, in determining the Consideration, Build King took into account (i) the unaudited consolidated net deficit of the Project Company as at 31 August 2022 attributable to the Sale Shares; (ii) the nominal and paid up capital of the Sale Shares; (iii) the principal amount of the Sale Loans; (iv) no commercial value being attributable by an independent valuer to the Site as the Development Company has not yet obtained valid title of the Site or signed a land grant contract for the Project given that the Project is still in its resettlement and demolition phase; (v) the development plan of the Project (including its projected funding requirements) as described in "Information of the Project Group and the Project" below; and (vi) the intended 80:20 equity interests of the Road King Group and the Build King Group in the Project Company following Completion.

In assessing the fairness and reasonableness of the Consideration for the Sale Shares and Sale Loans, we have considered, amongst others, the following factors:

- (a) the consideration of the Sale Shares of HK\$15,700 is equivalent to 20% of the total nominal and paid up capital of the Project Company (being USD10,000) as at 31 August 2022 on dollar for dollar basis;
- (b) the consideration of the Sale Loans of HK\$800 million is equivalent to 20% share of the total committed shareholder loans of HK\$4,000 million to the Project Company (being the aggregate of the Sale Loans and the RK Commitment) on dollar for dollar basis;
- (c) the estimated capital requirement for the development of the Project (as discussed below); and

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- (d) the appraised indicative market value of the Site on the basis that the Project Company has obtained the land use rights of the Site of RMB3,950 million (assuming the land premium of approximately RMB584 million has been paid) as set out in the Valuation Report as compared to the total estimated costs of obtaining the land title of the Site (the “**Estimated Land Costs**”) of approximately RMB3,537 million, which included the costs incurred up to 31 August 2022 of approximately RMB2,327 million (excluding the finance cost), the estimated resettlement compensation costs to acquire the remaining property interests of the owners of the existing properties on the Site, the estimated land deed tax and the estimated land premium.

As part of our due diligence on the assessment of the Consideration, we have conducted the following work in relation to the Valuer and the Valuation Report:

(a) *Scope of work and qualifications of the Valuer*

We have enquired with the Valuer as to their independence and the Valuer confirmed that they are an independent third party of the Build King Group, the Road King Group, the Wai Kee Group and their respective connected persons. The Valuer also confirmed to us that they were not aware of any relationship or interest between themselves and the Build King Group, the Road King Group, the Wai Kee Group or any other parties that would reasonably be considered to affect their independence to act as the Valuer of Build King. We have also reviewed the supporting documents on the qualifications, experience and expertise of the Valuer and discussed the same with the Valuer. We note that the Valuer is certified with the relevant professional qualifications required to perform the Valuation and the person-in-charge of the Valuation has over 10 years of experience in conducting valuation services to a wide range of projects across various industries, including but not limited to property valuation, property development and investment valuation in the PRC and Hong Kong. Based on the review work conducted by us, we are satisfied that the Valuer is suitably qualified and experienced with sufficient knowledge, skills and understanding necessary to prepare the Valuation competently. Furthermore, we also reviewed the Valuer’s terms of engagement and note that the scope of work was appropriate for the Valuer to form the opinion required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Valuer in the Valuation Report.

(b) *Valuation methodologies*

As advised by the Valuer, direct comparison approach (market approach) was considered as an appropriate method in assessing the market value of the Site given that the available unit sale price in surrounding area with similar usage in Shenzhen is relatively adequate and transparent. In addition, the Valuer also considered the relative advantages and disadvantages of different approaches to the nature and circumstances of the Site. Other valuation approaches, including the cost approach and income approach were determined to be inappropriate for the purpose of the Valuation because (i) the cost approach does not directly incorporate information about the economic benefit contributed by the Site and it is more suitable for valuing property which is made for specific use; and (ii) the income approach relies on various subjective assumptions and requires detailed operational

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information which may create potential difficulties in assessing the future economic benefits of the Site given that the buildings erected thereon are yet to be demolished and re-development is yet to commence. The Valuer therefore considers it is a normal market practice to conduct valuation of the Site by referencing to similar properties in Shenzhen via market approach. Having considered the facts and circumstances as discussed above, the market approach is, in our opinion, a common and reasonable approach in establishing the market value of the Site.

(c) *Valuation basis and assumptions*

We note that the Site was valued on various assumptions including (i) all necessary statutory approvals for the Site have been obtained; (ii) the land use right of the Site would be granted for residential and commercial usage with a land use right term of 70 years (residential) and 40 years (commercial); and (iii) the estimated land premium of the Site of approximately RMB584 million payable to the government was fully settled as at the valuation date (the land premium was estimated based on prescribed formula set by the PRC regulations) (details of the assumptions are set out in the Valuation Report as set out in Appendix V to this circular). The Valuer has valued the Site on the basis that it will be developed and completed in accordance with the latest development plan provided by Build King. The construction costs and other costs that are expected to be required to complete the development have been taken into account to arrive at the indicative market value of the Site. The Valuer advised that such assumptions were generally adopted in property valuations for properties of similar nature. During our discussions with the Valuer, we did not identify any major factors which cause us to doubt the reasonableness of such assumptions adopted in the Valuation.

We note that Valuer mainly carried out its due diligence through on-site inspections, management interviews and conducted its own proprietary research and has relied on publicly available information obtained through its own research as well as the financial information provided by the management of the Project Company. In arriving at the appraised value of the Site, the Valuer generally started the process by collecting and analyzing recent transactions of market comparables that (i) were located in the same district of the Site (Yantian district, Shenzhen); and (ii) had the same land usage of the Site. The selected market comparables were then adjusted to reflect the difference between the market comparables and the Site in terms of, among others, size, scale, nature, character and location which were analysed and weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market value. The appraised value of the Site was then derived from the adjusted average price per square metre multiplied by the gross floor area of the respective intended usages of the Site and less the estimated land premium, the estimated construction cost and marketing costs and the anticipated developer's profit.

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We have reviewed the Valuer's working paper and discussed with Valuer on their selection criteria on market comparables, such as location, size, floor level, land use purpose and first-hand properties, to identify the 6 market comparables for residential and commercial, respectively, with the adjustments of size, scale, nature and location, adjustment on the difference between the asking price and the actual transaction price and other relevant factors. In our review of the Valuation working paper, we note their basis for adopting the selection criteria and we consider the selection criteria to be reasonable and relevant to the Site and the market comparables identified fulfill the selection criteria. As confirmed by the Valuer and considering the materiality and the relevance of such variables to the subject comparable properties, the adjustments are necessary to eliminate the effects of such variables to the initial unit rates, and therefore enable a more meaningful comparison among the comparables. Overall, we are of the view the selection criteria of the market comparables and the adjustments made by Valuer are reasonable, in line with our understanding of market practices and relevant for the purpose of establishing the appraised value of the Site.

(d) Our view on the Valuation Report

Having considered the above, we consider that the valuation methodology, together with the basis and assumptions, of the Valuation adopted by the Valuer as discussed above are reasonable and in line with market practices.

Our view on the fairness of the Consideration

Given that (i) the consideration for the Sale Shares is based on 20% of the nominal and paid up share capital of the Project Company; (ii) the consideration for the Sale Loans is based on 20% of the total shareholders' loans to the Project Company of HK\$4,000 million (the "**Total Shareholders' Loans**"), which comprises the Sale Loans of HK\$800 million and the RK Commitment of HK\$3,200 million; (iii) the Total Shareholders' Loans is determined with reference to the development costs of the Project (further discussed below); and (iv) the appraised indicative value of the Site based on the Valuation Report on the basis that the Project Company has obtained the land use rights of the Site being higher than the Estimated Land Costs (being the sum of audited carrying value of the Site as at 31 August 2022 and the estimated remaining costs to be incurred for obtaining the land use rights of the Site), we consider that the Consideration (including the Sale Loans and Sale Shares) under the Investment Agreements is fair and reasonable and is in the interests of Build King and the Shareholders as a whole.

(ii) Funding of the Project Company and the RK Commitment

According to the Letter from the Board, the JV Parties agree that working capital requirements of the Project Company are to be met first, to the extent practicable, by way of external borrowings or financing to be sought from banks or financial institutions. Shine Precious has agreed, subject to Completion taking place, to provide further shareholder loans to the Project Company, as the board of the Project Company may from time to time require for any of the following purposes:

- (a) to fund working capital of the Project Group;

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- (b) to fund any Redemption; and/or
- (c) to ensure that shareholder loans outstanding immediately prior to any repayment of the same (except for the purpose of any Redemption) is proportionate to the then shareholding of the JV Parties in the Project Company.

Such additional loans, when aggregated with all shareholder loans due to the Road King Group from the Project Company immediately following Completion, shall amount to the RK Commitment.

We also understand from the management of the Build King Group, each of the Road King Group and the Build King Group is to provide financial support to the Project Company in the form of shareholders' loans pro rata to their shareholdings of the Project Company. The shareholders' loan commitment of HK\$4,000 million (being the aggregate of the Sale Loans and RK Commitment) contributes to the funding of the development of the Project, including, but not limited to (i) the land premium payable to the government for the Site; (ii) the estimated resettlement/demolition compensation costs, design costs, finance cost and other upfront costs before commencement of the construction (including the estimated development costs); and (iii) the selling and administrative costs, taxation and other costs expected to be incurred after the construction. As advised by the management of Build King, it is expected that the Project Company seeks bank financing to cover the remaining funding requirement. To fund the completion of re-settlement and demolition works and subsequent development works, the Road King Group has budgeted total financing for the Project Group (inclusive of external financing) of approximately HK\$4,500 million and HK\$5,900 million up to the end of December 2023 and February 2025, respectively. As advised by the management of Build King, it is expected that the Project Company, apart from relying on the shareholders' loans, will seek bank financing to cover the remaining funding requirement.

As at 31 August 2022, the Road King Group has advanced shareholder loan in the principal amount of approximately HK\$2,134 million to the Project Group which is unsecured, interest-free and have no fixed term of repayment.

Based on our review of the project development costs provided by the Project Company and the working papers of the Valuer, we consider that the funding requirement (including the Sale Loans and the RK Commitment) prepared by the Project Company is prepared on a reasonable basis.

(iii) Loan Redemption Right

As stated in the Letter from the Board, the Loan Redemption Right allows the Build King Group the flexibility of managing its investment portfolio to optimize its mix at the end of the first year and shortly after the second year of its investment through the Redemption if Wise Start elects to exercise its Loan Redemption Right.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In accordance with the Investment Agreement, the Redemption Price will be based on the sum of (1) the loan amount to be redeemed; and (2) the appreciation of net assets value of the Project Company (after adjustment for an independent valuation of the Site as at a date no more than 3 months before the Redemption notice) as compared to the net assets value of the Property Company as at 31 August 2022 multiplied by the proportion of the loan amount to be redeemed compared to the Total Shareholders' Loan. Under this formula for calculation of the Redemption Price, the Build King Group basically enjoys all the potential upside (via the appreciation in value of the Project) up to the date of three months before the Redemption notice. In the event there is no appreciation or even in the case where there is a decrease in the value of the Project, the Redemption Price will equal to the loan amount to be redeemed. Therefore, the Directors consider that the Redemption Price with a potential upward premium (subject to the valuation premium) and a downside protection which or at least equals to the principal amount of the Sale Loans is beneficial to the Build King Group.

We are of the view that such Loan Redemption Right, which is exercisable at Build King's discretion (subject to compliance of the Listing Rules at the time of the exercise), is favorable to the Build King Group as (i) it provides extra flexibility to liquidity if it decides to realise part or all of its investment in the Project Company before completion of the Project; (ii) the Build King Group will be able to enjoy all the potential "upside" (via the appreciation in value of the Project, if any, up to the date of three months before the Redemption notice); and (iii) with a Redemption Price at least equal to the principal amount of the loan to be redeemed provides downside protection to the Build King Group in the event that the Project does not appreciate in value prior to the time of the Redemption.

(iv) *Balancing Transactions*

Pursuant to the Investment Agreement, at any time following a Redemption, Shine Precious shall effect the Balancing Transactions by (i) requiring Wise Start to transfer to Shine Precious some or all of its shares in the Project Company at Cost of Sale Shares attributable to each share; or (ii) (if Wise Start fails promptly (and in any event within five business days) to effect such transfer in accordance with the request of Shine Precious) requiring the Project Company to issue to Shine Precious additional shares at nominal value, in each case, such that Wise Start's shareholding interest in the Project Company is reduced to such proportion as the principal amount of Wise Start's shareholder loans then outstanding bears to HK\$4,000,000,000 (being the aggregate of the Sale Loans and RK Commitment).

In the event of Redemption, the shareholding interest in the Project Company will be maintained in proportion to the principal amount of shareholder loans then outstanding bears to HK\$4,000,000,000 (being the aggregate of the Sale Loans and RK Commitment). We concur with Build King that the Balancing Transactions ensure that proportionality between the JV Parties' shareholding and shareholder loans (including the RK Commitment) can be maintained after any redemption of the Sale Loans pursuant to an exercise of Loan Redemption Right and is therefore fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(v) *Land use right*

According to the Letter from the Board, given (i) the nature and progress of the Project (including the fact that the Project Company has contracts to acquire over 95% of the gross floor area from over 95% of the owners on the Site); (ii) the likelihood of the Development Company becoming the developer of the Project; (iii) the fact that the Project Company does not have land use right certificates for the Site is due only to the stage of the resettlement project as described above, (iv) the depth of experience and track record of the Road King Group in property development in the PRC; and (v) the indicative valuation of the Site set out in note 4 to the valuation report set out in Appendix V to this circular, and (vi) the recovery of the Sale Loans is effectively backed up by the Loan Redemption Right which is guaranteed by Road King (which had, as at 30 June 2022, consolidated net assets exceeding HK\$34,800 million), i.e. the Build King Group is not relying only on the credit risk of the Project Company for the recoverability of the Sale Loans, the Directors are of the view that the Transfer is fair and reasonable and in the interest of Build King and its shareholders as a whole.

Having considered that

- (i) the Development Company has entered into contracts with well over 95% of the 1,282 owners on the Site covering over 95% of the gross floor area for resettlement purposes which entitles the Development Company to local district government-assisted mediation of resettlement terms with the remaining owners or, failing which, the exercise of resumption rights by the local government and on-sale of resumption properties to the Development Company. The Development Company can then apply to become the developer of the Project (實施主體) after acquiring all the property interests of all the owners of the existing properties on the Site;
- (ii) as disclosed in Appendix I to the circular of Road King in respect of the Transfer dated 22 December 2022 (the “**RK Circular**”), the Road King Group has sufficient working capital to satisfy its requirements for at least the next 12 months from the date of publication of the RK Circular; and
- (iii) Road King is a credible and reliable business partner of the Build King Group,

we are of the view that the credit risk of the Road King Group in satisfying its obligations under the Loan Redemption Right is acceptable and we concur with the management of Build King that the Transfer is fair and reasonable and in the interest of Build King and its shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(vi) *Investor rights*

Pursuant to the Investment Agreement, for so long as (i) Wise Start's shareholder loans to the Project Company represents no less than 20% of the total amount of shareholder loans then outstanding; and (ii) Wise Start remains a subsidiary of Build King, amongst other things:

- (a) Wise Start shall be entitled to appoint and remove one director to the board of the Project Company (where such board will comprise no less than five directors); and
- (b) Wise Start will have customary information rights on the Project Group, and veto rights for certain major corporate actions (please refer to the section headed "B) Principal terms of the Investment Agreement" above for further details).

We consider the above director appointment and veto rights granted to Wise Start reasonable minority protection rights and are common clauses seen in similar joint venture arrangements.

Our conclusion on the key terms of the Investment Agreement

Having considered the key terms of the Investment Agreement and our assessment, in particular the following:

1. the consideration of the Sale Shares represents 20% of the nominal and paid up share capital of the Project Company and the consideration for the Sale Loan represents the principal amount of the Sale Loan which also equals to 20% of the Total Shareholders' Loan of HK\$4,000 million (comprising the Sale Loan and the RK Commitment);
2. the appraised indicative value of the Site based on the Valuation Report on the basis that the Project Company has obtained the land use rights of the Site being higher than the Estimated Land Costs;
3. the Loan Redemption Right allows the Build King Group the flexibility to redeem part or all of the Sale Loans before completion of the Project without foregoing the appreciation, if any, in value of the Project prior to redemption; and
4. the Loan Redemption Right also provides downside protection to the Build King Group in the event that the Project does not progress as planned and the Build King Group decides to exit before completion of the Project,

we consider that the key terms of the Investment Agreement are fair and reasonable and in the interests of Build King and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

D) Possible financial effects

(i) *Earnings*

Upon Completion, Build King own a 20% interest in the Project Company. It is expected that the Project Company will be accounted for as interest in an associate using the equity method and its shareholder loan interest and interest under the Loan Redemption Right will be accounted for as financial assets at fair value through profit or loss (“FVTPL”) in the consolidated financial statement of the Build King Group.

(ii) *Net assets value*

As disclosed in the Letter from the Board, the Consideration for the Sale Shares and the Sale Loans will be settled by the Build King Group’s internal resources. The financial statements of the Project Company will not be consolidated into the financial statements of the Build King Group upon Completion and the increase in interests in associates and FVTPL will be offset by the decrease in bank balances and cash. As shown in the Unaudited Pro Forma Financial Information set out in Appendix IV to this Circular, save for the decrease in cash payment for the professional fees related to the transactions contemplated under the Investment Agreement, there would be no significant impact on the net asset value of the Build King Group immediately upon Completion. As stated in the Letter from the Board, such Unaudited Pro Forma Financial Information has been prepared on the conservative assumption that the Build King Group expects to exercise the Loan Redemption Rights on the first anniversary of Completion. The Board will, after Completion, review from time to time, the Build King Group’s working capital requirements for existing and new projects, and the progress of the Project, to determine whether or not it is appropriate and in the interests of Build King and its shareholders as a whole to exercise such Loan Redemption Right.

(iii) *Gearing and Working Capital*

As at 30 June 2022, bank balances and deposits of the Build King Group amounted to approximately HK\$1,721.9 million, and total of interest bearing borrowings amounted to HK\$394.9 million comprising bank loans of HK\$371.9 million and other creditors of HK\$23.0 million with gearing ratio of approximately 20.7%. As the Consideration will be settled by the Build King Group’s internal resources and there will be no significant impact on the net asset value of the Build King Group, it is expected that there will be no impact on the gearing of the Build King Group immediately upon Completion. Given the Build King Group’s cash resources as at 30 June 2022, we concur with the Directors’ view that the investment under the terms of the Investment Agreement would not have significant adverse impact on the Build King Group’s working capital.

Having considered (i) the abovementioned cash position of the Build King Group as at 30 June 2022; (ii) the possible financial effects of the transaction contemplated thereunder the Investment Agreement; and (iii) the Build King Group’s share of the total investment amount in the Project Group, the Directors are of the view and we concur that the overall possible financial effects to the Build King Group as a result of the transaction contemplated thereunder the Investment Agreement are normal and acceptable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the above principal factors and reasons discussed above, we are of the view that the terms of the Investment Agreement and the transactions contemplated thereunder, though not in the ordinary course of business of the Build King Group, are fair and reasonable and in the interests of Build King and its Shareholders as a whole and on normal commercial terms. Accordingly, we recommend the Independent BK Shareholders, as well as the Independent Board Committee to advise the Independent BK Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the BK SGM to approve the Investment Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

Ballas Capital Limited

Heidi Cheng

Managing Director

Colin Lee

Director

Note: Ms. Heidi Cheng has been a responsible officer of Type 6 (advising on corporate finance) regulated activities since 2003, and Mr. Colin Lee has been a licensed representative of Type 6 (advising on corporate finance) regulated activity from 2013 to 2018 and since 2020.

1. FINANCIAL INFORMATION OF THE BUILD KING GROUP

The audited consolidated financial statements, together with the accompanying notes to the financial statements, of the Build King Group for the years ended 31 December 2019, 2020 and 2021 and the unaudited consolidated financial information, together with the accompanying notes to the financial statements, of the Build King Group for the six months ended 30 June 2022 are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and Build King (www.buildking.hk):

- (i) Annual report for the year ended 31 December 2019 (pages 62 to 158):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0416/2020041601061.pdf>

- (ii) Annual report for the year ended 31 December 2020 (pages 61 to 150):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0421/2021042101781.pdf>

- (iii) Annual report for the year ended 31 December 2021 (pages 64 to 162):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0421/2022042101044.pdf>

- (iv) Interim report for the six months ended 30 June 2022 (pages 9 to 31):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0915/2022091500548.pdf>

2. FINANCIAL AND TRADING PROSPECT OF THE BUILD KING GROUP

The core business of the Build King Group is construction, most of which is carried out in Hong Kong. With the pandemic situation becoming more stable in Hong Kong and the Government's plan to develop the Northern part of New Territories into a new metropolitan area which includes five newly announced MTR lines, as well as the 'Lantau Tomorrow' plan that is underway, the Build King Group believes its medium term prospects are bright and expects to see a lot more projects being rolled out in the next five to ten years.

On the other hand, the Build King Group's infrastructure investment projects in the PRC have suffered some recent setbacks. While the performance of the Wuxi sewage plant is expected to remain stable, the performance of the steam supply projects is expected to be mixed and certain steam plants are expected to run at a loss until the pandemic restraints in China are lifted.

3. INDEBTEDNESS OF THE BUILD KING GROUP

At the close of business on 31 October 2022, being the latest practicable date prior to the printing of this circular, the Build King Group had the following indebtedness:

- (a) Unsecured and unguaranteed amount due to an intermediate holding company of approximately HK\$18.7 million;
- (b) Unsecured and unguaranteed amounts due to fellow subsidiaries of approximately HK\$4.1 million;
- (c) Unsecured and unguaranteed other creditors of HK\$23 million;
- (d) Unsecured and unguaranteed amount due to an associate of approximately HK\$23.2 million;
- (e) Unsecured and unguaranteed amounts due to non-controlling interests of approximately HK\$1.1 million;
- (f) Unsecured and unguaranteed amounts due to other partners of joint operations of approximately HK\$10.4 million;
- (g) Unsecured bank loans of approximately HK\$179.8 million, bank loans of approximately HK\$76.5 million which were secured by pledged deposits and bank loan of approximately HK\$48.9 million which was secured by wastewater treatment charging rights of the Build King Group. All the bank loans were either guaranteed by Build King and/or its subsidiaries;
- (h) Lease liabilities of approximately HK\$55.9 million which were unguaranteed and secured by rental deposits of approximately HK\$7.4 million;
- (i) Charge of bank deposits of approximately HK\$11.4 million were pledged for issuing the banking facilities granted to the Build King Group; and
- (j) Quoted debt securities of approximately HK\$122.9 million were pledged for securing the banking facility granted to the Build King Group.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Build King Group did not have any other debt securities issued or outstanding, and authorised or otherwise created but unissued, terms loans, other borrowings and indebtedness, bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchases commitments, mortgages, charges, guarantees or other material contingent liabilities as at 31 October 2022.

4. EFFECT ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE BUILD KING GROUP

Following Completion, Build King Group's equity interest in the Project Company will be accounted for as interest in an associate using the equity method and its shareholder loan interest and interest under the Loan Redemption Right will be accounted for as financial assets at fair value through profit or loss in the consolidated financial statement of Build King Group. The Unaudited Pro Forma Financial Information has been prepared to illustrate the financial effect of the transactions contemplated under the Investment Agreement.

As at 30 June 2022, the Build King Group had unaudited total assets, total liabilities and net assets of approximately HK\$6,732.0 million, HK\$4,822.6 million and HK\$1,909.4 million, respectively. According to the Unaudited Pro Forma Financial Information, upon Completion, the total assets and net assets of the Enlarged Group would have decreased to approximately HK\$6,728.0 million and approximately HK\$1,905.4 million, respectively, which was mainly due to the estimated professional costs and expenses associated with the proposed transaction that would have been incurred. The total liabilities of the Enlarged Group would have remained unchanged.

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

Save for the Transfer, since 31 December 2021, being the date to which the latest published audited accounts of the Build King Group have been made up, no member of the Build King Group has acquired or agreed to acquire or is proposing to acquire a business or an interest in the share capital of a company whose profits or assets make or will make a material contribution to the figures in the auditor's report or next published accounts of the Build King Group.

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

6. WORKING CAPITAL OF THE BUILD KING GROUP

Taking into account the financial resources available to the Build King Group, including internally generated funds, available facilities of the Build King Group and the effect of the transactions contemplated under the Investment Agreement, the Directors, after due and careful enquiry, are of the opinion that the Build King Group has sufficient working capital to satisfy its requirements for at least the next 12 months from the date of publication of this circular in the absence of any unforeseen circumstances.

The following is the text of a report received from Build King's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte.**德勤****ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF
RAINBOW TRIUMPH LIMITED AND ITS SUBSIDIARIES****TO THE DIRECTORS OF BUILD KING HOLDINGS LIMITED****Introduction**

We report on the historical financial information of Rainbow Triumph Limited (the "Project Company") and its subsidiaries (together, the "Project Group") set out on pages II-5 to II-51, which comprises the consolidated statements of financial position of the Project Group as at 31 December 2019, 2020 and 2021 and 31 August 2022, the statements of financial position of the Project Company as at 31 December 2020 and 2021 and 31 August 2022, and the consolidated statements of profit or loss and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Project Group for each of the three years ended 31 December 2021 and the eight months ended 31 August 2022 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-5 to II-51 forms an integral part of this report, which has been prepared for inclusion in the circular of Build King Holdings Limited (the "Company") dated 23 December 2022 (the "Circular") in connection with the major and connected transaction — proposed formation of joint venture through the transfer and RK commitment (as defined in the Circular).

Directors' responsibility for the Historical Financial Information

The directors of the Project Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Project Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Project Company are responsible for the contents of this Circular in which the Historical Financial Information of the Project Group is included, and such information is prepared based on accounting policies materially consistent with those of the Project Company.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting

Engagements 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

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

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the Project Group’s financial position as at 31 December 2019, 2020 and 2021 and 31 August 2022, of the Project Company’s financial position as at 31 December 2020 and 2021 and 31 August 2022 and of the Project Group’s financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Project Group which comprises the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the eight months ended 31 August 2021 and other explanatory information (the “Stub Period Comparative Financial Information”). The directors of the Project Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be

identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

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

Dividends

We refer to Note 11 to the Historical Financial Information which states that no dividend was declared or paid by the Project Company or its subsidiaries since their dates of incorporation.

No historical financial statements for the Project Company

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 December 2022

HISTORICAL FINANCIAL INFORMATION OF THE PROJECT GROUP**Preparation of Historical Financial Information**

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

The consolidated financial statements of the Project Group for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	NOTES	Year ended 31 December			Eight months ended 31 August	
		2019	2020	2021	2021	2022
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(Unaudited)
Revenue	5	758	143	5	5	—
Cost of services		<u>(3,527)</u>	<u>(3,342)</u>	<u>(3,293)</u>	<u>(2,364)</u>	<u>(1,451)</u>
Gross loss		(2,769)	(3,199)	(3,288)	(2,359)	(1,451)
Interest income		102	151	2,797	1,106	3,821
Other income		144	120	165	83	131
Administrative expenses		(1,057)	(1,643)	(2,648)	(2,066)	(2,012)
Finance costs	7	<u>(31)</u>	<u>(24)</u>	<u>(121)</u>	<u>(87)</u>	<u>(48)</u>
(Loss) profit before taxation	8	(3,611)	(4,595)	(3,095)	(3,323)	441
Income tax credit	9	<u>—</u>	<u>—</u>	<u>2,351</u>	<u>2,569</u>	<u>—</u>
(Loss) profit for the year/period		<u>(3,611)</u>	<u>(4,595)</u>	<u>(744)</u>	<u>(754)</u>	<u>441</u>
(Loss) profit for the year/period attributable to:						
Owners of the Project Company		<u>(3,611)</u>	<u>(4,595)</u>	<u>(744)</u>	<u>(754)</u>	<u>441</u>

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December			Eight months ended	
	2019	2020	2021	2021	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
(Loss) profit for the year/period	(3,611)	(4,595)	(744)	(754)	441
<i>Item that will not be reclassified subsequently to profit or loss:</i>					
Exchange differences arising on translation to presentation currency	62	16,474	(17,121)	(17,058)	171
Other comprehensive income (expense) for the year/period	62	16,474	(17,121)	(17,058)	171
Total comprehensive (expense) income for the year/period	(3,549)	11,879	(17,865)	(17,812)	612
Total comprehensive (expense) income for the year/period attributable to:					
Owners of the Project Company	(3,549)	11,879	(17,865)	(17,812)	612

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	NOTES	As at 31 December			As at
		2019	2020	2021	31 August
		HK\$'000	HK\$'000	HK\$'000	2022
					HK\$'000
ASSETS					
Non-current assets					
Equipment		58	48	458	332
Right-of-use assets	13	252	1,974	1,460	820
Loan receivables	14	—	—	119,093	113,568
Deferred tax assets	15	—	—	2,394	2,349
		<u>310</u>	<u>2,022</u>	<u>123,405</u>	<u>117,069</u>
Current assets					
Inventory of properties	16	1,747,817	2,395,420	2,947,259	3,117,054
Debtors, deposits and prepayments	17	8,690	7,603	7,505	4,010
Amounts due from related parties	18	119,656	126,218	129,115	678
Loan receivables	14	—	—	8,086	12,526
Bank balances and cash	19	112,993	111,833	108,741	58,393
		<u>1,989,156</u>	<u>2,641,074</u>	<u>3,200,706</u>	<u>3,192,661</u>
Total assets		<u><u>1,989,466</u></u>	<u><u>2,643,096</u></u>	<u><u>3,324,111</u></u>	<u><u>3,309,730</u></u>
EQUITY AND LIABILITIES					
Equity attributable to owners of the Project Company					
Share capital	23	—*	—*	—*	78
Reserves		<u>320,704</u>	<u>332,583</u>	<u>(9,305)</u>	<u>(8,693)</u>
Total equity		<u>320,704</u>	<u>332,583</u>	<u>(9,305)</u>	<u>(8,615)</u>
Non-current liabilities					
Bank borrowings	22	766,199	1,057,169	1,053,880	930,553
Lease liabilities	21	—	1,319	577	—
		<u>766,199</u>	<u>1,058,488</u>	<u>1,054,457</u>	<u>930,553</u>
Current liabilities					
Creditors and accrued charges	20	578	1,007	1,735	6,054
Amounts due to related parties	18	901,701	1,250,288	2,010,299	2,134,303
Lease liabilities	21	284	730	990	897
Bank borrowings	22	—	—	265,935	246,538
		<u>902,563</u>	<u>1,252,025</u>	<u>2,278,959</u>	<u>2,387,792</u>
Total equity and liabilities		<u><u>1,989,466</u></u>	<u><u>2,643,096</u></u>	<u><u>3,324,111</u></u>	<u><u>3,309,730</u></u>

* Less than HK\$1,000

STATEMENTS OF FINANCIAL POSITION OF THE PROJECT COMPANY

		As at 31 December		As at
	NOTES	2020	2021	31 August
		HK\$'000	HK\$'000	2022
				HK\$'000
ASSETS				
Non-current asset				
Interest in a subsidiary		—*	—*	—*
Current asset				
Amount due from a related party	18	—*	—*	78
Total assets		<u>—*</u>	<u>—*</u>	<u>78</u>
EQUITY AND LIABILITY				
Equity attributable to owners of the Project Company				
Share capital	23	—*	—*	78
Reserves		—*	—*	—*
Total equity		<u>—*</u>	<u>—*</u>	<u>78</u>
Current liability				
Amount due to a related party	18	—*	—*	—*
Total liability and equity		<u>—*</u>	<u>—*</u>	<u>78</u>

* Less than HK\$1,000

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Project Company						Non-controlling interests of subsidiaries HK\$'000	Total equity HK\$'000
	Share capital	Foreign currency translation reserve	Capital reserve	Retained profits (accumulated losses)	Sub-total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000			
At 1 January 2019	—	6	78,510	224	78,740	(10,043)	68,697	
Loss for the year	—	—	—	(3,611)	(3,611)	—	(3,611)	
Exchange differences arising on translation to presentation currency	—	62	—	—	62	—	62	
Acquisition of additional interests from a non-controlling shareholder of a subsidiary (note (a))	—	—	245,513	—	245,513	10,043	255,556	
At 31 December 2019	—	68	324,023	(3,387)	320,704	—	320,704	
Loss for the year	—	—	—	(4,595)	(4,595)	—	(4,595)	
Exchange differences arising on translation to presentation currency	—	16,474	—	—	16,474	—	16,474	
At 31 December 2020	—	16,542	324,023	(7,982)	332,583	—	332,583	
Loss for the year	—	—	—	(744)	(744)	—	(744)	
Exchange differences arising on translation to presentation currency	—	(17,121)	—	—	(17,121)	—	(17,121)	
Transfer upon group reorganisation (note (b))	—	—	(324,023)	—	(324,023)	—	(324,023)	
At 31 December 2021	—	(579)	—	(8,726)	(9,305)	—	(9,305)	
Issue of ordinary shares (Note 23)	78	—	—	—	78	—	78	
Profit for the period	—	—	—	441	441	—	441	
Exchange differences arising on translation to presentation currency	—	171	—	—	171	—	171	
At 31 August 2022	78	(408)	—	(8,285)	(8,615)	—	(8,615)	
At 1 January 2021	—	16,542	324,023	(7,982)	332,583	—	332,583	
Issue of ordinary shares (Note 23)	—*	—	—	—	—*	—	—*	
Loss for the period	—	—	—	(754)	(754)	—	(754)	
Exchange differences arising on translation to presentation currency	—	(17,058)	—	—	(17,058)	—	(17,058)	
Transfer upon group reorganisation (note (b))	—	—	(324,023)	—	(324,023)	—	(324,023)	
At 31 August 2021 (unaudited)	—	(516)	—	(8,736)	(9,252)	—	(9,252)	

* Less than HK\$1,000

Notes:

a: In 2019, the remaining 20% of the issued share capital in Yingfeng Investment (as defined in Note 2) was acquired from a non-controlling shareholder at a consideration of RMB230,000,000 (equivalent to approximately HK\$255,556,000). This consideration was paid by a fellow subsidiary under common control of Road King (as defined in Note 2).

b: Details of the group reorganisation are set out in Note 2.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Eight months ended	
	2019	2020	2021	31 August	
	HK\$'000	HK\$'000	HK\$'000	2021	2022
				HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
OPERATING ACTIVITIES					
(Loss) profit before taxation	(3,611)	(4,595)	(3,095)	(3,323)	441
Adjustments for:					
Depreciation	574	372	907	597	620
Net losses on written-off of equipment	—	—	3	3	—
Interest income	(102)	(151)	(2,797)	(1,106)	(3,821)
Finance costs	31	24	121	87	48
	<u>(3,108)</u>	<u>(4,350)</u>	<u>(4,861)</u>	<u>(3,742)</u>	<u>(2,712)</u>
Operating cash flow before movements in working capital	(3,108)	(4,350)	(4,861)	(3,742)	(2,712)
Decrease (increase) in debtors, deposits and prepayments	12,729	1,533	337	(847)	3,353
Increase in inventory of properties	(599,635)	(501,147)	(392,848)	(272,317)	(162,917)
(Decrease) increase in creditors and accrued charges	<u>(3,122)</u>	<u>399</u>	<u>697</u>	<u>17</u>	<u>4,351</u>
Cash used in operations	(593,136)	(503,565)	(396,675)	(276,889)	(157,925)
Income tax paid	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(593,136)</u>	<u>(503,565)</u>	<u>(396,675)</u>	<u>(276,889)</u>	<u>(157,925)</u>
INVESTING ACTIVITIES					
Interest received	102	151	2,591	1,080	3,373
Purchases of equipment	—	(44)	(592)	(552)	(28)
Additions of loan receivables	—	—	(132,210)	(110,551)	(8,062)
Repayment of loan receivables	—	—	5,284	1,960	7,146
Advance to related parties	(8,335)	(412)	(18,702)	(18,562)	—
Repayment from related parties	<u>20,227</u>	<u>—</u>	<u>19,759</u>	<u>7,656</u>	<u>125,994</u>
NET CASH FROM (USED IN) INVESTING ACTIVITIES	<u>11,994</u>	<u>(305)</u>	<u>(123,870)</u>	<u>(118,969)</u>	<u>128,423</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1. GENERAL INFORMATION**

Rainbow Triumph Limited (the “Project Company”) was incorporated in the British Virgin Islands (the “BVI”) with limited liability on 11 November 2020. Its registered office and principal place of business are located at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, BVI. The Project Company acts as an investment holding company and its subsidiaries (collectively referred to as the “Project Group”) are principally engaged in property development and property management in the People’s Republic of China (the “PRC”).

Upon completion of the Reorganisation (as set out in Note 2), immediate holding company of the Project Company is Shine Precious Limited (“Shine Precious”), which is incorporated in the BVI with limited liability and ultimate holding company of the Project Company is Road King Infrastructure Limited (“Road King”), which is incorporated in Bermuda as an exempted company with its shares listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Historical Financial Information of the Project Group is presented in Hong Kong dollar (“HK\$”), which is different from the Project Company’s functional currency of Renminbi (“RMB”). The directors of the Project Company adopted HK\$ as presentation currency of the Historical Financial Information of the Project Group for the convenience of the financial statements users because shares of Build King Holdings Limited (“Build King”) and Road King are listed on the Stock Exchange.

2. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in Note 4 which conform with HKFRSs and the principle of merger accounting under Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA.

No statutory financial statements of the Project Company have been prepared since its date of incorporation as it is incorporated in the jurisdiction where there is no statutory audit requirement.

Prior to the group reorganisation as described below, Shenzhen Shengshi Yingfeng Investment Development Co., Ltd. (“Yingfeng Investment”) (深圳市盛世盈豐投資發展有限公司) and its wholly-owned subsidiary Shenzhen Shengshi Yingfeng Property Management Co., Ltd. (“Yingfeng Property Management”) (深圳市盛世盈豐物業管理有限公司) were directly and indirectly wholly-owned by Shenzhen Lujin Junyu Investment Development Co., Ltd. (“Shenzhen Lujin Junyu”) (深圳市路勁雋御投資發展有限公司). Yingfeng Investment, Yingfeng Property Management and Shenzhen Lujin Junyu are limited liability companies established in the PRC.

In preparation of the acquisition of 20% of the issued shares of the Project Company by Build King Holdings Limited, the companies now comprising the Project Group underwent the group reorganisation (the “Reorganisation”) as below:

1. On 1 December 2020, Jovial Elite Group Limited (“Jovial Elite”) was incorporated in the BVI as a company limited by shares, which was authorised to issue 50,000 shares with a par value of US\$1 each. On 13 January 2021, Jovial Elite issued 1 ordinary share to the Project Company at par, pursuant to which Jovial Elite became a direct wholly-owned subsidiary of the Project Company.
2. On 23 March 2021, Shanghai Meixi Enterprise Management Co., Ltd. (“Shanghai Meixi”) (上海美晞企業管理有限公司) was established as a wholly foreign-owned enterprise in the PRC with limited liability. Shanghai Meixi has a registered capital of RMB300,000,000 and its sole shareholder is Jovial Elite. Shanghai Meixi was established to principally serve as an intermediate holding company.
3. On 22 April 2021, Shenzhen Lujin Junyu transferred all shares in Yingfeng Investment to Shanghai Meixi at a consideration of RMB300,000,000. Yingfeng Investment became a direct wholly-owned subsidiary of Shanghai Meixi. Accordingly, the Reorganisation was completed.
4. On 31 December 2021, Shenzhen Junyue Investment Development Co., Ltd. (“Shenzhen Junyue”) (深圳市雋越投資發展有限公司) was established in the PRC with limited liability. Shenzhen Junyue has a registered capital of RMB20,000,000 and its sole shareholder is Shanghai Meixi.
5. On 24 January 2022, Shanghai Meixi transferred all shares in Yingfeng Investment to Shenzhen Junyue at a consideration of RMB300,000,000. Shenzhen Junyue and Yingfeng Investment became a direct and an indirect wholly-owned subsidiary of Shanghai Meixi respectively.

Upon completion of the Reorganisation as stated in step 1 to 3 above, the Project Company became the holding company of the companies now comprising the Project Group since 22 April 2021. They were under common control of Road King before and after the Reorganisation. Accordingly, the consolidated statements of profit or loss, consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the three years ended 31 December 2021 include the results, changes in equity and cash flows of the companies now comprising the Project Group as if the Reorganisation had been completed at the beginning of the Relevant Periods.

The consolidated statements of financial position of the Project Group as at 31 December 2019 and 2020 have been prepared to present the assets and liabilities of the companies now comprising the Project Group as if the Reorganisation had been completed at the beginning of the Relevant Periods.

* English name is for identification purpose only.

In preparation of the Historical Financial Information, the directors of the Project Company have given due and careful consideration to the future liquidity of the Project Group in light of the Project Group's net liabilities of HK\$9,305,000 and HK\$8,615,000 as at 31 December 2021 and 31 August 2022, respectively. In the opinion of the directors of the Project Company, the Historical Financial Information has been prepared on a going concern basis as the Project Company's ultimate holding company, Road King, has agreed to provide adequate funds to enable the Project Group to meet in full its financial obligations as they fall due in the foreseeable future.

3. ADOPTION OF NEW AND AMENDMENTS TO HKFRSS

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, the Project Group has consistently applied the accounting policies which conform with HKFRSs and they are effective for the Project Group's accounting period beginning on 1 January 2022 throughout the Relevant Periods.

New and revised HKFRSs in issue but not yet effective

The Project Group has not applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ³
Amendments to HKAS 1	Non-current Liabilities with Covenants ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Definition of Accounting Estimates ¹
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after 1 January 2024

The directors of the Project Company anticipate that the application of all the new and amendments to HKFRSs will have no material impact on the Project Group's financial position and financial performance in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with the following accounting policies which conform with HKFRSs issued by the HKICPA and the principal of merger accounting under Accounting Guideline 5 “Merge Accounting for Common Control Combinations” issued by the HKICPA. For the purpose of preparation of the Historical Financial Information, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Project Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in this Historical Financial Information is determined on such a basis, except for leasing transactions that are accounted for in accordance with HKFRS 16 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Basis of consolidation

The Historical Financial Information incorporate the financial statements of the Project Company and entities controlled by the Project Company and its subsidiaries. Control is achieved when the Project Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Project Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Project Group obtains control over the subsidiary and ceases when the Project Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Project Group gains control until the date when the Project Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to owners of Project Company and to non-controlling interests of subsidiaries. Total comprehensive income and expense of subsidiaries attributed to owners of the Project Company and to non-controlling interests of subsidiaries even if this results in non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Project Group's accounting policies.

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

Non-controlling interests in subsidiaries, are presented separately from the Project Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Project Group's interests in existing subsidiaries

Changes in the Project Group's interests in subsidiaries that do not result in the Project Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Project Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Project Group and the non-controlling interests according to the Project Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Project Company.

Merger accounting for business combination involving entities under common control

The Historical Financial Information incorporates the financial statements items of the combining entities in which the common control combination occurs as if they had been consolidated from the date when the combining entities first came under common control of the controlling party.

The net assets of the combining entities are consolidated using the existing carrying values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statements of profit or loss and consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period.

Interest in a subsidiary

Interest in a subsidiary is stated at cost less any identified impairment loss.

Revenue from contracts with customers

The Project Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents service that is distinct or a series of services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Project Group's performance as the Project Group performs;
- the Project Group's performance creates or enhances an asset that the customer controls as the Project Group performs; or
- the Project Group's performance does not create an asset with an alternative use to the Project Group and the Project Group has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct service.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Project Group's performance in transferring control of services.

As a practical expedient, if the Project Group has a right to consideration in an amount that corresponds directly with the value of the Project Group's performance completed to date, the Project Group recognises revenue in the amount to which the Project Group has the right to invoice.

Equipment

Equipment is tangible asset that is held for use in the production or supply of goods or services, or for administrative purposes. Equipment is stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment on equipment and right-of-use assets

At the end of each reporting period, the Project Group reviews the carrying amounts of its equipment and right-of-use assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Project Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Project Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventory of properties

Properties under development for sale which are intended to be sold upon completion of development and properties held for sale are classified as current assets. Except for the leasehold land element which is measured at cost model in accordance with the accounting policies of right-of-use assets, properties under development for sale/properties held for sale are carried at the lower of cost and net realisable value.

Cost is determined on a specific identification basis including allocation of the related development expenditure incurred and where appropriate, borrowing costs capitalised.

Net realisable value represents the estimated selling price for the properties less estimated cost to completion and costs necessary to make the sales. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Project Group must incur to make the sale.

Properties under development for sale are transferred to properties held for sale upon completion.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise except for exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Project Group's entities are translated into the presentation currency of the Project Group (i.e. HK\$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests of subsidiaries as appropriate).

Exchange differences relating to the retranslation of the Project Group's net assets in RMB to the Project Group's presentation currency (i.e.HK\$) are recognised directly in other comprehensive income and accumulated in foreign currency translation reserve. Such exchange differences accumulated in the foreign currency translation reserve are not reclassified to profit or loss subsequently.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application of HKFRS 16 or arising from business combinations, the Project Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed. As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Project Group reasonably expects that the effects on the Historical Financial Information would not differ materially from individual leases within the portfolio.

The Project Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Project Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases

The Project Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Project Group; and
- an estimate of costs to be incurred by the Project Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Project Group presents right-of-use assets that do not meet the definition of inventory as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of inventory are presented within “inventory of properties”.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Project Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Project Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Project Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed.

The Project Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Project Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Project Group remeasures the lease liability, less any lease incentives receivable, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Project Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Project Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from “profit (loss) before taxation” because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Project Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with interests in subsidiaries, except where the Project Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Project Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Project Group recognises the right-of-use assets and the related lease liabilities, the Project Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Project Group applies HKAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade debtors arising from contracts with customers, if any, which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss (“FVTPL”).

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Project Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Project Group may irrevocably designate a financial asset that are required to be measured at the amortised cost as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Impairment of financial assets subject to impairment assessment under HKFRS 9

The Project Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including other debtors, loan receivables, amounts due from related parties and bank balances) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12 month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Project Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

For all instruments, the Project Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Project Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Project Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Project Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Project Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Project Group has reasonable and supportable information that demonstrates otherwise.

The Project Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Project Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Project Group, in full (without taking into account any collaterals held by the Project Group).

Irrespective of the above, the Project Group considers that default has occurred when a financial asset is more than 90 days past due unless the Project Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Project Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Project Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Project Group in accordance with the contract and the cash flows that the Project Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for loan receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward-looking macroeconomic information.

For collective assessment, the Project Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management of the Project Group to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Project Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of other debtors and loan receivables, where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Project Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Project Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Project Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Project Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities including creditors and accrued charges, bank borrowings and amounts due to related parties are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Project Group derecognises financial liabilities when, and only when, the Project Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Employee benefits*Retirement benefit costs*

Payments to the state-managed retirement benefit scheme operated by the government are charged as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Project Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

5. REVENUE

	Year ended 31 December			Eight months ended	
	2019	2020	2021	31 August 2021	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property management and service income	758	143	5	5	—

The Project Group provides property management service to property owners. The Project Group bills a fixed rate for services provided on a monthly/regular basis and recognises such service as revenue in the amount to which it has a right to invoice and that corresponds directly with the value of performance completed. As property owners simultaneously receive and consume the benefit provided by the Project Group's performance as the Project Group performs, the Project Group recognises the service income received or receivable from property owners as its revenue over time and all related property management costs as its cost of services.

The Project Group has elected to apply the practical expedient under HKFRS 15 for not to disclose the information of remaining performance obligations which are part of a contract that the Project Group bills the customer a fixed amount for each month of service provided.

6. SEGMENT INFORMATION

Information reported to the management of the Project Group, being the chief operating decision maker, for the purposes of resource allocation and performance assessment focuses on revenue analysis. No other discrete financial information is provided other than the Project Group's result and financial position as a whole. Accordingly, only entity-wide disclosures are presented.

The Project Group's operations are located in the PRC. All revenue and non-current assets of the Project Group are generated from and located in the PRC. No revenue from a single customer contributed 10% or more of the Project Group's revenue for the Relevant Periods.

7. FINANCE COSTS

	Year ended 31 December			Eight months ended	
	2019	2020	2021	31 August 2021	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(unaudited)</i>	
Interest on bank borrowings	47,910	54,148	78,660	52,006	63,191
Interest on lease liabilities	31	24	117	83	48
Other interest and finance costs	—	—	4	4	—
	<u>47,941</u>	<u>54,172</u>	<u>78,781</u>	<u>52,093</u>	<u>63,239</u>
Less: Capitalised in properties under development for sale	<u>(47,910)</u>	<u>(54,148)</u>	<u>(78,660)</u>	<u>(52,006)</u>	<u>(63,191)</u>
	<u>31</u>	<u>24</u>	<u>121</u>	<u>87</u>	<u>48</u>

8. (LOSS) PROFIT BEFORE TAXATION

	Year ended 31 December			Eight months ended 31 August	
	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000	2021 HK\$'000	2022 HK\$'000
(Loss) profit before taxation has been arrived at after charging:					
Auditor's remuneration (note)	—	—	—	—	—
Depreciation of equipment	83	55	178	109	146
Depreciation of right-of-use assets (Note 13)	574	372	907	597	620
	657	427	1,085	706	766
Less: Capitalised in properties under development for sale	(83)	(55)	(178)	(109)	(146)
	<u>574</u>	<u>372</u>	<u>907</u>	<u>597</u>	<u>620</u>
Staff costs:					
Salaries and other benefits	20,002	20,273	21,539	15,343	13,959
Provident fund scheme contributions	2,402	1,818	3,397	2,314	2,228
Less: Capitalised in properties under development for sale	(19,653)	(19,451)	(22,274)	(15,771)	(14,632)
Total staff costs (excluding directors' emoluments)	<u>2,751</u>	<u>2,640</u>	<u>2,662</u>	<u>1,886</u>	<u>1,555</u>
and after crediting:					
Bank interest income	<u>102</u>	<u>151</u>	<u>—</u>	<u>—</u>	<u>117</u>

Note: No remuneration has been incurred since there is no statutory audit requirement for the Project Company.

9. INCOME TAX CREDIT

	Year ended 31 December			Eight months ended 31 August	
	2019	2020	2021	2021	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(unaudited)</i>	
Deferred tax (Note 15)	—	—	(2,351)	(2,569)	—

Under the Law of the PRC on Enterprise Income Tax (“EIT”) (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the entities operating in the PRC is 25% for the Relevant Periods. No provision for taxation in the PRC has been made as the Project Group’s entities in the PRC had no assessable profits during the Relevant Periods.

The income tax credit for the Relevant Periods can be reconciled to the (loss) profit before taxation as follows:

	Year ended 31 December			Eight months ended 31 August	
	2019	2020	2021	2021	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(unaudited)</i>	
(Loss) profit before taxation	(3,611)	(4,595)	(3,095)	(3,323)	441
Tax at the PRC’s EIT rate of 25%	(903)	(1,149)	(774)	(831)	110
Tax effect of income not taxable for tax purpose	—	—	—	—	(474)
Tax effect of tax losses not recognised	903	1,149	992	831	364
Tax effect of recognition of tax losses previously not recognised	—	—	(2,569)	(2,569)	—
Income tax credit	—	—	(2,351)	(2,569)	—

10. DIRECTORS’, CHIEF EXECUTIVE’S AND EMPLOYEES’ EMOLUMENTS

(a) Directors’ and chief executive’s emoluments

No emoluments paid or payable to the executive directors of the Project Company for the years ended 31 December 2019, 2020 and 2021 and the eight months ended 31 August 2021 and 2022.

(b) Employees' emoluments

Five highest paid employees are neither a director nor chief executive of the Project Group for the years ended 31 December 2019, 2020 and 2021 and the eight months ended 31 August 2021 and 2022, the details of the remuneration are as follows:

	Year ended 31 December			Eight months ended 31 August	
	2019	2020	2021	2021	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(unaudited)</i>	
Salaries and other benefits	2,780	2,884	3,149	1,955	1,738
Performance related bonus	1,032	1,761	1,413	1,319	421
Provident fund scheme contributions	552	364	651	428	445
	4,364	5,009	5,213	3,702	2,604

Their emoluments are within the following bands:

	Year ended 31 December			Eight months ended 31 August	
	2019	2020	2021	2021	2022
	<i>Number of employee</i>	<i>Number of employee</i>	<i>Number of employee</i>	<i>Number of employee</i>	<i>Number of employee</i>
				<i>(unaudited)</i>	
Nil to HK\$1,000,000	4	4	3	5	5
HK\$1,000,001 to HK\$1,500,000	1	1	2	—	—

During the Relevant Periods, no emoluments were paid by the Project Group to the five highest paid individuals as an inducement to join or upon joining the Project Group or as compensation for loss of office.

11. DIVIDENDS

No dividend was paid or declared by the Project Company or its subsidiaries since their dates of incorporation.

Restrictions or covenants on leases

As at 31 December 2019, 2020 and 2021 and 31 August 2022, lease liabilities of HK\$284,000, HK\$2,049,000, HK\$1,567,000 and HK\$897,000 respectively are recognised with related right-of-use assets of HK\$252,000, HK\$1,974,000, HK\$1,460,000 and HK\$820,000 respectively. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessors. Leased assets may not be used as security for borrowing purposes.

14. LOAN RECEIVABLES

	As at 31 December			As at
	2019	2020	2021	31 August
	HK\$'000	HK\$'000	HK\$'000	2022 HK\$'000
Fixed-rate loan receivables	—	—	57,851	62,046
Floating-rate loan receivables	—	—	69,328	63,265
Interest-free loan receivables	—	—	—	783
	<u>—</u>	<u>—</u>	<u>—</u>	<u>783</u>
Total gross carrying amount of loan receivables	—	—	127,179	126,094
Less: Impairment loss on loan receivables (Note 26 (b)(ii))	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>127,179</u>	<u>126,094</u>
Analysed as				
Non-current	—	—	119,093	113,568
Current	—	—	8,086	12,526
	<u>—</u>	<u>—</u>	<u>8,086</u>	<u>12,526</u>
	<u>—</u>	<u>—</u>	<u>127,179</u>	<u>126,094</u>

The loan receivables are denominated in RMB. As at 31 December 2021 and 31 August 2022, the loan receivables are secured by properties of the borrowers. The Project Group is not permitted to sell or re-pledge the collaterals in the absence of default by the borrowers. There have not been any significant changes in the quality of the collateral held for the loan receivables.

Details of impairment assessment for the loan receivables at the end of each reporting period are set out in Note 26 (b)(ii).

The exposure of the Project Group's loan receivables to interest rate risks and the contractual maturity dates are as follows:

	As at 31 December			As at
	2019	2020	2021	31 August
	HK\$'000	HK\$'000	HK\$'000	2022
Within one year	—	—	8,086	12,526
More than one year but not exceeding two years	—	—	13,832	28,639
More than two years but not exceeding five years	—	—	55,062	34,879
More than five years	—	—	50,199	50,050
	<u>—</u>	<u>—</u>	<u>127,179</u>	<u>126,094</u>

The range of interest rates per annum on the Project Group's loan receivables are as follows:

	As at 31 December			As at
	2019	2020	2021	31 August
Fixed-rate loan receivables	—	—	2.88%-6.68%	2.88%-6.68%
Floating-rate loan receivables	<u>—</u>	<u>—</u>	<u>3.25%-6.37%</u>	<u>3.25%-6.37%</u>

15. DEFERRED TAXATION

The following are the major deferred tax assets recognised and movements thereon during the Relevant Periods:

	Tax losses
	HK\$'000
At 1 January 2019, 2020 and 2021	—
Credit for the year	(2,351)
Exchange adjustment	<u>(43)</u>
At 31 December 2021	(2,394)
Exchange adjustment	<u>45</u>
At 31 August 2022	<u>(2,349)</u>

As at 31 December 2019, 2020 and 2021 and 31 August 2022, the Project Group has estimated unused tax losses of HK\$6,788,000, HK\$11,384,000, HK\$15,352,000 and HK\$16,808,000, respectively available to offset against future profits. A deferred tax asset has been recognised in respect of nil, nil, HK\$10,276,000 and HK\$10,276,000 of such losses based on the estimated utilisation of future profit, respectively.

16. INVENTORY OF PROPERTIES

	As at 31 December			As at
	2019	2020	2021	31 August
	HK\$'000	HK\$'000	HK\$'000	2022
Properties under development for sale	<u>1,747,817</u>	<u>2,395,420</u>	<u>2,947,259</u>	<u>3,117,054</u>

The entire balance of properties under development for sale is expected to be completed and is available for sale to customers more than twelve months from the end of each reporting period.

17. DEBTORS, DEPOSITS AND PREPAYMENTS

	As at 31 December			As at
	2019	2020	2021	31 August
	HK\$'000	HK\$'000	HK\$'000	2022
Prepayment of value added tax and other taxes	4,687	4,458	4,295	849
Other debtors, deposits and prepayments	<u>4,003</u>	<u>3,145</u>	<u>3,210</u>	<u>3,161</u>
Total gross carrying amounts of debtors, deposits and prepayments	8,690	7,603	7,505	4,010
Less: Impairment loss on other debtors (Note 26 (b)(ii))	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>8,690</u>	<u>7,603</u>	<u>7,505</u>	<u>4,010</u>

18. AMOUNTS DUE FROM (TO) RELATED PARTIES /AMOUNT DUE FROM (TO) A RELATED PARTY

The Project Group

The balances represent the amounts due from (to) the group entities under common control of Road King and the balances were interest-free, unsecured and repayable on demand.

The Project Company

The balances represent the amounts due from (to) the group entities under common control of Road King and the balances were interest-free, unsecured and repayable on demand.

19. BANK BALANCES AND CASH

Bank balances carried interest at market rates which range from 0.30% to 0.35%, 0.30% to 2.73%, 0.30% to 2.73% and 0.30% to 2.73% per annum as at 31 December 2019, 2020 and 2021 and 31 August 2022, respectively.

The Project Group's bank balances and cash are denominated in the functional currency of the relevant group entities.

20. CREDITORS AND ACCRUED CHARGES

	As at 31 December			As at
	2019	2020	2021	31 August
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Aged analysis of creditors presented based on invoice date:				
Trade payables				
Within 60 days	40	382	20	—
61 to 90 days	—	23	—	35
More than 90 days	17	60	383	403
	<u>57</u>	<u>465</u>	<u>403</u>	<u>438</u>
Accrued taxes (other than EIT)	158	145	169	85
Other payables	363	397	1,163	5,531
	<u>578</u>	<u>1,007</u>	<u>1,735</u>	<u>6,054</u>

21. LEASE LIABILITIES

	As at 31 December			As at
	2019	2020	2021	31 August
	HK\$'000	HK\$'000	HK\$'000	2022
				HK\$'000
The maturity of the lease liabilities is as follows:				
Within one year	284	730	990	897
More than one year but not exceeding two years	—	776	577	—
More than two years but not exceeding five years	—	543	—	—
	284	2,049	1,567	897
Less: Amounts due within one year shown and classified under current liabilities	(284)	(730)	(990)	(897)
Amounts due over one year shown and classified under non-current liabilities	—	1,319	577	—

22. BANK BORROWINGS

	As at 31 December			As at
	2019	2020	2021	31 August
	HK\$'000	HK\$'000	HK\$'000	2022
				HK\$'000
Unsecured bank borrowings	766,199	1,057,169	1,319,815	1,177,091

The maturity of the above bank borrowings is as follows:

	As at 31 December			As at 31 August
	2019	2020	2021	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank borrowings repayable*:				
Within one year	—	—	265,935	246,538
More than one year but not exceeding two years	—	211,075	263,470	232,638
More than two years but not exceeding five years	766,199	846,094	790,410	697,915
	<u>766,199</u>	<u>846,094</u>	<u>790,410</u>	<u>697,915</u>
Total borrowings	766,199	1,057,169	1,319,815	1,177,091
Less: Amounts due within one year shown and classified as current liabilities	<u>—</u>	<u>—</u>	<u>(265,935)</u>	<u>(246,538)</u>
Amounts due over one year shown and classified as non-current liabilities	<u>766,199</u>	<u>1,057,169</u>	<u>1,053,880</u>	<u>930,553</u>

* The amounts due are based on scheduled repayment dates set out in the borrowing agreements.

The bank borrowings bear a floating-rate of the PRC's loan prime rate plus 227.5 basis point per annum as at 31 December 2019, 2020 and 2021 and 31 August 2022 respectively.

The bank borrowings as at 31 December 2019, 2020 and 2021 and 31 August 2022 were required to comply with the financial covenants throughout the continuance of the relevant borrowings and/or as long as the borrowings are outstanding.

The Project Company has complied with these covenants throughout the Relevant Periods.

23. SHARE CAPITAL

The share capital as at 1 January 2019, 31 December 2019 and 2020 represented the share capital of Yingfeng Investment, the holding company of the entities comprising the Project Group, attributable to Road King.

The share capital as at 31 December 2021 and 31 August 2022 represented the share capital of the Project Company.

Details of the Project Company's shares are disclosed as follows:

	Number of shares	Share capital <i>US\$'000</i>	Share capital <i>HK\$'000</i>
Ordinary shares of US\$1 each			
Authorised			
At date of incorporation and 31 December 2021	1	— [^]	— [*]
Shares allotment	<u>9,999</u>	<u>10</u>	<u>78</u>
At 31 August 2022	<u><u>10,000</u></u>	<u><u>10</u></u>	<u><u>78</u></u>
Issued and fully paid			
At date of incorporation and 31 December 2021	1	— [^]	— [*]
Issue of shares	<u>9,999</u>	<u>10</u>	<u>78</u>
At 31 August 2022	<u><u>10,000</u></u>	<u><u>10</u></u>	<u><u>78</u></u>

[^] Less than US\$1,000

^{*} Less than HK\$1,000

Reserves of the Project Company

There is no material movement of reserves of the Project Company since its date of incorporation. The reserves of the Project Company are comprised of foreign currency exchange reserve and accumulated losses.

24. RETIREMENT BENEFIT PLANS

For the operations in the PRC, the employees of the Project Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government. The subsidiaries are required to contribute a fixed percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Project Group with respect to the retirement scheme is to make the specified contributions.

25. CAPITAL RISK MANAGEMENT

The Project Group manages its capital to ensure that entities in the Project Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debts and equity balance. The Project Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Project Group consists of debts, which include bank borrowings and lease liabilities disclosed in Notes 22 and 21 respectively, and equity comprising issued capital and reserves attributable to owners of the Project Company, and non-controlling interests of subsidiaries.

The management of the Project Group reviews the capital structure periodically. As part of this review, the management of the Project Group assesses the annual budget which incorporates the planned construction projects and takes into account of the provision of funding. Based on the proposed annual budget, the management of the Project Group considers the cost of capital and the risks associated with the capital. The management of the Project Group also balances its overall capital structure through the payment of dividends, the issue of new share as well as new debts or the redemption of existing debts.

The management of the Project Group monitors the utilisation of bank borrowings and ensures full compliance with loan covenants, if any, during and at the end of each reporting period.

26. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The Project Group

	As at 31 December			As at
	2019	2020	2021	31 August
	HK\$'000	HK\$'000	HK\$'000	2022
				HK\$'000
<i>Financial assets</i>				
Financial assets at amortised cost	<u>236,319</u>	<u>240,846</u>	<u>368,245</u>	<u>188,326</u>
<i>Financial liabilities</i>				
Financial liabilities at amortised cost	<u>1,668,320</u>	<u>2,308,319</u>	<u>3,331,680</u>	<u>3,317,363</u>

The Project Company

The Project Company had no material financial assets and financial liabilities as at 31 December 2020 and 2021 and 31 August 2022.

(b) Financial risk management objectives and policies

The management of the Project Group has overall responsibility for the establishment and oversight of the Project Group's risk management framework. The Project Group's risk management policies are established to identify and analyse the risks encountered by the Project Group, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Project Group's activities. The Project Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

There has been no material change to the Project Group's exposure to market risks or the manner in which it manages and measures these risks.

(i) *Market risk*

The Project Group's activities expose primarily to the financial risks of changes in interest rates.

Foreign currency risk

The Project Group currently does not have foreign currency risk. It is because the entities comprising the Project Group have transactions mainly within the PRC and the translation of their assets and liabilities to HK\$ is for presentation purpose only. The management of the Project Group monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk management

The Project Group is exposed to cash flow interest rate risk due to the fluctuation of the People's Bank of China prescribed interest rates on bank balances, certain loan receivables and bank borrowings.

The Project Group's fair value interest rate risk relates primarily to certain loan receivables and lease liabilities which carry interest at fixed interest rates.

The management of the Project Group manages the interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook.

Total interest income from financial assets that are measured at amortised cost is as follows:

	As at 31 December			As at 31 August
	2019	2020	2021	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets at amortised cost				
- Interest income from loan receivables	—	—	2,797	3,704
- Interest income from bank balances	102	151	—	117
Interest income under effective interest method	102	151	2,797	3,821

Interest rate sensitivity

The Project Group's bank balances are excluded from sensitivity analysis as the management of the Project Group considers the exposure of cash flow interest rate risk arising from variable-rate bank balances, loan receivables and bank borrowings are insignificant.

(ii) Credit risk and impairment management

The Project Group's maximum exposure to credit risk which will cause a financial loss to the Project Group is arising from the financial assets as disclosed in the consolidated statements of financial position. Other than the collateral to cover the credit risks of the loan receivables as detailed in Note 14, the Project Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

In order to minimise the credit risk, the management of the Project Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Project Group performs impairment assessment under ECL model on financial assets at amortised cost individually or collectively, where appropriate. In this regard, the management of the Project Group considers that the Project Group's credit risk is significantly reduced.

Loan receivables

The Project Group has designated a team to assess the credit quality of the borrowers before an advance is made. The Project Group would generally require the borrowers to provide collaterals for the loans with material balances i.e. the properties owned by the borrowers. The Project Group also closely monitored the repayment status of the loan receivables and the status and conditions of the collaterals and requested for credit enhancements if necessary. The management of the Project Group estimated the loss rates of loan receivables based on historical credit loss experience of the borrowers as well as the fair value of the collaterals pledged by the borrowers to the loan receivables. The ECL on loan receivables at the end of each reporting period were not significant after taking into account of potential loss in case of default.

Amounts due from related parties

The amounts due from entities under common control of Road King are centrally managed by Road King. For the purpose of impairment assessment, the amounts were considered to have low credit risk as the timing of payment is controlled by Road King taking into account cash flow management within the Road King's group of entities, and there has been no significant increase in the risk of default on the amount since initial recognition. Accordingly, the loss allowance for the amounts due from entities under common control of Road King is measured at an amount equal to 12m ECL.

In determining the ECL, the management of the Project Group has taken into account the financial position of the entities under common control of Road King, adjusted for factors

that are specific to these entities and general economic conditions of the industry in which they operate, in estimating the probability of default of the amount as well as the loss upon default. The management of the Project Group determines the amounts are subject to immaterial credit loss and no loss allowance has been recognised against this balance.

Other debtors

For other debtors and deposits, the management of the Project Group makes periodic individual assessment on the recoverability of other debtors and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The management of the Project Group believes that there is no material credit risk inherent in the Project Group's outstanding balance of other debtors and deposits as the major outstanding balances are short-term in nature. As at 31 December 2019, 2020 and 2021 and 31 August 2022, the Project Group assessed that the ECL for other debtors and deposits were insignificant.

Bank balances

The Project Group's credit risk on bank balances is limited because the counterparties are banks with high credit ratings and good reputation established in the PRC. The Project Group assessed 12m ECL for bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on bank balances as at 31 December 2019, 2020 and 2021 and 31 August 2022 were considered to be insignificant and no loss allowance was recognised accordingly.

The tables below detail the credit risk exposures of the Project Group's financial assets, which are subject to ECL assessment:

	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount			
					As at 31 December			As at 31 August
					2019	2020	2021	2022
					HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets at amortised costs								
Amounts due from related parties	18	N/A	(note)	12m ECL	<u>119,656</u>	<u>126,218</u>	<u>129,115</u>	<u>678</u>
Loan receivables	14	N/A	(note)	12m ECL	<u>—</u>	<u>—</u>	<u>127,179</u>	<u>126,094</u>
Other debtors	17	N/A	(note)	12m ECL	<u>3,670</u>	<u>2,795</u>	<u>3,210</u>	<u>3,161</u>
Bank balances	19	Ranged from A+ to BBB-	N/A	12m ECL	<u>112,961</u>	<u>111,770</u>	<u>108,592</u>	<u>58,313</u>

Note: For the purposes of internal credit risk management, the Project Group used the financial performance of the related parties including their profitability and net assets position to assess whether credit risk on amounts due from related parties has been increased significantly since initial recognition. The Project Group assessed whether credit risk on loan receivables has been increased significantly since initial recognition based on the settlement status of the loans principal and interest and whether the loan period has been extended during the Relevant Periods. For other debtors, the Project Group assessed whether credit risk on other debtors has been increased significantly since initial recognition based on the past due records during the Relevant Periods.

(iii) *Liquidity risk management*

In preparation of the Historical Financial Information, the directors of the Project Company have given due and careful consideration to the future liquidity of the Project Group in light of the Project Group's net liabilities of HK\$9,305,000 and HK\$8,615,000 as at 31 December 2021 and 31 August 2022, respectively. In the opinion of the directors of the Project Company, the Historical Financial Information has been prepared on a going concern basis as the Project Company's ultimate holding company, Road King, agreed to provide adequate funds to enable the Project Group to meet in full its financial obligations as they fall due in the foreseeable future.

In the management of the liquidity risk, the Project Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Project Group to finance the Project Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Project Group monitors the utilisation of bank borrowings and ensures compliance with loan covenants, if any.

Ultimate responsibility for liquidity risk management rests with the management of the Project Group who has built an appropriate liquidity risk management framework for the management of the Project Group's short, medium and long-term funding and liquidity management requirements. The Project Group manages liquidity risk by maintaining adequate working capital and available banking facilities and continuously monitors the forecast and actual cash flows.

Liquidity and interest risk tables

The following table details the Project Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Project Group can be required to pay. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

	Weighted average effective interest rate %	On demand or less than 6 months HK\$'000	6 - 12 months HK\$'000	1 - 2 years HK\$'000	2 - 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
31 December 2019							
Creditors and accrued charges	—	420	—	—	—	420	420
Amounts due to related parties	—	901,701	—	—	—	901,701	901,701
Lease liabilities	6.10	287	—	—	—	287	284
Bank borrowings	6.475	24,763	24,763	49,527	876,324	975,377	766,199
		<u>927,171</u>	<u>24,763</u>	<u>49,527</u>	<u>876,324</u>	<u>1,877,785</u>	<u>1,668,604</u>

	Weighted average effective interest rate %	On demand or less than 6 months HK\$'000	6 - 12 months HK\$'000	1 - 2 years HK\$'000	2 - 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
31 December 2020							
Creditors and accrued charges	—	862	—	—	—	862	862
Amounts due to related parties	—	1,250,288	—	—	—	1,250,288	1,250,288
Lease liabilities	6.10	415	415	831	554	2,215	2,049
Bank borrowings	6.125	32,321	32,321	272,772	898,023	1,235,437	1,057,169
		<u>1,283,886</u>	<u>32,736</u>	<u>273,603</u>	<u>898,577</u>	<u>2,488,802</u>	<u>2,310,368</u>

	Weighted average effective interest rate %	On demand or less than 6 months HK\$'000	6 - 12 months HK\$'000	1 - 2 years HK\$'000	2 - 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
31 December 2021							
Creditors and accrued charges	—	1,566	—	—	—	1,566	1,566
Amounts due to related parties	—	2,010,299	—	—	—	2,010,299	2,010,299
Lease liabilities	6.10	526	527	588	—	1,641	1,567
Bank borrowings	6.125	40,344	301,348	320,624	811,747	1,474,063	1,319,815
		<u>2,052,735</u>	<u>301,875</u>	<u>321,212</u>	<u>811,747</u>	<u>3,487,569</u>	<u>3,333,247</u>

	Weighted average effective interest rate %	On demand or less than 6 months HK\$'000	6 - 12 months HK\$'000	1 - 2 years HK\$'000	2 - 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
31 August 2022							
Creditors and accrued charges	—	5,969	—	—	—	5,969	5,969
Amounts due to related parties	—	2,134,303	—	—	—	2,134,303	2,134,303
Lease liabilities	6.10	501	420	—	—	921	897
Bank borrowings	5.975	150,008	147,076	283,702	702,756	1,283,542	1,177,091
		<u>2,290,781</u>	<u>147,496</u>	<u>283,702</u>	<u>702,756</u>	<u>3,424,735</u>	<u>3,318,260</u>

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of each reporting period.

27. RELATED PARTY TRANSACTIONS

The Project Group had the following balances with the related parties during the Relevant Periods:

Relationships	Nature	As at 31 December			As at
		2019	2020	2021	31 August
		HK\$'000	HK\$'000	HK\$'000	2022
Fellow subsidiaries	Amounts due from related parties	119,656	126,218	129,115	678
Fellow subsidiaries	Amounts due to related parties	<u>901,701</u>	<u>1,250,288</u>	<u>2,010,299</u>	<u>2,134,303</u>

Compensation of key management personnel

The remuneration of the directors of the Project Company and other members of key management during the Relevant Periods was as follows:

	As at 31 December			As at
	2019	2020	2021	31 August
	HK\$'000	HK\$'000	HK\$'000	2022
Short-term employment benefits	<u>4,364</u>	<u>5,009</u>	<u>5,213</u>	<u>2,604</u>

The remuneration of the above key management personnel is determined with reference to their individual performance and market trends.

28. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Project Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were or future cash flows will be, classified in the Project Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank borrowings	Lease liabilities	Amounts due to related parties	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2019	800,000	—	527,967	1,327,967
Financing cash flows (note (a))	(58,584)	(561)	649,983	590,838
Non-cash transaction (note (b))	—	—	(255,556)	(255,556)
Addition of right-of-use assets	—	814	—	814
Finance costs	47,910	31	—	47,941
Exchange adjustment	(23,127)	—	(20,693)	(43,820)
	<u>766,199</u>	<u>284</u>	<u>901,701</u>	<u>1,668,184</u>
At 31 December 2019	766,199	284	901,701	1,668,184
Financing cash flows (note (a))	195,035	(371)	302,238	496,902
Addition of right-of-use assets	—	2,097	—	2,097
Finance costs	54,148	24	—	54,172
Exchange adjustment	41,787	15	46,349	88,151
	<u>1,057,169</u>	<u>2,049</u>	<u>1,250,288</u>	<u>2,309,506</u>
At 31 December 2020	1,057,169	2,049	1,250,288	2,309,506
Financing cash flows (note (a))	149,539	(1,012)	689,446	837,973
Addition of right-of-use assets	—	348	—	348
Finance costs	78,664	117	—	78,781
Exchange adjustment	34,443	65	70,565	105,073
	<u>1,319,815</u>	<u>1,567</u>	<u>2,010,299</u>	<u>3,331,681</u>
At 31 December 2021	1,319,815	1,567	2,010,299	3,331,681
Financing cash flows (note (a))	(180,205)	(688)	162,025	(18,868)
Finance costs	63,191	48	—	63,239
Exchange adjustment	(25,710)	(30)	(38,021)	(63,761)
	<u>1,177,091</u>	<u>897</u>	<u>2,134,303</u>	<u>3,312,291</u>
At 31 August 2022	1,177,091	897	2,134,303	3,312,291
	<u>1,057,169</u>	<u>2,049</u>	<u>1,250,288</u>	<u>2,309,506</u>
At 1 January 2021	1,057,169	2,049	1,250,288	2,309,506
Financing cash flows (note (a))	115,370	(660)	605,503	720,213
Addition of right-of-use assets	—	345	—	345
Finance costs	52,010	83	—	52,093
Exchange adjustment	26,101	50	58,857	85,008
	<u>1,250,650</u>	<u>1,867</u>	<u>1,914,648</u>	<u>3,167,165</u>
At 31 August 2021 (unaudited)	1,250,650	1,867	1,914,648	3,167,165

Notes:

- (a) The financing cash-flows include addition of right-of-use assets, repayments of lease liabilities and interest, new borrowing raised, repayment of bank borrowings and interest, advance from related parties and repayment to related parties.
- (b) The amount represents the consideration paid by a fellow subsidiary under common control of Road King in relation to the Project Group's acquisition of the remaining 20% of the issued share capital in Yingfeng Investment and it was capitalised in the respective reserves of the Project Group. Details are set out in the consolidated statements of changes in equity.

29. PARTICULARS OF SUBSIDIARIES

At the date of this report, the Project Company has direct and indirect shareholding/equity interests in the following subsidiaries:

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and fully paid capital/ registered capital	Shareholding/equity interest attributable to the Project Company as at				The date of Principal this report activities
			31 December 2019	31 December 2020	31 December 2021	31 August 2022	
<i>Directly held:</i>							
Jovial Elite	BVI 1 December 2020	US\$1	N/A	N/A	100%	100%	100% Investment holding
<i>Indirectly held:</i>							
Shanghai Meixi 上海美晞企業管 理有限公司	PRC 23 March 2021	RMB300,000,000	N/A	N/A	100%	100%	100% Corporate management and consultancy
Shenzhen Junyue 深圳市雋越投資 發展有限公司	PRC 31 December 2021	RMB20,000,000	N/A	N/A	100%	100%	100% Investment holding
Yingfeng Investment 深圳市盛世盈豐 投資發展有限 公司	PRC 3 November 1997	RMB50,000,000	100%	100%	100%	100%	100% Property development
Yingfeng Property Management 深圳市盛世盈豐 物業管理有限公司	PRC 15 August 2013	RMB500,000	100%	100%	100%	100%	100% Property management

All subsidiaries now comprising the Project Group are limited liability companies and have adopted the same financial year end date of the Project Company as their financial year end date.

No audited financial statements have been prepared for all subsidiaries now comprising the Project Group since their dates of incorporation/establishment as they are incorporated/established in the jurisdictions where there are no statutory audit requirements under the relevant rules and regulations.

30. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Project Group, the Project Company or any of its subsidiaries have been prepared in respect of any period subsequent to the end of the Relevant Periods.

The following management discussion and analysis is based on the financial information included in the accountants' report on the Project Group as set out in Appendix II to this circular for the period commencing from the three years ended 31 December 2019, 2020 and 2021, and the eight months ended 31 August 2022 (the "**Track Record Period**").

A. REVIEW OF FINANCIAL RESULTS

Profit or loss and other comprehensive income

The Project Group is principally engaged in the Project, which involves the demolition, resettlement and subsequent re-development of the Site located at Haitao Garden, 58 Haitao Road, Yantian District, Shenzhen. The Project Group is in the course of acquiring the remaining property interests on the Site and, based on current development plans, demolition and construction works are expected to commence by the end of 2023 and pre-sales of the residential Project units are expected to commence in 2025. The Project Group was also engaged in the provision of property management services to third party owners on the Site.

Accordingly, during the Track Record Period, the Project Group has not generated any revenue from property sales, but has received income from the provision of property management services and incurred cost of management services, other income and administrative expenses.

Income from property management services and related costs have reduced over the years as an increasing number of existing properties on the Site were vacated and sold to the Project Group under its resettlement efforts. The Project Group also generated interest income related to funds advanced by the Development Company to owners of existing properties on the Site in order to secure the release of mortgages and facilitate completion of the transfer of those properties to the Project Group. The other operating expenses for the Track Record Period mainly comprised charitable donations, office utilities expenses, bank and other tax charges, etc.

As a result, the Project Group recognized a net loss of HK\$3.6 million, HK\$4.6 million, HK\$0.7 million and HK\$0.8 million respectively, for the three years ended 31 December 2019, 2020 and 2021, and the eight months ended 31 August 2021 and a net profit of HK\$0.4 million for the eight months ended 31 August 2022.

Financial position

During the three years ended 31 December 2019, 2020 and 2021, and eight months ended 31 August 2022, the assets of the Project Group mainly comprised the properties under development for sale with carrying value of HK\$1,748 million, HK\$2,395 million, HK\$2,947 million and HK\$3,117 million, respectively. The properties under development for sale mainly included the land costs, resettlement/demolition compensation costs, design costs and other upfront costs before commencement of the construction, capitalized borrowing costs and development-related overheads. In 2021, the Project Group started to provide loans to existing property owners on the Site to facilitate their redemption of the real estate title certificates that were previously pledged to banks. As of

31 August 2022, the assets of the Project Group mainly comprised loan receivables from property owners of about HK\$126 million, properties under development for sale of about HK\$3,117 million and bank balances and cash of about HK\$58 million. The assets were mainly financed by related companies of about HK\$2,134 million in aggregate and bank loan of about HK\$1,177 million.

B. CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

Bank balances and cash and capital structure

The Project Group had bank balances and cash of about HK\$113 million, HK\$112 million, HK\$109 million and HK\$58 million as at 31 December 2019, 2020 and 2021 and 31 August 2022, respectively. The Project Group obtained funding from banks and related companies to finance the land and construction cost payments of the Project and its operating expenses and maintain a healthy cash position.

The Project Company did not have any material foreign exchange exposure and therefore did not use any financial instrument for hedging purposes or have any material foreign currency net investment during the Track Record Period.

Borrowings and charges on assets

The debts of the Project Group were mainly comprised of the unsecured and interest free loans from related companies and the unsecured bank loans with floating interest rate of Loan Prime Rate plus a margin. The amounts due to related companies as at 31 December 2019, 2020 and 2021 and 31 August 2022 amounted to HK\$902 million, HK\$1,250 million, HK\$2,010 million and HK\$2,134 million, respectively. The bank loans of the Project Group as at 31 December 2019, 2020 and 2021 and 31 August 2022 amounted to HK\$766 million, HK\$1,057 million, HK\$1,320 million and HK\$1,177 million, respectively. The reduction in bank loans was mainly attributable to the partial repayment in 2022.

The Project Group had not charged any of its assets as at 31 December 2019, 2020 and 2021, and 31 August 2022.

C. CAPITAL COMMITMENT

As at 31 December 2019, 2020 and 2021, and 31 August 2022, the Project Group did not have any capital commitment.

D. CONTINGENT LIABILITIES

As at 31 December 2019, 2020 and 2021, and 31 August 2022, the Project Group did not have any contingent liabilities.

E. EMPLOYEES AND REMUNERATION POLICIES

As of 31 December 2019, 2020 and 2021, and 31 August 2022, the number of employees in the Project Group was approximately 71, 68, 62 and 30, respectively. The substantial reduction in number of employees as of 31 August 2022 was mainly due to over 95% of the owners of the Project having been resettled or contracted to resettle.

F. SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

Save for the further investment in the development of the Project, the Project Group did not have any significant investments or material acquisitions or disposals of subsidiaries and associated companies during the Track Record Period.

G. PROSPECTS

The Project is an urban renewal project referred to as Haitao Garden at the Site located at Haitao Garden, 58 Haitao Road, Yantian District, Shenzhen, the PRC and was built in the 1980s. It involves the demolition and resettlement of a total of 58 residential buildings with some commercial facilities, covering a development site area of 44,339.4 sq.m. (with planned gross floor area of 242,980 sq.m.), and the re-development of the Site thereafter. Under the current development plan, subject to the relevant regulatory approvals being obtained, the Project entails a new property development project that has 223,780 sq.m. gross floor area for residential use, 12,600 sq.m. gross floor area for commercial use and 6,600 sq.m. gross floor area for ancillary public facilities.

After the Development Company has acquired the property interests of all the owners of the existing properties on the Site (and subject to its urban renewal proposal remaining valid and the renewal project remaining part of the Shenzhen Municipal Bureau of Urban Planning and Land Resources' development plan), it can then apply to become the developer of the Project (實施主體). Following the demolition of the existing buildings on the Site and the cancellation of the property registration of those buildings, the developer of the Project can then formally apply for the relevant planning and construction approvals for the Project and enter into land use rights grant contract with the relevant state-owned land authority in which the land premium payable for proposed development (including the increase in plot ratio) will be specified. Once the land use rights grant contract has been entered into and the land premium has been paid in accordance with the requirements thereunder, the Development Company will become the owner of the land use rights to the Site. The Project Group plans to commence demolition and construction works by the end of 2023 and pre-sales of the residential Project units in 2025.

The Site is well located with seafront at its South-eastern side and park facilities across the street at the Western boundary of the Site. The Site is within walking distance from a shopping centre, five star hotel, retail shops, schools and hospitals, and the Sha Tau Kok border crossing between mainland China and Hong Kong. It also has access to the public transportation network such as buses and subway to the central business districts in Shenzhen, Luohu and Hong Kong. Other urban renewal projects in the vicinity are also expected to contribute to the gentrification and attractiveness of this area and the population of this area is expected to increase.

**UNAUDITED PRO FORMA FINANCIAL INFORMATION OF BUILD KING HOLDINGS LIMITED
AND ITS SUBSIDIARIES INCLUDING RAINBOW TRIUMPH LIMITED AND ITS SUBSIDIARIES**

In connection with the proposed acquisition of 20% of the issued shares of Rainbow Triumph Limited (“Project Company”), a subsidiary of Road King Infrastructure Limited (“Road King”), and the shareholder loans due from Project Company (“Proposed Acquisition”), the unaudited pro forma financial information of Build King Holdings Limited and its subsidiaries (“Group”) comprised unaudited pro forma condensed consolidated statement of assets and liabilities of the Group as at 30 June 2022 and certain explanatory notes (hereinafter collectively referred to as the “Unaudited Pro Forma Financial Information”) have been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules to illustrate the effect of the Proposed Acquisition on the Group’s assets and liabilities as at 30 June 2022 as if the Proposed Acquisition had taken place at 30 June 2022.

The Unaudited Pro Forma Financial Information was prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2022 as extracted from the interim report of the Company for the six months ended 30 June 2022.

The Unaudited Pro Forma Financial Information was prepared based on the aforesaid historical data after giving effect to the pro forma adjustments described in the accompanying notes. Narrative description of the pro forma adjustments of the Proposed Acquisition that are factually supportable, is summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information was also prepared by the Directors based on certain assumptions, estimates and uncertainties for illustrative purposes only. Due to its hypothetical nature, the Unaudited Pro Forma Financial Information may not purport to predict what the assets and liabilities of the Group would have been if the Proposed Acquisition had been undertaken at 30 June 2022 nor in any future period or on any future dates.

The Unaudited Pro Forma Financial Information should be read in conjunction with, among others, the financial information of the Group as set out in appendix I to the Circular and the Accountant’s Report of the Project Company and its subsidiaries as set out in appendix II to the Circular and other financial information included elsewhere in the Circular.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF ASSETS AND
LIABILITIES

AT 30 JUNE 2022

	The Group	Pro forma adjustments		The Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Note 1</i>	<i>Note 2</i>	<i>Note 3</i>	
Non-current assets				
Property, plant and equipment	513,869			513,869
Right-of-use assets	55,458			55,458
Intangible assets	349,009			349,009
Goodwill	30,554			30,554
Interests in joint ventures	144,778			144,778
Interests in associates	3,435	16		3,451
Loan to an associate	2,700			2,700
Other financial asset at amortised cost	34,444			34,444
Financial assets at fair value through profit or loss ("FVTPL")	6,000	383,397		389,397
	<u>1,140,247</u>			<u>1,523,660</u>
Current assets				
Inventories	60,987			60,987
Debtors, deposits and prepayments	696,750			696,750
Contract assets	2,674,761			2,674,761
Amount due from a joint venture	689			689
Amounts due from associates	7,792			7,792
Amounts due from other partners of joint operations	40,483			40,483
Financial assets at FVTPL	193,570	416,603		610,173
Tax recoverable	24,303			24,303
Pledged bank deposits	75,817			75,817
Time deposits with original maturity of not less than three months	94,696			94,696
Bank balances and cash	1,721,890	(800,016)	(4,002)	917,872
	<u>5,591,738</u>			<u>5,204,323</u>
Total assets	<u><u>6,731,985</u></u>			<u><u>6,727,983</u></u>

	The Group	Pro forma adjustments		The Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Note 1</i>	<i>Note 2</i>	<i>Note 3</i>	
Current liabilities				
Creditors and accrued charges	3,598,568			3,598,568
Contract liabilities	569,131			569,131
Lease liabilities	29,416			29,416
Amount due to an intermediate holding company	18,233			18,233
Amounts due to fellow subsidiaries	3,501			3,501
Amounts due to other partners of joint operations	12,210			12,210
Amounts due to non-controlling interests	3,595			3,595
Amount due to an associate	22,107			22,107
Tax payable	136,286			136,286
Bank loans - due within one year	<u>371,946</u>			<u>371,946</u>
	<u>4,764,993</u>			<u>4,764,993</u>
Non-current liabilities				
Deferred tax liabilities	5,750			5,750
Obligations in excess of interests in associates	13,336			13,336
Amount due to an associate	1,071			1,071
Lease liabilities	14,432			14,432
Other creditors	<u>23,000</u>			<u>23,000</u>
	<u>57,589</u>			<u>57,589</u>
Total liabilities	<u><u>4,822,582</u></u>			<u><u>4,822,582</u></u>

NOTES TO THE PRO FORMA FINANCIAL INFORMATION
AT 30 JUNE 2022

1. The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2022 as set out in the interim report of the Company for the six months ended 30 June 2022 issued on 24 August 2022.
2. The Proposed Acquisition represents the acquisition of (i) 20% of the issued shares of Project Company and (ii) the shareholder loans due from the Project Company.

The Group is entitled to appoint and remove one director to the Project Company and participate in policy-making process as long as the Group's shareholder loans due from the Project Company represents no less than 20% of the total amount of shareholder loans then outstanding. In the opinion of the Directors, the Group can exercise significant influence over the Project Company. Accordingly, the 20% of the issued shares of Project Company is classified as and accounted for interest in an associate using equity method.

The Group has the right to require the Project Company to repay (i) up to 50% of the shareholder loans due to the Group on the first anniversary of the Proposed Acquisition's completion date; and (ii) up to the balance of shareholder loans due to the Group on 28 February 2025, at the redemption price based on adjustments related to the market value of properties held by the Project Company (collectively referred to as "Redemption Right").

At any time following the exercise of the Redemption Right, Road King shall (i) require the Group to transfer to Road King some or all of its shares in the Project Company at HK\$7.85 attributable to each share; or (ii) require the Project Company to issue to Road King additional shares at nominal value, in each case, such that Build King's shareholding interest in the Project Company is reduced to such proportion as the principal amount of Build King's shareholder loans then outstanding bears to the aggregate of the Build King's shareholder loans and Road King's commitment, which is HK\$4,000,000,000 in total, (referred to as "Balancing Transaction"). The Directors do not consider that the Balancing Transaction as a derivative because the Group can opt for, at the Group's sole discretion, either (i) transferring some or all of its shares of the Project Company to Road King at initial cost or (ii) issuance of additional shares by the Project Company to Road King at nominal value.

The Directors consider that the Redemption Right is a derivative embedded in the shareholder loans. The entire shareholder loans including principal, interest and Redemption Right are accounted for as financial assets at FVTPL as the Directors consider that the contractual right to cash flows do not represent contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The Directors indicated that the Group expects to exercise the Redemption Right on the first anniversary of the Proposed Acquisition's complete date. As a result, the related part of the shareholder loans is classified as current assets of the Group.

The Group has worked closely with the qualified external valuers to measure the fair value of 20% of the issued shares of Project Company and fair value of the shareholder loans as at 30 June 2022 as if the Proposed Acquisition had taken place at 30 June 2022.

The adjustment represents the (i) cash consideration HK\$800,015,700 paid for Proposed Acquisition, (ii) fair value of interest in the associate as at 30 June 2022 and (iii) fair value of shareholder loans and Redemption Right as financial assets at FVTPL as at 30 June 2022.

The fair value of interest in the associate and fair value of the financial assets at FVTPL at the completion date of Proposed Acquisition may be different from the fair values used in the preparation of the Unaudited Pro Forma Financial Information.

3. The adjustment represents the estimated professional fees that would have been incurred and charged to profit of loss for the Proposed Acquisition.
4. Apart from above, no other adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2022 for the purpose of preparation of the Unaudited Pro Forma Financial Information of the Group.

The following is the text extracted from the independent reporting accountants' assurance report in respect of the Unaudited Pro Forma Financial Information prepared for the purpose of inclusion in this circular, received from independent reporting accountants of the Company, Deloitte Touché Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.**德勤****INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON
THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF BUILD KING HOLDINGS LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Build King Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") prepared by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 30 June 2022 and related notes as set out on pages IV-2 to IV-5 of the circular issued by the Company dated 23 December 2022 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on page IV-1 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of 20% of the issued shares of Rainbow Triumph Limited and the shareholder loans due from Rainbow Triumph Limited ("Proposed Acquisition") on the Group's financial position as at 30 June 2022 as if the Proposed Acquisition had taken place at 30 June 2022. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the six-month ended 30 June 2022, on which a review 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 (the "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 behaviour.

Our firm applies Hong Kong Standard on Quality Control (HKSQC) 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

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

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

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

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2022 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’ judgment, having regard to the reporting accountants’ understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

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

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

Opinion

In our opinion:

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 December 2022

The following is the text of a valuation report, prepared for the purpose of incorporation in this circular received from RHL Appraisal Limited, an independent valuer, in connection with its valuation as at 31 October 2022 of the Property by the Group.



永利行評值顧問有限公司
RHL Appraisal Limited
Corporate Valuation & Advisory

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Room 1010,10/F, Star House
Tsimshatsui, Hong Kong

23 December 2022

The Board of Directors

Build King Holdings Limited

Unit 601-605A, 6/F., Tower B,
Manulife Financial Centre,
223 Wai Yip Street,
Kwun Tong,
Kowloon,
Hong Kong

Dear Sir/Madam,

INSTRUCTIONS

We refer to your instruction for us to value the property interest as detailed in the enclosed “Property Particulars and Opinion of Value” (“**the Property**”) held by 深圳市盛世盈豐投資發展有限公司 (the “**Development Company**”) which in turn is indirectly wholly-owned by Road King Infrastructure Limited (the “**Company**”), together with its subsidiaries, (the “**Group**”) located in the People’s Republic of China (“**PRC**”). We confirm that we have carried out property inspection, made relevant enquiries 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 as at 31 October 2022 (the “**Valuation Date**”).

This letter which forms part of our valuation report explains the basis and methodologies of valuation, clarifying assumptions, valuation considerations, title investigations and limiting conditions of this valuation.

BASIS OF VALUATION

The valuation is our opinion of the market value (“**Market Value**”) which we would define as intended to mean 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 wherein the parties had each acted knowledgeably prudently and without compulsion.

Market Value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase and without offset for any associated taxes or potential taxes.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

VALUATION METHODOLOGY

Direct comparison method is adopted based on the principle of substitution, where comparison is made based on prices realized on actual sales and/or asking prices of comparable properties. Comparable properties of similar size, scale, nature, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market value.

We have made reference to the land sale price in surrounding area with similar usage. And we have valued the Property on the basis that it will be developed and completed in accordance with the latest development proposals provided by the Company. Construction costs and other costs that will be expended to complete the development have been taken into account to arrive the current market value as at the valuation date.

VALUATION CONSIDERATIONS

In valuing the property interest, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the International Valuation Standards 2022.

VALUATION ASSUMPTION

We have attributed no commercial value to the Property. For reference purpose only, we have assessed the market value of the Property based on certain assumptions, please refer to footnote No.5 of “Property Particulars and Opinion of Value”.

TITLE INVESTIGATION

We have been shown copies of various documents relating to the Property. However, we have not examined the original documents to verify the existing titles to the Property or any amendment which does not appear on the copies handed to us. We have relied considerably on the information given by the Company’s PRC legal advisers, Beijing Global Law Office, concerning the validity of the titles to the Property.

LIMITING CONDITIONS

We have conducted on-site inspections to the Property on 23 August 2022 by Miss Chan Xuan who has over 5 years of experience in property valuation. During the course of inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the Property is free from rot, infestation or any other defects. No tests were carried out on any of the services.

We have not carried out detailed on-site measurement to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the documents handed to us are correct. All dimensions, measurements and areas are approximate.

Should it be discovered that contamination, subsidence or other latent defects exists in the Property or on adjoining or neighboring land or that the Property had been or are being put to contaminated use, we reserve right to revise our opinion of value.

We have relied very considerable extent on the information provided by the Group and have accepted advices given to us on such matters, in particular, but not limited to tenure, planning approvals, statutory notices, easements, particulars of occupancy, size and floor areas and all other relevant matters in the identification of the Property. The plans including but not limited to location plan, site plan, lot index plan, outline zoning plan, building plan if any, in the report are included to assist the reader to identify the Property for reference only and we assume no responsibility for their accuracy.

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

We do not accept a liability for any interpretation which we have placed on such information which is more properly the sphere of the legal advisers of the Group. Neither have we verified the correctness of any information supplied to us concerning the Property.

REMARKS

We have valued the property interest in Renminbi (RMB).

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

Jessie X. Chen
MRICS, MSc (Real Estate), BEcon
Senior Associate Director

Jenny S. L. Mok
MHKIS, MRICS, BSc
Senior Manager

Ms. Jessie X. Chen is a Registered Professional Surveyor (Valuation) with over 10 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Ms. Chen is a Professional Member of The Royal Institution of Chartered Surveyors.

Ms. Jenny S. L. Mok is a Chartered Surveyor with over 10 years' experience in valuation of properties in HKSAR and mainland China. Ms. Mok is a Professional Member of The Royal Institution of Chartered Surveyors and a Member of The Hong Kong Institute of Surveyors.

PROPERTY PARTICULARS AND OPINION OF VALUE

Property	Description and tenure	Particulars of occupancy	Market Value as at 31 October 2022 RMB
A parcel of land located at Haitao Garden, 58 Haitao Road, Yantian District, Shenzhen, the People's Republic of China	Currently the Property is known as Hai Tao Garden, a residential development project completed at around 1980s. As advised, the Property is subject to an urban renewal plan. (Property Overview Please refer to Note 6)	The Property is pending for demolition and future development.	No commercial value (Please refer to Note 4)
(位於中國深圳市鹽田區58號海濤路海濤花園之一幅土地)	According to a government approval (Please refer to Note1), the Property with site area of approximately 44,339.4 sq.m. (477,265.33 sq.ft.) will be redeveloped for residential and commercial purpose. The planned gross floor area upon completion of the Property is 242,980 sq.m. (2,615,415 sq.ft.).		

Notes:

1. Pursuant to the Shenzhen Urban Planning and Land Resources Committee document - Shen Gui Tu [2011]817 dated as 12 December 2011, the site area of the Property is 44,339.4 sq.m. with planning details as below:

Usage	Planned Gross Floor Area (sq.m.)
Residential	205,880
Affordable House	17,900
Commercial	12,600
Ancillary Facilities	6,600
Total	242,980

2. As advised by the client, the planned gross floor area of the Property is set out as below:

Usage	Planned Gross Floor Area (sq.m.)	Nos. of car parking spaces
Residential	119,241.83	
Affordable House	17,900.00	
Commercial	4,375.96	
Resettlement Residential	86,638.17	
Resettlement Commercial	8,224.04	
Ancillary Facilities	6,600.00	
Underground Car parking spaces	—	1,720
Total	242,980.00	1,720

3. We have been provided with a legal opinion by the Group's PRC legal adviser, Beijing Global Law Office, regarding the legal title of the Property, which contains, inter alia, the followings:

- i. Up to 31 October 2022, the signing rates of the relocation compensation agreements of the Property are approximately 96.96% (by number of property units) and 97.3% (by property area);
- ii. Up to 31 October 2022, the Development Company has been in the process of acquiring the property interests of all the owners of the existing properties on the Site, after which it can then apply for qualification as the developer (實施主體) of the Property. Subject to the signing of the remaining relocation compensation agreements through certain administrative procedures (which the Development Company is already entitled to implement), the relevant government approvals remaining valid and all materials required for qualification as the developer of the Property having been submitted to the competent governmental authorities, the PRC legal adviser considers there is no material legal impediment for the Development Company to be approved as the developer of the Property.

4. As at the valuation date, the Development Company has not obtained valid title of the Property and signed land grant contract is not available, therefore we have attributed no commercial value to the property interest.

For reference purpose only, we are of the opinion that the market value under the assumptions in Note 5 below as at the valuation date would be RMB3,950,000,000. As advised by the Company, the expected land premium is approximately RMB584,000,000, which is estimated by reference to the formulae specified in the applicable PRC regulations. The calculated amount after deducting the expected land premium from the market value of the Property as at the valuation date under the assumptions in Note 5 below is RMB3,366,000,000.

5. In the valuation of reference value of this Property, we have made the following assumptions:

- i. The land premium of the Property is fully settled as at the valuation date. The Development Company has obtained title certificate of the Property and the Property can be freely transferred with no outstanding payable fee or expenses; all necessary statutory approvals for the Property have been obtained;
- ii. The land use right of the Property would be granted for residential and commercial usage with a land use right term of 70 years (residential) and 40 years (commercial) commencing from the valuation date;
- iii. The development plan proposed to be implemented by the Development Company with respect to the development of the Property is legally feasible and does not materially conflict with the applicable rules or regulations relating to such development;
- iv. As confirmed by the Company, the resettlement residential and resettlement commercial would be constructed by the Development Company and handed over after completion for no further payment for resettlement;
- v. The portions for affordable house as stated in the government approval dated 2011 will be constructed by the Development Company and hand over after completion for free to the government;
- vi. As confirmed by the Project Company, the 1,720 underground car parking spaces cannot freely transferrable individually in the market;
- vii. Except for resettlement residential and resettlement commercial units and affordable house, the Development Company is free to transfer, dispose of or lease out the remaining (residential and commercial units) with full title;
- viii. No deleterious or hazardous materials or techniques have been used in the construction of the Property; and
- ix. The Property is connected to main services and sewers which are available on normal terms.

6. The Property is located in coastal area of Sha Tau Kok. Sha Tau Kok District is located in the northwest of Yantian District, with a total area of 1.49 square kilometers. Currently, Sha Tau Kok has a total population of around 20,247 and the population is expected to increase as there are many new residential developments under planning.

The subject locality is a well-established harbor living area surrounded by residential development, parks, retail, school and other public facilities.

The residential nearby include high-rise apartments and low-rise villas. The average price for residential with age under 20 years range around RMB50,000 — RMB80,000 / sq.m.

Podium retail and street shops are located immediately next to the Property. The average monthly retail rental range around RMB100 — 300 / sq.m. in Yantian District. There is also a grand shopping centre with around 100,000 square meters within walking distance.

The transportation condition is good as the property can be easily reached by public transportation including buses and subway. The Property is located in the middle of Sha Tou Jiao Station and Hai Shan Station of Shenzhen Metro Line 2 within walking distance. Meanwhile the Property is very close to Sha Tau Kok border with around 800 meters away.

According to “Implementation plan for accelerating the construction of the Shenzhen-Hong Kong International Tourism Consumption Cooperation Zone in Sha Tau Kok (2022-2025)” (“加快沙頭角深港國際旅游消費合作區建設的實施方案(2022-2025)”) issued by Shenzhen government on 23 August 2022, Sha Tau Kok will be developed as a Hong Kong-Shenzhen travelling and retail hub.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(I) Interests and short positions of the Directors and chief executive in Build King and its associated corporations

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or the chief executive of Build King and their respective associates had any interests or short positions in the shares, underlying shares and/or debentures of Build King and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to Build King and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive of Build King was taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to Build King and the Stock Exchange.

(A) *Build King*

Interests in Shares

Name of Director	Capacity/ Nature of interest	Number of Shares held		Percentage of shareholding (%)
		Long position (Note)	Short position	
Zen Wei Peu, Derek	Personal	123,725,228	—	9.96
Chang Kam Chuen, Desmond	Personal	1,500,000	—	0.12
Lui Yau Chun, Paul	Personal	1,683,092	—	0.14
Tsui Wai Tim	Personal	1,150,000	—	0.09
David Howard Gem	Personal	900,000	—	0.07

Note: Long position in the Shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bond(s)).

(B) Associated corporations*Interests in shares*

Name of Director	Name of company	Capacity/ Nature of interest	Number of shares held		Percentage of shareholding (%)
			Long position (Note 1)	Short position	
Zen Wei Peu, Derek	Wai Kee	Personal	249,424,078	—	31.45
		Securities interest	45,567,000	—	5.75
	Wai Kee (Zens) Construction & Transportation Company Limited (Note 2)	Personal	2,000,000	—	10.00
	Wai Luen Stone Products Limited	Personal	30,000	—	37.50
Lui Yau Chun, Paul	Wai Kee	Personal	200,000	—	0.03

Notes:

1. Long position in the Shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds).
2. With effect from 29 February 2016, the name of Wai Kee (Zens) Construction & Transportation Company Limited has been changed to Build King (Zens) Engineering Limited.

(II) Substantial shareholders' interests in Build King

As at the Latest Practicable Date, so far as is known to any Director or chief executive of Build King, the following persons (other than a Director or chief executive of Build King) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to Build King under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of substantial shareholder	Capacity/ Nature of interest	Number of Shares held and Percentage of shareholding			
		Long position (Note 1)		Short position	
		Number of Shares	%	Number of Shares	%
Top Horizon Holdings Limited (Note 2)	Beneficial owner	721,235,033	58.08	—	—
Wai Kee (Zens) Holding Limited (Note 3)	Corporate	721,235,033	58.08	—	—
Wai Kee (Note 4)	Corporate	721,235,033	58.08	—	—

Notes:

1. Long position in the Shares.
2. Top Horizon Holdings Limited is a direct wholly-owned subsidiary of Wai Kee (Zens) Holding Limited.
3. Wai Kee (Zens) Holding Limited is deemed to be interested in the Shares through its interests in Top Horizon Holdings Limited.
4. Wai Kee (Zens) Holding Limited is a direct wholly-owned subsidiary of Wai Kee. Accordingly, Wai Kee is deemed to be interested in the Shares through its interests in Wai Kee (Zens) Holding Limited.

Save as disclosed below, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to Build King under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Name of company which had such discloseable interest or short position	Position with such company
Zen Wei Peu, Derek	Top Horizon Holdings Limited	Director
	Wai Kee (Zens) Holding Limited	Director
	Wai Kee	Vice Chairman, Chief Executive Officer and Executive Director

3. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors or, so far as is known to them, any of their respective close associates was interested in any business (apart from the Build King Group's business) which competes or is likely to compete either directly or indirectly with the Build King Group's business (as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them was treated as a controlling shareholder).

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or proposed to enter into, any service contract with Build King or any other member(s) of the Build King Group (excluding contracts expiring or which may be terminated by Build King within a year without payment of any compensation (other than statutory compensation)).

5. DIRECTORS' INTERESTS IN ASSETS OR CONTRACTS

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been, since 31 December 2021, being the date to which the latest published audited financial statements of Build King Group were made up, acquired or disposed of by or leased to any member of the Build King Group, or are proposed to be acquired or disposed of by or leased to any member of the Build King Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Build King Group.

6. MATERIAL CONTRACTS

Save for the Investment Agreement and Extension Agreement, neither Build King nor any other member of the Build King Group has entered into any material contracts (not being contracts entered into in the ordinary course of business of the Build King Group) within the two years immediately preceding the date of this circular.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Build King Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Build King Group were made up.

8. LITIGATION

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, no litigation or claims of material importance was pending or threatened against any member of the Build King Group.

9. EXPERTS AND CONSENT

The following is the qualification of the experts whose statements have been included in this circular:

Name	Qualification
Ballas Capital Limited	A corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
RHL Appraisal Limited	An independent professional valuer
Deloitte Touche Tohmatsu	Certified public accountants
Beijing Global Law Office	PRC legal adviser

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or opinion or report or reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, none of the above experts had any shareholding in any member of the Build King Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Build King Group.

As at the Latest Practicable Date, none of the above experts had any direct or indirect interests in any assets which have been, since 31 December 2021 (being the date to which the latest published audited accounts of Build King Group were made up), acquired or disposed of by or leased to any member of the Build King Group, or which are proposed to be acquired or disposed of by or leased to any member of the Build King Group.

10. GENERAL

- (a) The registered office of Build King is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (b) The principal place of business of Build King are situated at Units 601-605A, 6th Floor, Tower B, Manulife Financial Centre, 223 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong.
- (c) The branch share registrar of Build King in Hong Kong is Tricor Progressive Limited at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (d) The company secretary is Mr. Chang Kam Chuen, Desmond. He is a fellow member of The Hong Kong Institute of Certified Public Accountants and an associate member of Chartered Institute of Management Accountants, United Kingdom.
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be on display on the Stock Exchange's website (www.hkexnews.hk) and Build King's website (www.buildking.hk) for a period of 14 days from the date of this circular:

- (a) the Investment Agreement;
- (b) the Extension Agreement;
- (c) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent BK Shareholders, the text of which is set out on pages 20 to 45 of this circular;
- (d) the valuation report prepared by RHL Appraisal Limited, the text of which is set out in Appendix V to this circular;
- (e) the accountants' report on the Project Company, the text of which is set out in Appendix II to this circular;
- (f) the report on the Unaudited Pro Forma Financial Information, the text of which is set out in Appendix IV to this circular;
- (g) the legal opinion of Beijing Global Law Office dated 23 December 2022; and
- (h) the written consents referred to in the section headed "Experts and Consent" in this appendix.

**BUILD KING HOLDINGS LIMITED**

(Incorporated in Bermuda with limited liability)

(Stock Code: 00240)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the BK SGM will be held at Units 601-605A, 6th Floor, Tower B, Manulife Financial Centre, 223 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong on Friday, 13 January 2023 at 1:00 p.m. for the purposes of considering and, if thought fit, passing, with or without amendments, the following resolution. Unless the context otherwise requires, terms defined in the circular of Build King dated 23 December 2022 shall have the same meanings when used in this notice.

ORDINARY RESOLUTION

“THAT

- (i) the Investment Agreement dated 6 October 2022 entered into among Shine Precious, Wise Start, Road King and Build King (as supplemented by the Extension Agreement) and the transactions and possible transactions contemplated thereunder (including but not limited to the Transfer, RK Commitment, Loan Redemption Right and Balancing Transactions) be and are hereby approved; and
- (ii) the Directors be and are hereby authorised for and on behalf of Build King to do all things and acts and exercise all powers which they consider necessary, desirable or expedient in connection with the Investment Agreement and otherwise in connection with the implementation of the transactions contemplated thereunder including without limitation to the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements.”

By Order of the Board
Build King Holdings Limited
Chang Kam Chuen, Desmond
Company Secretary

Hong Kong, 23 December 2022

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Place of Business
in Hong Kong:
Units 601-605A, 6th Floor
Tower B, Manulife Financial Centre
223 Wai Yip Street
Kwun Tong, Kowloon
Hong Kong

Notes:

1. For determining the entitlement to attend and vote at the BK SGM to be held on Friday, 13 January 2023, the register of members of Build King will be closed from Thursday, 12 January 2023 to Friday, 13 January 2023, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the BK SGM, all transfers accompanied by the relevant share certificates must be lodged with Build King's branch share registrar in Hong Kong, Tricor Progressive Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:00 p.m. on Wednesday, 11 January 2023.
2. Any member of Build King entitled to attend and vote at the meeting by the above notice shall be entitled to appoint another person as his/her proxy to attend and vote instead of such member. Votes may be given either personally or by proxy or by a duly authorized corporate representative. A member may appoint more than one proxy to attend on the same occasion. A proxy need not be a member of Build King.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer or attorney duly authorised to sign the same.
4. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority shall be delivered to Build King's branch share registrar, Tricor Progressive Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than forty- eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposed to vote and in default the instrument of proxy shall not be treated as valid.
5. Delivery of an instrument appointing a proxy shall not preclude a member of Build King from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
6. In the case of joint holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, then one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.
7. Build King will be undertaking the following precautionary measures to safeguard the health and well-being of the Shareholders (or their proxies) who are attending the BK SGM in person, including body temperature check, health declaration, wearing surgical face mask, access restriction for quarantine participants according to the Department of Health of Hong Kong, plus safe distancing measures for queue management and seating at the meeting venue. To reduce close contact between attendees at the BK SGM, no refreshment will be served at the meeting venue. Any person who refuses to co-operate with the above precautionary measures, or with a body temperature above the reference range quoted by the Department of Health of Hong Kong from time to time, or exhibiting flu-like symptoms, will not be admitted to the meeting venue.