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

If you have sold or transferred all your shares in Shunten International (Holdings) Limited, you should at once hand this circular to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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Shunten International (Holdings) Limited

順騰國際(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 932)

MAJOR TRANSACTION IN RELATION TO ACQUISITION OF A PROPERTY HOLDING COMPANY AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Capitalised terms used in this cover page shall bear the same meanings as those defined in the section headed “Definitions” in this circular.

A notice convening an extraordinary general meeting (the “EGM”) of the Company to be held at Duo Room, Coral Hub, Unit D, 21/F., Roxy Industrial Centre, 58–66 Tai Lin Pai Road, Kwai Chung, Hong Kong on Wednesday, 8 March 2023 at 3:00 p.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Such form of proxy is also published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.shunten.com.hk. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the Company’s Hong Kong branch share registrar and transfer agent, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

PRECAUTIONARY MEASURES AND SPECIAL ARRANGEMENTS FOR THE EGM

To safeguard the health and safety of the Shareholders and to prevent the spreading of the coronavirus disease (COVID-19) pandemic, certain measures will be implemented at the EGM with a view to addressing the risk to attendees of infection, including, without limitation, (i) all attendees being required to (a) undergo compulsory body temperature check; and (b) wear surgical masks prior to admission to the EGM venue; (ii) all attendees being required to wear surgical masks throughout the EGM; (iii) each attendee being assigned a designated seat at the time of registration to ensure social distancing; and (iv) no gifts and refreshment packs or coffee/tea being provided.

Any person who does not comply with the precautionary measures may be denied entry into the EGM venue. For the health and safety of the Shareholders, the Company would like to remind Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising their voting rights and strongly recommends that Shareholders appoint the Chairman of the EGM as their proxy and submit their form of proxy as early as possible. The form of proxy can be downloaded from the Company’s website (www.shunten.com.hk) or the Stock Exchange’s website (www.hkexnews.hk).

The Company will keep the evolving COVID-19 situation under review and may implement additional measures which it will announce closer to the date of the EGM. The attendees are advised to check for any further announcements and updates on our Company’s website (www.shunten.com.hk) or the Stock Exchange’s website (www.hkexnews.hk) prior to their attending.

20 February 2023

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PRECAUTIONARY MEASURES FOR THE EGM

The health of our Shareholders, staff and stakeholders is of paramount importance to us. To safeguard the health and safety of the Shareholders and to prevent the spreading of the coronavirus disease (COVID-19) pandemic, the Company will strictly implement the following precautionary measures at the EGM to protect attending Shareholders, staff and stakeholders from the risk of infection:

1. no gifts and refreshment packs or coffee/tea will be served at the EGM to avoid close contact of attendees;
2. at the entrance of the Venue, a compulsory body temperature check will be conducted on every person attending the EGM. Any person with a body temperature of over 37.3 degree Celsius, or who has any flu-like symptoms, or is otherwise apparently unwell will not be admitted to the Venue;
3. all attendees must wear face masks at all times inside the Venue or at the waiting area outside the Venue;
4. seating at the Venue will be arranged in a manner to allow for appropriate social distancing. As a result, there may be limited capacity for Shareholders to attend the EGM. The Company may limit the number of attendees to avoid over-crowding; and
5. all attendees are recommended to clean their hands with alcohol-based hand sanitizer before entering the Venue.

To the extent permitted under the applicable laws, the Company reserves the right to deny any person entry into the Venue or require any person to leave the Venue so as to ensure the health and safety of the other attendees at the EGM. Subject to the development of COVID-19, the Company may be required to change the EGM arrangements at short notice. Shareholders should check the websites of the Company (www.shunten.com.hk) and the Stock Exchange (www.hkexnews.hk) for further announcements and updates on the EGM arrangements. The Company wishes to remind all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. Shareholders may appoint the chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy can also be downloaded from the Company's website at www.shunten.com.hk or the Stock Exchange's website at www.hkexnews.hk. In order to be valid, the form of proxy must be deposited at the Company's branch share registrar and transfer agent in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof.

DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Shares by the Purchaser from the Vendors pursuant to the Agreement
“Agreement”	the sale and purchase agreement dated 20 December 2022 entered into among the Purchaser and the Vendors in relation to the Acquisition
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day on which banks are generally open for business in Hong Kong, except a Sunday and a Saturday or a day on which a tropical cyclone warning signal no. 8 or above or a “black” rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.
“Company”	Shunten International (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange (stock code: 932)
“Completion”	completion of the Acquisition pursuant to the Agreement
“Completion Adjustments”	the adjustments to the Consideration as stipulated in the section headed “Completion Adjustments” under “Letter from the Board” of this circular
“Completion Date”	the fifth Business Day after the last condition is fulfilled (or, where applicable, waived) or such other date as the Purchaser and the Vendors may mutually agree in writing
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration of HK\$125,000,000 payable by the Purchaser for the Acquisition subject to Completion Adjustments
“Directors(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened at the Venue for the Shareholders to consider and, if thought fit, approving the Agreement and the transactions contemplated thereunder
“Enlarged Group”	the Group including the Property Holding Company following Completion

DEFINITIONS

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) who is/are independent of, and not connected with, the Company and its connected persons
“Independent Valuer”	Peak Vision Appraisals Limited, a qualified independent valuer
“Latest Practicable Date”	16 February 2023
“Liabilities”	all loans, liabilities, trade and other payables, fees, charges, costs, expenses, damages, losses, actions, proceedings, claims and demands, fines, penalties, taxes and any other liability of whatever nature, whether direct or indirect, or whether consequential or otherwise
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 June 2023 or such other date as may be agreed between the parties to the Agreement
“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Property”	the property located at no. 127 Kweilin Street, Kowloon, Hong Kong
“Property Holding Company”	Daisyluck Industries Limited, a company incorporated in Hong Kong with limited liability
“Purchaser”	Shunten Credit Services Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“Sale Shares”	100% of the issued share capital of the Property Holding Company
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Law of Hong Kong)
“Shareholder(s)”	the holder(s) of Shares

DEFINITIONS

“Shares”	ordinary share(s) of HK\$0.0025 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor A”	Mr. Cheung Shun Kut, an individual investor
“Vendor B”	Ms. Kong Choy Heung, an individual investor
“Vendors”	collectively, Vendor A and Vendor B
“Venue”	Duo Room, Coral Hub, Unit D, 21/F., Roxy Industrial Centre, 58–66 Tai Lin Pai Road, Kwai Chung, Hong Kong
“%”	per cent.



Shunten International (Holdings) Limited

順騰國際(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 932)

Executive Directors:

Mr. CHEUNG Siu Fai
Mr. LAM Wai Tong

Independent non-executive Directors:

Mr. LEUNG Winson Kwan Yau
Mr. LIU Ying Shun
Ms. DONG Jian Mei

Registered office:

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

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

27/F., The Galaxy
313 Castle Peak Road
Kwai Chung
Hong Kong

20 February 2023

To the Shareholders

Dear Sir or Madam,

**(1) MAJOR TRANSACTION
IN RELATION TO
ACQUISITION OF A PROPERTY HOLDING COMPANY
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

We refer to the announcement of the Company dated 20 December 2022 which relates to the proposed acquisition of the Property Holding Company pursuant to the Agreement.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among others, (i) further information relating to the Acquisition and the terms of the Agreement; (ii) the financial information of the Group and the Property Holding Company; (iii) the unaudited pro forma financial information of the Enlarged Group; (iv) the valuation of the Property; and (v) other information as required under the Listing Rules.

THE ACQUISITION

On 20 December 2022 (after trading hours), the Purchaser and the Vendors entered into the Agreement, pursuant to which the Vendors have conditionally agreed to sell the Sale Shares to the Purchaser, and the Purchaser has conditionally agreed to acquire the Sale Shares at the Consideration of HK\$125,000,000 which is subject to the Completion Adjustments.

THE AGREEMENT

The principal terms of the Agreement are summarised as follows:

Date

20 December 2022 (after trading hours)

Parties

- (a) the Purchaser;
- (b) the Vendor A; and
- (c) the Vendor B.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendors is an Independent Third Party.

Assets to be acquired

Pursuant to the terms and conditions of the Agreement, the Vendors shall sell and the Purchaser shall acquire the Sale Shares, representing the entire issued share capital of the Property Holding Company.

Consideration

The Consideration of HK\$125,000,000 shall be payable in cash by the Purchaser to the Vendors in the following manner, subject to the Completion Adjustments:

- (i) A refundable deposit in the sum of HK\$44,000,000 (the "**Deposit**"), shall be paid by the Purchaser to the Vendors upon signing the Agreement. If the Completion occurs in accordance with the Agreement, the Deposit shall be regarded as part payment of the Consideration; and

LETTER FROM THE BOARD

- (ii) Upon Completion, the remaining balance of the Consideration in the sum of HK\$81,000,000 (subject to the Completion Adjustments), shall be paid by the Purchaser to the Vendors.

Completion Adjustments

The Vendors shall deliver the completion accounts and completion statement to the Purchaser for verification prior to the Completion Date. The Consideration shall be adjusted upon Completion as follows:

- (a) Unless otherwise agreed by the Purchaser in writing, all Liabilities of the Property Holding Company shall be discharged by the Vendors on or before the Completion; and all outstanding Liabilities on the Completion Date shall be deducted from the Consideration; and
- (b) All government rates, government rents, management fees and all other outgoings in respect of the Property up to and inclusive of the Completion Date shall be discharged by the Vendors. All such rates, rents, fees and outgoings shall be apportioned between the Vendors and the Purchaser on Completion.

The Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendors by reference to, among others, (i) the preliminary valuation of the Property of approximately HK\$135,000,000 as at 30 November 2022 from the Independent Valuer; and (ii) the Liabilities of the Property Holding Company amounted to approximately HK\$49,419,000 based on the unaudited management accounts of the Property Holding Company as at 31 March 2022.

The Consideration will be funded by way of the Group's internal resources and partly by way of loan facilities available and/or to be available to the Group.

Conditions Precedent

The Completion shall be conditional upon the followings:

- (a) all necessary authorisations, consents and approval from and filing and registration with the Stock Exchange, other applicable government institutions and regulatory authorities and any other third parties in relation to the transactions contemplated under the Agreement having been obtained;
- (b) passing by the Board and the Shareholders (other than those prohibited from voting under the Listing Rules, if applicable) resolutions at the board meeting and general meeting of the Company approving the Agreement and the transactions contemplated thereunder;

LETTER FROM THE BOARD

- (c) there being no applicable law, rule, regulation, order, injunction, decree or judgment of any court or other governmental authorities or contracts of agreements which prohibits, restricts or imposes conditions or limitations on, or is reasonably expected to operate to prohibit, restrict or impose conditions or limitations on, the consummation of any of the transactions contemplated under the Agreement;
- (d) the Purchaser having completed and satisfied with the results of due diligence review and investigation on the business, financial and legal aspects of the Sale Shares, the Property Holding Company and the Property;
- (e) the Vendors having procured the Property Holding Company proven and given good title to the Property in accordance with Section 13 and Section 13A of the Conveyancing and Property Ordinance (Chapter 219 of the Laws of Hong Kong) on Completion; and
- (f) the representations and the Vendors' warranties contained in the Agreement remaining true and accurate and not misleading in any material respect as given as of the date of the Agreement and at all times up to and including the Completion Date.

None of the party shall be entitled to waive any of the conditions as set out in (a) to (c) hereinabove. The Purchaser may, at its absolute discretion, waive any of the conditions other than the conditions as set out in (a) to (c) hereinabove at any time by notice in writing to the Vendors and such waiver may be made subject to such terms and conditions as are agreed by the parties.

The parties shall use their respective reasonable endeavours to procure that the conditions (to the extent such party is responsible for such fulfillment) shall be fulfilled or continue to be fulfilled on or before the Long Stop Date.

As at the Latest Practicable Date, none of the conditions above had been fulfilled. Currently, the Company has no intention to waive any of the conditions.

Undertaking by the Vendors

As at 30 September 2022, the Property Holding Company had an amount due from its director of approximately HK\$36.4 million. The Vendors have undertaken to the Purchaser that such amount due shall be discharged, released and waived on or before the Completion.

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Completion

Subject to the fulfillment or, where applicable, waiver of the conditions precedent, the Completion shall take place on the Completion Date at or before 12:00 p.m..

Upon Completion, the Company will be interested in the entire issued share capital of the Property Holding Company, which will become a wholly-owned subsidiary of the Company and accordingly, the financial results of which will be consolidated into the financial statements of the Group.

INFORMATION ON THE PROPERTY HOLDING COMPANY

As at the Latest Practicable Date, the Property Holding Company was owned as to 87.5% and 12.5% by Vendor A and Vendor B respectively. The Property Holding Company is an investment holding company incorporated in Hong Kong with limited liability. Its major asset is the Property, which is a 5-storey (including mezzanine floor) tenement building with a total gross area and saleable area of approximately 3,822 square feet and 3,513 square feet, respectively. Based on the information provided by the Vendors, as at the Latest Practicable Date, the Property (excluding the mezzanine floor) was subject to various tenancies yielding a total monthly rental income of approximately HK\$362,300 with the latest tenancy expiring on 6 October 2024. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the tenants is an Independent Third Party. The Company intends to, after Completion, negotiate with the existing tenants for renewal and/or look for new tenants upon expiry of the current tenancies.

The following financial information is extracted from the audited accountants' report of the Property Holding Company for the two financial years ended 31 March 2021 and 2022 and the six months ended 30 September 2022 as set out in Appendix II to this circular:

	For the six months ended 30 September 2022	For the year ended 31 March	
	HK'000	2022	2021
	(audited)	(audited)	(audited)
Rental income	2,112	4,255	3,753
(Loss)/profit before tax	(15,095)	587	(8,923)
(Loss)/profit and other comprehensive (expense) income for the period/year	(15,095)	587	(8,923)

The audited net assets of the Property Holding Company as at 30 September 2022 were approximately HK\$119.1 million.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is an investment holding company and its subsidiaries are principally engaged in formulating, marketing, sales and distribution of health and beauty supplements and products in Hong Kong.

Faced with continuous uncertainties in the global economy, the Company is exploring opportunities to maximize the returns of its Shareholders and broaden its revenue base. In light of the relative stable rental income of the Property, the Directors believe that it is an appropriate time to invest in the Property.

Following Completion, Mr. Lam Wai Tong (“**Mr. Lam**”), an executive Director, will be responsible for managing the Property Holding Company. Mr. Lam has over 4 years of experience in the property business segment. During 2013 to 2014, Mr. Lam was the chief operating officer of a property developer in the PRC, where he was responsible for overseeing its business operations in Hong Kong. In addition, during 2014 to 2016, Mr. Lam was as an executive director and subsequently the chief executive officer of another property developer in the PRC where he was responsible for oversight of the group’s investment decision, corporate development, direct investment and finance etc. The Directors consider that the Company would have sufficient knowledge and expertise to manage the Property Holding Company and the Property by leveraging Mr. Lam’s solid experience in the property business segment.

Reference is made to the accountants’ report of the Property Holding Company as set out in Appendix II to this circular, the Property Holding Company recorded a gain on fair value change of an investment property of approximately HK\$1,400,000 (the “**Gain on Fair Value**”), administrative expenses of approximately HK\$4,379,000 (among which approximately HK\$1,174,000 is attributable to the leasing contract in relation to the provision of accommodation to a director of the Property Holding Company (the “**Accommodation Leasing Contract**”) and a net profit of approximately HK\$587,000 for the year ended 31 March 2022. The Accommodation Leasing Contract had expired on or before 30 September 2022. Assuming that the Gain on Fair Value is excluded, the Property Holding Company would have recorded an adjusted net loss of approximately HK\$813,000 (the “**Adjusted Net Loss**”) for the year ended 31 March 2022. The Directors consider that (i) the Adjusted Net Loss is minimal; (ii) the financial performance of the Property Holding Company will be improved given that the administrative expenses of the Property Holding Company is expected to decrease considerably in upcoming financial years due to expiry of the Accommodation Leasing Contract and the resources sharing of the Enlarged Group; and (iii) the Acquisition would not have any material impact to the operating cash flow on the Enlarged Group.

Based on the audited accountants’ report of the Property Holding Company as set out in Appendix II to this circular, the Liabilities of the Property Holding Company amounted to approximately HK\$54,868,000 as at 30 September 2022, among which approximately HK\$44,409,000 was a mortgage loan (“**Bank Mortgage Liability**”) with an existing commercial bank in Hong Kong with the Property pledged as security. The Company has successfully negotiated with another commercial bank in Hong Kong to refinance the

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repayment of the Bank Mortgage Liability with terms equivalent or better upon Completion, and accordingly the Bank Mortgage Liability shall be deducted from the Consideration payable by the Purchaser. For the avoidance of doubt, save for the Bank Mortgage Liability, all other Liabilities shall be released or discharged by the Vendors on or before the Completion.

Up to the Latest Practicable Date, the Company had been negotiating with financial institutions and successfully obtained indications from these parties that they will be able to provide an aggregate debt financing of approximately HK\$31 million for terms of around 15 years at annual interest rates ranging from HKD Prime Rate plus 3% to 7% to the Company. It is intended by the Company to utilise such debt financing to settle the remaining balance of the Consideration after the adjustment by the deduction of the Bank Mortgage Liability. The expected interest expenses arising from the aforesaid debt financing will amount to approximately HK\$2.7 million per annum (the “**Interest Expenses**”). After having considered that (i) the Consideration of HK\$125,000,000 represents a discount of HK\$10,000,000 to the valuation of the Property of HK\$135,000,000; and (ii) the stabilization of the COVID-19 pandemic and the reopening of borders in Hong Kong and the PRC which are expected to boost and improve economic activities (including property investment activities) in Hong Kong, the Directors believe that (a) the Interest Expenses are justifiable; (b) the Acquisition presents a good opportunity for the Group to generate stable income from the Property in the near future; and (c) the Group may benefit from any long term capital appreciation of the Property.

In view of the above, the Directors believe that the terms of the Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

Upon Completion, the Company will be interested in the entire issued share capital of the Property Holding Company, which will become a wholly-owned subsidiary of the Company and accordingly, the financial results of which will be consolidated into the financial statements of the Group.

After Completion, the Property will be recognized as an investment property of the Group and will be subject to annual fair value assessment. Any fair value change of the Property will be reflected in the profit and loss of the Group.

As referred to in “Appendix IV — Unaudited Pro Forma Financial Information of the Enlarged Group” to this circular, on the basis of the notes set out therein, if the Acquisition had taken place and had been completed on 30 September 2022, the unaudited pro forma consolidated assets of the Enlarged Group as at 30 September 2022 would have increased from approximately of HK\$229,424,000 to HK\$274,720,000 and the unaudited pro forma consolidated liabilities of the Enlarged Group as at 30 September 2022 would have increased from approximately of HK\$108,333,000 to HK\$155,629,000.

LETTER FROM THE BOARD

Other than the additional rental income to be brought by the lease of the Property, the Company considers that the Acquisition has no immediate material impact on the earnings of the Group.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition is more than 25% but all applicable percentage ratios are less than 100% under the Listing Rules, the Acquisition constitutes a major transaction of the Company and is therefore subject to reporting, announcement and Shareholder's approval requirements under Chapter 14 of the Listing Rules.

None of the Directors has a material interest in the Acquisition or is required to abstain from voting on the board resolutions to approve the Acquisition.

In accordance with the Listing Rules, any Shareholder who has a material interest in the Acquisition shall abstain from voting on the resolution(s) to approve the Agreement and the transactions contemplated thereunder at the EGM. To the best of knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder has a material interest in the transactions contemplated under the Agreement and will be required to abstain from voting on the relevant resolution(s) to approve the Agreement and the transactions contemplated thereunder at the EGM.

EGM

A notice convening the EGM to be held at Duo Room, Coral Hub, Unit D, 21/F., Roxy Industrial Centre, 58-66 Tai Lin Pai Road, Kwai Chung, Hong Kong on Wednesday, 8 March 2023 at 3:00 p.m. is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published at the website of the Stock Exchange at www.hkexnews.hk. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the Company's Hong Kong branch share registrar and transfer agent, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

The proposed resolution to be approved at the EGM will be taken by poll and an announcement will be made by the Company after the EGM on the results of the EGM.

RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the view that the Acquisition is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

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

Warning

As the Completion is subject to the fulfillment or, where applicable, waiver of the conditions precedent, the Acquisition may or may not proceed. Shareholders and any potential investors are advised to take caution in dealing in the securities of the Company.

Yours faithfully,
By Order of the Board
Shunten International (Holdings) Limited
Cheung Siu Fai
Chairman and Executive Director

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for the last three financial years ended 31 March 2020, 2021 and 2022 and the unaudited consolidated financial statements of the Group for the six months ended 30 September 2022 have been disclosed in the annual reports of the Company for each of the three years ended 31 March 2020, 2021 and 2022 and the interim report of the Company for the six months ended 30 September 2022 respectively. These annual reports and interim report are published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.shunten.com.hk>):

- (i) annual report of the Company for the year ended 31 March 2020 published on 16 July 2020, which can be accessed via the link at:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0716/2020071600560.pdf>

- (ii) annual report of the Company for the year ended 31 March 2021 published on 22 July 2021, which can be accessed via the link at:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0722/2021072200547.pdf>

- (iii) annual report of the Company for the year ended 31 March 2022 published on 22 July 2022, which can be accessed via the link at:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0722/2022072200487.pdf>

- (iv) interim report of the Company for the six months ended 30 September 2022 published on 22 December 2022, which can be accessed via the link at:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/1222/2022122200568.pdf>

2. INDEBTEDNESS STATEMENT

As at the close of business on 31 December 2022, being the latest practicable date for ascertaining the indebtedness of the Enlarged Group for the purpose of this indebtedness statement, the Enlarged Group had the following indebtedness:

Borrowings

	<i>HK\$000</i>
Unsecured notes	21,000
Bank borrowings	108,212
Lease liabilities	<u>2,347</u>
	<u>131,559</u>
Secured and guaranteed	43,835
Secured and unguaranteed	62,323
Unsecured and unguaranteed	<u>25,401</u>
	<u>131,559</u>

Mortgages and charges

At 31 December 2022, the Enlarged Group's secured borrowings were secured by certain investment properties and leasehold land and buildings.

Contingent liabilities

As 31 December 2022, the Enlarged Group had the following material contingent liabilities:

The contingent liabilities in relation to a financial guarantee provided by the Enlarged Group were at its maximum exposure of HK\$80,000,000 if such guarantees were called upon in entirety.

Save as disclosed above and apart from intra-group liabilities and normal trade and other payables in the ordinary course of business, the Enlarged Group did not have any debt securities issued and outstanding (including authorised or otherwise created but unissued), term loans, bank overdrafts, liabilities under acceptances, acceptance credits, hire purchase commitments, mortgages, charges, contingent liabilities, guarantees, outstanding bank or other borrowings or indebtedness in the nature of borrowings.

3. WORKING CAPITAL

The Directors are of the opinion that, taking into account the financial resources available to the Group including the internally generated funds, present available bank facilities and bank facilities to be obtained (where indications have been obtained from the bank and these financial institutions for providing such bank facilities before the Completion), and taking into account the impact of the Acquisition, the Enlarged Group will have sufficient working capital for its requirements for at least the next 12 months from the date of this circular.

4. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position or outlook of the Group since 31 March 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Despite the retail industry continues to pose challenges since the outbreak of COVID-19, the outlook of healthcare products is becoming more stable and positive. The Group has managed to implement sustainable cost cutting measures including dynamic and innovative marketing strategy to capture consumer sentiments.

In terms of cost control and improving operational efficiency, the cost structure enhancement and procurement strategy are the key missions to focus. So, the Group always stays on cultivating deep relationships with suppliers, making the global sourcing chains being standardized and centralized. Meanwhile, many of the existing product lines with high popularity and good margin will also be re-established in a wider range of product offering. In the management's opinion, in terms of improving operating costs, adjusting the workforce structure is crucial. To this end, new workforce who have solid operations management experience are appointed by the Company to raise the operational execution capability.

Following the strategic collaboration with certain pharmaceutical entities as well as universities research centres, the Group is planning to launch over 20 new stock keeping units of products covering 3 major product lines in 2022. In addition, the Group has developed a series of new products that are popular in the market, covering the areas of reverse aging, weight management and comprehensive health care.

The Group will continue to uphold its mission of applying new and modern scientific research technology and infusing modified formulations into manufacturing traditional Chinese medicine. The Group's global supply chain network together with its research and development capacities, high standard of production and safety will further enhance quality of medical and health supplement and cosmetic products for its local and oversea customers. The management of the Company further expects that the sales of the Company will also be benefit from the progressive Hong Kong and China border reopening.

Due to the stabilization of the COVID-19 pandemic and reopening of border in Hong Kong and PRC, it is expected that these circumstances will be beneficial to the property investment activities in Hong Kong. The Directors consider that the Acquisition allows the Group to capture the opportunity to establish its position and engage in the property market in Hong Kong and for the Group to invest in income generating real estate with potential capital appreciation of properties in the long terms. The Directors believe that upon the Completion, the Group will be able to broaden its income base through the stable rental incomes generated from the Property.

The following is the text of report, prepared for the sole purpose of inclusion in this circular, from the independent reporting accountants, Moore Stephens CPA Limited, Certified Public Accountants, Hong Kong.



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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF DAISYLUCK INDUSTRIES LIMITED TO THE DIRECTORS OF SHUNTEN INTERNATIONAL (HOLDINGS) LIMITED

INTRODUCTION

We report on the historical financial information of Daisyluck Industries Limited (the “**Property Holding Company**”) set out on pages II-4 to II-52, which comprises the statements of financial position of the Property Holding Company as at 31 March 2020, 2021 and 2022, and 30 September 2022 and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Property Holding Company for each of the years ended 31 March 2020, 2021 and 2022, and the six months ended 30 September 2022 (the “**Track Record Period**”) and a summary of significant policies and other explanatory information (together, the “**Historical Financial Information**”). The Historical Financial Information as set out on pages II-4 to II-52 forms an integral part of this report, which has been prepared for inclusion in the circular of Shunten International (Holdings) Limited (the “**Company**”) dated 20 February 2023 (the “**Circular**”) in connection with the proposed acquisition of 100% equity interest in the Property Holding Company.

DIRECTORS' RESPONSIBILITIES FOR HISTORICAL FINANCIAL INFORMATION

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

The directors of the Company are responsible for the contents of this Circular in which the Historical Financial Information of the Property Holding Company is included, and such information is prepared based on the accounting policies materially consistent with those of the 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 (“**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 Property Holding 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 purpose of the accountants’ report, a true and fair view of the Property Holding Company’s financial position as at 31 March 2020, 2021 and 2022, and 30 September 2022 and of the Property Holding Company’s financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information of the Property Holding Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended 30 September 2021 and other explanatory information (the “**Stub Period Comparative Financial Information**”). The directors of the Property Holding 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

No dividends have been declared and paid by the Property Holding Company in respect of the Track Record Period.

Moore Stephens CPA Limited
Certified Public Accountants
Registered Public Interest Entity Auditors
Lai Hung Wai
Practising Certificate Number: P06995

Hong Kong, 20 February 2023

**A. HISTORICAL FINANCIAL INFORMATION OF THE PROPERTY HOLDING
COMPANY****Preparation of Historical Financial Information**

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

The financial statements of the Property Holding Company for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRS(s)**”) issued by the Hong Kong Certified Public Accountants (the “**HKICPA**”) and were audited by Moore Stephens CPA Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the “**Underlying Financial Statements**”).

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

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME

	<i>Notes</i>	Year ended 31 March			Six months ended 30 September	
		2020 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i> (unaudited)	2022 <i>HK\$'000</i>
Revenue	8	3,811	3,753	4,255	2,217	2,112
Other income, gains or losses	9	1,019	2	41	48	(27)
Fair value change of an investment property		(8,400)	1,900	1,400	4,600	(15,200)
Recognition of financial guarantee contract	26	—	(10,121)	—	—	—
Reversal on impairment loss on financial guarantee contract		—	285	226	718	38
Administrative expenses		(4,928)	(3,577)	(4,379)	(1,998)	(1,441)
Finance costs	10	<u>(1,890)</u>	<u>(1,165)</u>	<u>(956)</u>	<u>(460)</u>	<u>(577)</u>
(Loss)/profit before tax	11	(10,388)	(8,923)	587	5,125	(15,095)
Income tax expense	12	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
(Loss)/profit and other comprehensive (expense) income for the year/ period		<u>(10,388)</u>	<u>(8,923)</u>	<u>587</u>	<u>5,125</u>	<u>(15,095)</u>

STATEMENTS OF FINANCIAL POSITION

		As at 31 March			As at
		2020	2021	2022	30 September
	Notes	HK\$'000	HK\$'000	HK\$'000	2022
					HK\$'000
Non-current assets					
Property and equipment	16	192	134	97	—
Right-of-use asset	17	2,510	1,141	—	—
Investment property	18	149,000	150,900	152,300	137,100
Refundable rental deposits	19	236	—	—	—
		<u>151,938</u>	<u>152,175</u>	<u>152,397</u>	<u>137,100</u>
Current assets					
Trade and other receivables	19	14	265	66	20
Amount due from a director	20	45,045	40,745	40,545	36,435
Tax recoverable		—	27	—	—
Bank balances and cash	21	564	2,105	237	433
		<u>45,623</u>	<u>43,142</u>	<u>40,848</u>	<u>36,888</u>
Current liabilities					
Other payables and accruals	22	4,196	1,061	3,192	887
Lease liabilities	23	1,354	1,163	—	—
Contract liabilities	24	47	62	100	—
Bank borrowings	25	51,250	49,567	46,128	44,409
Financial guarantee contract	26	—	9,836	9,610	9,572
		<u>56,847</u>	<u>61,689</u>	<u>59,030</u>	<u>54,868</u>
Net current liabilities		<u>(11,224)</u>	<u>(18,547)</u>	<u>(18,182)</u>	<u>(17,980)</u>
Total assets less current liabilities		<u>140,714</u>	<u>133,628</u>	<u>134,215</u>	<u>119,120</u>
Non-current liability					
Lease liabilities	23	<u>1,163</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net assets		<u>139,551</u>	<u>133,628</u>	<u>134,215</u>	<u>119,120</u>
Capital and reserves					
Share capital	27	1,000	4,000	4,000	4,000
Retained profits		<u>138,551</u>	<u>129,628</u>	<u>130,215</u>	<u>115,120</u>
		<u>139,551</u>	<u>133,628</u>	<u>134,215</u>	<u>119,120</u>

STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2019	1,000	148,939	149,939
Loss and total comprehensive expense for the year	<u>—</u>	<u>(10,388)</u>	<u>(10,388)</u>
At 31 March 2020	1,000	138,551	139,551
Issue of shares	3,000	—	3,000
Loss and total comprehensive expense for the year	<u>—</u>	<u>(8,923)</u>	<u>(8,923)</u>
At 31 March 2021	4,000	129,628	133,628
Profit and total comprehensive income for the year	<u>—</u>	<u>587</u>	<u>587</u>
At 31 March 2022	4,000	130,215	134,215
Loss and total comprehensive expense for the period	<u>—</u>	<u>(15,095)</u>	<u>(15,095)</u>
At 30 September 2022	<u><u>4,000</u></u>	<u><u>115,120</u></u>	<u><u>119,120</u></u>
For the six months ended 30 September 2021 (unaudited)			
At 1 April 2021	4,000	129,628	133,628
Profit and total comprehensive income for the period	<u>—</u>	<u>5,125</u>	<u>5,125</u>
At 30 September 2021	<u><u>4,000</u></u>	<u><u>134,753</u></u>	<u><u>138,753</u></u>

STATEMENTS OF CASH FLOWS

	Year ended 31 March			Six months ended 30 September	
	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000 (unaudited)	2022 HK\$'000
OPERATING ACTIVITIES					
(Loss) profit before tax	(10,388)	(8,923)	587	5,125	(15,095)
Adjustments for:					
Finance costs	1,890	1,165	956	460	577
Depreciation of property and equipment	84	101	98	44	17
Depreciation of right-of-use asset	228	1,369	323	323	—
Net (gain) loss on disposal of property and equipment	(978)	—	—	—	70
Gain arising from early termination of lease	—	—	(18)	(18)	—
Fair value change of an investment property	8,400	(1,900)	(1,400)	(4,600)	15,200
Recognition of financial guarantee contract	—	10,121	—	—	—
Reversal on impairment loss on financial guarantee contract	—	(285)	(226)	(718)	(38)
Operating cash flows before working capital changes	(764)	1,648	320	616	731
(Increase) decrease in trade and other receivables	(240)	(15)	199	255	46
Increase (decrease) in other payables and accruals	2,753	(3,135)	2,131	990	(1,525)
(Decrease) increase in contract liabilities	(16)	15	38	(62)	(100)
Cash generated from (used in) operations	1,733	(1,487)	2,688	1,799	(848)
Hong Kong Profits tax refunded	—	—	27	—	—
Hong Kong Profits tax paid	—	(27)	—	—	—
NET CASH FROM (USED IN) OPERATING ACTIVITIES	1,733	(1,514)	2,715	1,799	(848)
INVESTING ACTIVITIES					
Purchase of property and equipment	(41)	(43)	(61)	(21)	—
Proceeds from disposal of property and equipment	3,200	—	—	—	10
Advance to a director	(1,004)	(58)	(375)	(220)	—
Repayment from a director	13,899	7,358	575	16	3,330
NET CASH FROM (USED IN) INVESTING ACTIVITIES	16,054	7,257	139	(225)	3,340
FINANCING ACTIVITIES					
Interest paid	(1,890)	(1,165)	(956)	(460)	(577)
Repayment of bank borrowings	(13,193)	(1,683)	(3,439)	(1,719)	(1,719)
Repayment of lease liabilities	(3,084)	(1,354)	(327)	(327)	—
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(18,167)	(4,202)	(4,722)	(2,506)	(2,296)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(380)	1,541	(1,868)	(932)	196
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	944	564	2,105	2,105	237
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash	564	2,105	237	1,173	433

B. NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1. Corporate information**

The Property Holding Company is a limited liability company incorporated in Hong Kong on 12 May 1989. The address of the registered office and principal place of business of the Property Holding Company is Unit 06, 18/F, One Midtown, No. 11 Hoi Shing Road, Tsuen Wan, Hong Kong. The Property Holding Company is directly held by Mr. Cheung Shun Kut (“**Mr. Cheung**”) and Ms. Kong Choy Heung. The principal activity of the Property Holding Company is an investment holding company in Hong Kong.

The Historical Financial Information is presented in Hong Kong Dollars (“**HKS**”) which is also the functional currency of the Property Holding Company.

2. Basis of preparation

The financial information relating to the years ended 31 March 2020, 2021 and 2022, included in the Historical Financial Information of the Property Holding Company does not constitute the Property Holding Company’s statutory annual financial statements for those years. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

As the Property Holding Company is not a public company, it is not required to deliver its financial statements to the Registrar of Companies as required by section 662 and Part 3 of Schedule 6 to the Hong Kong Companies Ordinance.

The Property Holding Company’s auditor has reported on the financial statements of the Property Holding Company for the years ended 31 March 2020, 2021 and 2022. The auditor’s reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Hong Kong Companies Ordinance.

3. Adoption of HKFRS(s)

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Property Holding Company has consistently applied all HKFRSs, Hong Kong Accounting Standards (“HKAS(s)”) and Interpretations issued by the HKICPA which are effective for the financial year beginning on 1 April 2019 throughout the Track Record Period.

New and amendments to HKFRSs issued but not yet effective

The Property Holding Company has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17 (including the October 2020 and February 2022 Amendments to 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 Amendments to HKAS 1	Lease Liability in a Sale and Leaseback ³ Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to HKAS 8 Amendments to HKAS 12	Definition of Accounting Estimates ¹ 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 1 January 2024

The directors of the Property Holding Company anticipate that the application of new and amendments to HKFRSs will have no material impact on the results and the financial position of the Property Holding Company.

4. Significant accounting policies

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Hong Kong Companies Ordinance.

The financial statements have 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 Property Holding Company 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 these financial statements is determined on such a basis.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment property which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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 are set out below.

Revenue recognition

The Property Holding Company's policy for recognition of rental income is described in the accounting policy headed "Leases" below.

A contract liability represents the Property Holding Company's obligation to transfer goods or services to a customer for which the Property Holding Company's has received consideration (or an amount of consideration is due) from the customer.

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 Property Holding Company 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 lessee

Allocation of consideration to components of a contract

The Property Holding Company applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases

The Property Holding Company applies the short-term lease recognition exemption to leases of exhibition halls and warehouses 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 over the lease term.

Right-of-use asset

Right-of-use asset is measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liability.

The cost of right-of-use asset 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 Property Holding Company; and
- an estimate of costs to be incurred by the Property Holding Company 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.

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

The Property Holding Company presents right-of-use asset as a separate line item on the statements of financial position.

Refundable rental deposit

Refundable rental deposit paid is 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 asset.

Lease liability

At the commencement date of a lease, the Property Holding Company 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 Property Holding Company 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 liability is adjusted by interest accretion and lease payments.

The Property Holding Company remeasures lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Property Holding Company presents lease liability as a separate line item on the statements of financial position.

Lease modifications

Except for COVID-19-related rent concessions in which the Property Holding Company applied the practical expedient, the Property Holding Company 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 Property Holding Company remeasures the lease liability, less any lease incentive receivables, 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 Property Holding Company accounts for the remeasurement of lease liability by making corresponding adjustments to the relevant right-of-use asset.

Changes in the basis for determining the future lease payments as a result of interest rate benchmark reform

For changes in the basis for determining the future lease payments as a result of interest rate benchmark reform, the Property Holding Company applies the practical expedient to remeasure the lease liability by discounting the revised lease payments using the unchanged discount rate and makes a corresponding adjustment to the related right-of-use asset. A lease modification is required by interest rate benchmark reform if, and only if, both of these conditions are met:

- the modification is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the lease payments is economically equivalent to the previous basis (i.e. the basis immediately preceding the modification).

COVID-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the COVID-19 pandemic, the Property Holding Company has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2022; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liability is adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The Property Holding Company as a lessor

The Property Holding Company enters into lease agreements as a lessor. Leases for which the Property Holding Company is a lessor are classified as operating leases.

When a contract includes both lease and non-lease components, the Property Holding Company applies HKFRS 15 Revenue from Contracts with Customers to allocate the consideration under the contract to each component.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

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. Taxable profit differs from 'loss before tax' as reported in the statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Property Holding Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the 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 difference 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.

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 the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Property Holding Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale, except for freehold land, which is always presumed to be recovered entirely through sale.

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.

Property and equipment

Property and equipment are tangible assets that are held for administrative purposes. Property and equipment are stated in the 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 property, plant and 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 property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value, adjusted to exclude any prepaid or accrued operating lease income.

Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Impairment on property and equipment

At the end of the reporting period, the Property Holding Company reviews the carrying amounts of its property and equipment 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 property and equipment are estimated individually. When it is not possible to estimate the recoverable amount individually, the Property Holding Company 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 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 Property Holding Company 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.

Financial instruments

Financial assets and financial liabilities are recognised when an entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 Revenue from Contracts with Customers (“**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.

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. 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

The Property Holding Company performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade receivables and other receivables, 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 Property Holding Company’s historical credit loss experience, and 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.

The Property Holding Company always recognises lifetime ECL for trade receivables.

For all other instruments, the Property Holding Company 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 Property Holding Company 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.

Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- 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;
- significant increases in credit risk on other financial instruments of the same 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 Property Holding Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Property Holding Company has reasonable and supportable information that demonstrates otherwise.

For financial guarantee contract, the date that the Property Holding Company becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contract, the Property Holding Company considers the changes in the risk that the specified debtor will default on the contract.

The Property Holding Company 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.

Definition of default

For internal credit risk management, the Property Holding Company 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 Property Holding Company, in full (without taking into account any collaterals held by the Property Holding Company).

The Property Holding Company considers that default has occurred when a financial asset is more than 90 days past due unless the Property Holding Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

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:

- significant financial difficulty of the issuer or the counterparty;
- a breach of contract, such as a default or past due event;
- the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation.

Write-off policy

The Property Holding Company 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, e.g. 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 Property Holding Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

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 Property Holding Company in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For a financial guarantee contract, the Property Holding Company is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the ECL is the present value of the expected payments to reimburse the holder for a credit loss that it incurs.

For ECL on financial guarantee contracts for which the effective interest rate cannot be determined, the Property Holding Company will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Lifetime ECL for certain trade 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 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 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 Property Holding Company recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Property Holding Company 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 party.

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 instruments

Classification as debt or equity

Debt and equity instruments issued by Property Holding Company 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 Property Holding Company after deducting all of its liabilities. Equity instruments issued by Property Holding Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

All financial liabilities (other than financial guarantee contract) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with HKFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition of financial liabilities

The Property Holding Company derecognises financial liabilities when, and only when, the Property Holding Company's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

5. Key sources of estimation uncertainty

In the application of the Property Holding Company's accounting policies, which are described in note 4, the directors of the Property Holding Company are required to make judgements, estimates and assumptions about the carrying amounts of assets, liabilities, that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Deferred taxation on investment properties

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the directors of the Property Holding Company have reviewed the Property Holding Company's investment property and concluded that the Property Holding Company's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time. Therefore, in determining the deferred taxation on investment properties, the directors of the Property Holding Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. The Property Holding Company's has not recognised any deferred tax on changes in fair value of investment properties as the Property Holding Company is not subject to any income taxes on the fair value changes of the investment property on disposal.

Fair values of investment properties

Investment properties are stated at fair value based on the valuation performed by independent professional valuers. The determination of the fair value involves certain assumptions of market conditions which are set out in note 18.

In relying on the valuation report, the directors of the Property Holding Company have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions. In light of the negative impact of the Covid-19 pandemic, the independent valuers included uncertainty clauses in the valuation reports in respect of investment property located in Hong Kong amounted to HK\$149,000,000, HK\$150,900,000, HK\$152,300,000 and HK\$137,100,000 as at 31 March 2020, 2021 and 2022, and 30 September 2022, respectively. Whilst the Property Holding Company considers valuations of the Property Holding Company's investment property are the best estimates, the ongoing Covid-19 pandemic has resulted in greater market volatility depending on how the Covid-19 pandemic may progress and evolve, which have led to higher degree of uncertainties in respect of the valuations in the Track Record Period. Changes to these assumptions, including the potential risk of any market violation, policy, geopolitical and social changes or other unexpected incidents as a result of travel restrictions implemented by many countries, changes in policy direction, or other unexpected incidents would result in changes in the fair values of the Property Holding Company's investment property and the corresponding adjustments to the amount of gain or loss reported in the statement of profit or loss and other comprehensive income.

Provision of ECL for financial guarantee contract

Management of the Property Holding Company regularly reviews the impairment assessment and evaluates the ECL of the financial guarantee contract. Appropriate impairment allowance is recognised in profit or loss.

In assessing whether the credit risk has increased significantly since initial recognition, the Property Holding Company compares the risk of a default of the borrower (guaranteed by the Property Holding Company) at the reporting date with the one as at the date of initial recognition. In making this assessment, the borrower is assessed by the management of the Property Holding Company, based on the financial background, financial condition and the historical settlement records of the borrower.

The management of the Property Holding Company further assesses the amount of exposure of default through assessing the potential loss as a result of the default of the borrower to which the Property Holding Company is exposed. The provision of ECL is sensitive to changes in estimates. The information about the background of the financial guarantee contract and the provision of ECL for the financial guarantee contracts are disclosed in Notes 26 and 7, respectively.

6. Capital Management

The Property Holding Company manages its capital to ensure that entities within the Property Holding Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Property Holding Company's overall strategy remained unchanged during the Track Record Period.

The capital structure of the Property Holding Company consists of lease liabilities, bank borrowings, bank balances and cash and equity attributable to owners of the Property Holding Company, comprising issued share capital and reserves.

The directors of the Property Holding Company review the capital structure of the Property Holding Company periodically. As part of this review, the directors of the Property Holding Company consider the cost of capital and risks associated with each class of capital. Based on recommendations of the directors of the Property Holding Company, the Property Holding Company will conduct review to balance its overall capital structure, the Property Holding Company will consider the raise of additional borrowings as additional capital.

The directors of the Property Holding Company also endeavor to ensure the steady and reliable cash flows from the normal business operation.

7. Financial instruments

a) *Categories of financial instruments*

	As at 31 March			As at
	2020	2021	2022	30 September
	HK\$'000	HK\$'000	HK\$'000	2022
				HK\$'000
Financial assets				
Financial assets at amortised cost (including bank balances and cash)	45,845	43,101	40,836	36,868
Financial liabilities				
Financial liabilities at amortised cost	54,540	50,622	49,314	45,287
Financial guarantee contract	—	9,836	9,610	9,572
Lease liabilities	2,517	1,163	—	—

b) *Financial risk management objectives and policies*

The Property Holding Company's major financial instruments include trade and other receivables, amount due from a director, bank balances and cash, other payables, lease liabilities and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, market risk (interest rate risk), and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

As at the end of each reporting period, the Property Holding Company's maximum exposure to credit risk which will cause a financial loss to the Property Holding Company due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets, as stated in the statements of financial position.

The credit risk of the Property Holding Company mainly arises from bank balances, trade and other receivables and amount due from a director. The carrying amounts of these balances represent the Property Holding Company's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, the management of the Property Holding Company has a policy in place to closely monitor the collection of the receivables on an ongoing basis. In addition, the Property Holding Company reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Property Holding Company consider that the Property Holding Company's credit risk is significantly reduced.

Trade receivables are grouped based on shared credit risk characteristics by reference to the Property Holding Company's aging of outstanding balances. All of the trade receivables are aged within 1 month. In this regard, the directors of the Property Holding Company consider that the Property Holding Company's credit risk is significantly reduced. The management of the Property Holding Company assessed that the ECL for trade receivables was insignificant as at 1 April 2019, 31 March 2020, 2021 and 2022 and, 30 September 2022.

For other receivables and amount due from a director, the Property Holding Company has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Property Holding Company will measure the loss allowance based on lifetime rather than 12-month ECL. The management of the Property Holding Company believe that there is no material credit risk inherent in the Property Holding Company's outstanding balance of other receivables. As at 1 April 2019, 31 March 2020, 2021 and 2022 and, 30 September 2022, the Property Holding Company assessed that the ECL for other receivables was insignificant under 12-month ECL model.

In order to minimise the credit risk, the management of the Property Holding Company had reviewed the recoverable amount of the amount due from the director regularly at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Property Holding Company considered that the Property Holding Company's credit risk was significantly reduced. In the opinion of the management of the Property Holding Company, the risk of default by the director is low and the ECL on the balances is insignificant under 12-month ECL model.

The credit risk on bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. Other than concentration of credit risk on the amount due from a director, the Property Holding Company does not have any other significant concentration of credit risk.

At the end of the reporting period, the Property Holding Company has performed impairment assessment, and concluded that there has been no significant increase in credit risk since initial recognition of the financial guarantee contract. Accordingly, the loss allowance for financial guarantee contracts issued by the Property Holding Company is measured at an amount equal to 12m ECL. Details of the financial guarantee contracts are set out in note 26. The gross carrying amount of the financial guarantee contract as at 31 March 2021 and 2022 and, 30 September 2022, represents the maximum amount the Property Holding Company has guaranteed under the respective contract. The loss rate applied on the financial guarantee contract was 12.29%, 12.01% and 11.96% as at 31 March 2021 and 2022, and 30 September 2022 respectively.

The following table shows reconciliation of loss allowances that has been recognised for financial guarantee contract:

	12m ECL <i>HK\$'000</i>
As at 1 April 2019 and 31 March 2020	—
Financial guarantee contract entered	10,121
Impairment loss reversed	<u>(285)</u>
At 31 March 2021	9,836
Impairment loss reversed	<u>(226)</u>
At 31 March 2022	9,610
Impairment loss reversed	<u>(38)</u>
	<u><u>9,572</u></u>

The Property Holding Company's exposure to credit risk

In order to minimise credit risk, the Property Holding Company has maintain the Property Holding Company's credit risk grading to categorise exposures according to their degree of risk of default. The Property Holding Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle in full	Lifetime ECL — not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The Property Holding Company's concentration of credit risk by geographical location is mainly in Hong Kong.

Market risk

Interest rate risk

The Property Holding Company is exposed to fair value interest rate risk in relation to lease liabilities (see note 23 for details).

The Property Holding Company is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and variable-rate bank borrowings (see note 25 for details). The Property Holding Company cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and Hong Kong Interbank Offer Rate (“**HIBOR**”) arising from the Property Holding Company's Hong Kong dollar denominated borrowings.

The Property Holding Company aims at keeping borrowings at variable rates. The Property Holding Company manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook.

The Property Holding Company currently does not have an interest rate hedging policy. However, the management monitors interest rate risk exposure and will consider interest rate hedging should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the bank borrowings outstanding at the end of the reporting period were outstanding for the whole year/period. A 10 basis point increase or decrease in variable-rate bank borrowings are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Bank balances are excluded from sensitivity analysis as the management considers that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

If interest rates had been 10 basis points higher/lower and all other variables were held constant, the Property Holding Company's (loss) profit before tax would increase/decrease by HK\$428,000, HK\$414,000, HK\$385,000 and HK\$371,000 for the year ended 31 March 2020, 2021 and 2022, and for the six months ended 30 September 2022, respectively.

Liquidity risk

The Property Holding Company's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to satisfy its contractual and reasonably foreseeable obligations as they fall due.

As at 30 September 2022, the Property Holding Company is exposed to liquidity risk as the Property Holding Company had net current liabilities of approximately HK\$7,980,000. The directors of Property Holding Company are of the opinion that the Property Holding Company will have sufficient working capital to meet its financial obligations, after taking into account that Mr. Cheung has agreed to provide adequate funds for the Property Holding Company to meet in full its financial obligations up to the date of the completion of the acquisition of the Property Holding Company by Shunten Credit Services Limited, a wholly-owned subsidiary of the Company (the “**Acquisition**”). Moreover, upon completion of the Acquisition, the Company will provide financial support to the Property Holding Company to meet in full its financial obligations as they fall due in the foreseeable future.

The following table details the remaining contractual maturity of the Property Holding Company for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the relevant market rates as at the reporting date) of financial liabilities based on the earliest date on which the Property Holding Company can be required to pay. The table includes both interest and principal cash flows, where applicable.

As at 31 March 2020

	Weighted average interest rate %	On demand or less than 1 year HK\$'000	1 to 2 years HK\$'000	2 to 5 years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount HK\$'000
Other payables	—	3,290	—	—	3,290	3,290
Bank borrowings	3.16	51,250	—	—	51,250	51,250
		<u>54,540</u>	<u>—</u>	<u>—</u>	<u>54,540</u>	<u>54,540</u>
Lease liabilities	3.30	1,416	1,180	—	2,596	2,517

As at 31 March 2021

	Weighted average interest rate %	On demand or less than 1 year HK\$'000	1 to 2 years HK\$'000	2 to 5 years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount HK\$'000
Other payables	—	1,055	—	—	1,055	1,055
Bank borrowings	2.20	49,567	—	—	49,567	49,567
		<u>50,622</u>	<u>—</u>	<u>—</u>	<u>50,622</u>	<u>50,622</u>
Financial guarantee contract	—	<u>80,000</u>	<u>—</u>	<u>—</u>	<u>80,000</u>	<u>9,836</u>
Lease liabilities	3.30	<u>1,180</u>	<u>—</u>	<u>—</u>	<u>1,180</u>	<u>1,163</u>

As at 31 March 2022

	Weighted average interest rate %	On demand or less than 1 year HK\$'000	1 to 2 years HK\$'000	2 to 5 years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount HK\$'000
Other payables	—	3,186	—	—	3,186	3,186
Bank borrowings	2.10	46,128	—	—	46,128	46,128
		<u>49,314</u>	<u>—</u>	<u>—</u>	<u>49,314</u>	<u>49,314</u>
Financial guarantee contract	—	<u>80,000</u>	<u>—</u>	<u>—</u>	<u>80,000</u>	<u>9,610</u>

As at 30 September 2022

	Weighted average interest rate %	On demand or less than 1 year HK\$'000	1 to 2 years HK\$'000	2 to 5 years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount HK\$'000
Other payables	—	878	—	—	878	878
Bank borrowings	2.52	44,409	—	—	44,409	44,409
		<u>45,287</u>	<u>—</u>	<u>—</u>	<u>45,287</u>	<u>45,287</u>
Financial guarantee contract	—	<u>80,000</u>	<u>—</u>	<u>—</u>	<u>80,000</u>	<u>9,572</u>

Bank borrowings with a repayment on demand clause are included in the “on demand or less than 1 month” time band in the above maturity analysis. As at 31 March 2020, 2021 and 2022, and 30 September 2022, the aggregate carrying amounts of these bank borrowings amounted to HK\$51,250,000, HK\$49,567,000, HK\$46,128,000, HK\$44,409,000, respectively. Taking into account the Property Holding Company’s financial position, the management does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The management believes that such bank loans will be repaid 1 to 5 years after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

**Maturity Analysis — Bank loans with a repayment on demand clause
based on scheduled repayments**

	Less than 1 year <i>HK\$'000</i>	1–2 years <i>HK\$'000</i>	2–5 years <i>HK\$'000</i>	Total undiscounted cash outflows <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
31 March 2020	4,569	4,484	47,936	56,989	51,250
31 March 2021	4,493	4,417	43,594	52,504	49,567
31 March 2022	4,537	43,556	—	48,093	46,128
30 September 2022	4,405	41,392	—	45,797	44,409

The amounts included above for financial guarantee contracts are the maximum amounts the Property Holding Company could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the management of the Property Holding Company considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

c) Fair value measurement of financial instruments

The directors of the Property Holding Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values.

8. Revenue

	Year ended 31 March			Six months ended	Six months ended
	2020	2021	2022	30 September 2021	30 September 2022
	HK\$ '000	HK\$ '000	HK\$ '000	(unaudited) HK\$ '000	HK\$ '000
Gross rental income from investment property <i>(note)</i>	<u>3,811</u>	<u>3,753</u>	<u>4,255</u>	<u>2,217</u>	<u>2,112</u>

Note:

	Year ended 31 March			Six months ended	Six months ended
	2020	2021	2022	30 September 2021	30 September 2022
	HK\$ '000	HK\$ '000	HK\$ '000	(unaudited) HK\$ '000	HK\$ '000
Gross rental income from investment property	<u>3,811</u>	<u>3,753</u>	<u>4,255</u>	<u>2,217</u>	<u>2,112</u>

Less:

Direct operating expenses incurred for investment property that generated rental income during the year/period	1,442	1,360	1,611	503	421
Direct operating expenses incurred for investment property that did not generate rental income during the year/period	<u>1,750</u>	<u>1,107</u>	<u>1,006</u>	<u>452</u>	<u>578</u>
	<u>3,192</u>	<u>2,467</u>	<u>2,617</u>	<u>955</u>	<u>999</u>
Net rental income from investment property	<u>619</u>	<u>1,286</u>	<u>1,638</u>	<u>1,262</u>	<u>1,113</u>

9. Other income, gains or losses

	Year ended 31 March			Six months ended	Six months ended
	2020	2021	2022	30 September 2021 (unaudited)	30 September 2022
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Other income					
Sundry income	<u>41</u>	<u>2</u>	<u>23</u>	<u>30</u>	<u>43</u>
Other gains or losses					
Net gain (loss) on disposal of property and equipment	978	—	—	—	(70)
Gain arising from early termination of lease	<u>—</u>	<u>—</u>	<u>18</u>	<u>18</u>	<u>—</u>
	<u>978</u>	<u>—</u>	<u>18</u>	<u>18</u>	<u>(70)</u>
Total	<u><u>1,019</u></u>	<u><u>2</u></u>	<u><u>41</u></u>	<u><u>48</u></u>	<u><u>(27)</u></u>

10. Finance costs

	Year ended 31 March			Six months ended	Six months ended
	2020	2021	2022	30 September 2021 (unaudited)	30 September 2022
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Interest on bank borrowings	1,837	1,103	948	452	577
Interest on lease liabilities	<u>53</u>	<u>62</u>	<u>8</u>	<u>8</u>	<u>—</u>
	<u><u>1,890</u></u>	<u><u>1,165</u></u>	<u><u>956</u></u>	<u><u>460</u></u>	<u><u>577</u></u>

11. (Loss) profit before tax

(Loss) profit before tax has been arrived at after charging:

	Year ended 31 March			Six months ended	Six months ended
	2020	2021	2022	30 September 2021 (unaudited)	30 September 2022
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Depreciation of property and equipment	84	101	98	44	17
Depreciation of right-of-use asset	228	1,369	323	323	—
Rental expenses	1,120	—	1,200	600	480
Auditor's remuneration	6	6	6	3	3
Staff costs (including directors emoluments):					
Salaries, allowances, and other benefits	1,284	57	327	185	175

12. Income tax expense

No provision for Hong Kong Profits Tax has been made for the Track Record Period as the Property Holding Company has no assessable profits arising in Hong Kong for Track Record Period.

The income tax expense for the Track Record Period can be reconciled to the (loss) profit before tax per the statement of profit or loss and other comprehensive income as follows:

	Year ended 31 March			Six months ended	Six months ended
	2020	2021	2022	30 September 2021 (unaudited)	30 September 2022
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
(Loss)/profit before tax	(10,388)	(8,923)	587	5,125	(15,095)
Tax at the applicable tax rate of 16.5%	(1,714)	(1,472)	97	846	(2,491)
Tax effect of expenses not deductible for tax purpose	1,914	1,786	140	66	2,515
Tax effect of income not taxable for tax purpose	(161)	(314)	(272)	(882)	—
Utilisation of tax losses previously not recognised	(39)	—	—	(30)	(24)
Tax effect of tax loss not recognised	—	—	35	—	—
Income tax expense	—	—	—	—	—

As at 31 March 2020, 2021, 2022 and 30 September 2022, the Property Holding Company has unused estimated tax losses of HK\$72,000, HK\$74,000, HK\$285,000 and HK\$137,000, respectively. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profits streams. Tax losses may be carried forward indefinitely.

13. Directors' Emoluments

No emoluments were paid to the Property Holding Company's directors namely Mr. Cheung and Mr. Cheung Shun Yee during the Track Record Period.

The Property Holding Company has been providing accommodation, which is leased from a third party, to Mr. Cheung for use by him and his family members at no charge during the years ended 31 March 2020, 2021 and 2022 and for the six months ended 30 September 2021. The estimated money value of the benefit in kind is HK\$756,000, HK\$1,416,000, and HK\$1,174,000 and HK\$587,000 (unaudited) for the years ended 31 March 2020, 2021 and 2022 and six months ended 30 September 2021, respectively.

14. Individuals with highest emoluments

The aggregate of the emoluments in respect of the five individuals with highest emoluments are as follows:

	Year ended 31 March			Six months ended	Six months ended
	2020	2021	2022	30 September 2021 (unaudited)	30 September 2022
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Salaries and other emoluments	384	57	327	185	175
Discretionary bonuses	<u>900</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>1,284</u>	<u>57</u>	<u>327</u>	<u>185</u>	<u>175</u>

The emoluments of individuals with the highest emoluments are within the following bands:

	Year ended 31 March			Six months ended	Six months ended
	2020	2021	2022	30 September 2021	30 September 2022
				(unaudited)	
	<i>No. of employees</i>	<i>No. of employees</i>	<i>No. of employees</i>	<i>No. of employees</i>	<i>No. of employees</i>
Nil to HK\$1,000,000 (<i>note</i>)	2	4	5	5	4

Note: There were only 2, 4, 6, 6 (unaudited) and 4 employees in total in the Property Holding Company during the years ended 31 March 2020, 2021, 2022, and six months ended 30 September 2021 and 2022, respectively.

No emoluments have been paid by the Property Holding Company to the top five highest paid employees as an inducement to join or upon joining the Property Holding Company or as compensation for loss of office during the Track Record Period.

15. Dividends

No dividend was paid or proposed during the Track Record Period, nor has any dividend been proposed since the end of the reporting period.

16. Property and equipment

	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1 April 2019	805	5,555	6,360
Additions	41	—	41
Disposals	(384)	(5,555)	(5,939)
At 31 March 2020	462	—	462
Additions	43	—	43
At 31 March 2021	505	—	505
Additions	61	—	61
At 31 March 2022	566	—	566
Disposals	(566)	—	(566)
At 30 September 2022	—	—	—
Accumulated depreciation			
At 1 April 2019	570	3,333	3,903
Charge for the year	84	—	84
Eliminated on disposals/ written off	(384)	(3,333)	(3,717)
At 31 March 2020	270	—	270
Charge for the year	101	—	101
At 31 March 2021	371	—	371
Charge for the year	98	—	98
At 31 March 2022	469	—	469
Charge for the period	17	—	17
Eliminated on disposals	(486)	—	(486)
At 30 September 2022	—	—	—

	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Carrying amount			
At 31 March 2020	<u>192</u>	<u>—</u>	<u>192</u>
At 31 March 2021	<u>134</u>	<u>—</u>	<u>134</u>
At 31 March 2022	<u>97</u>	<u>—</u>	<u>97</u>
At 30 September 2022	<u>—</u>	<u>—</u>	<u>—</u>

The above items of property and equipment, after taking into account the residual values, are depreciated on a straight-line basis at the following rates per annum:

Motor vehicles	30%
Furniture, fixtures and equipment	20%

17. Right-of-use asset

Leased property

	As at 31 March			As at 30 September	
	2020	2021	2022	2021	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount	<u>2,510</u>	<u>1,141</u>	<u>—</u>	<u>—</u>	<u>—</u>
	Year ended 31 March			Six month ended 30 September	
	2020	2021	2022	2021	2022
				(unaudited)	
Depreciation charge	<u>228</u>	<u>1,369</u>	<u>323</u>	<u>323</u>	<u>—</u>
	Year ended 31 March			Six months ended	Six months ended
	2020	2021	2022	30 September 2021	30 September 2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Expense relating to short-leases	1,120	—	1,200	600	480
Total cash outflow of leases	4,257	1,416	1,535	935	—
Addition to right-of-use assets	2,738	—	—	—	—

The Property Holding Company leases residential property (as an accommodation for Mr. Cheung and his family members) and motor vehicles during the years ended 31 March 2020, 2021 and 2022. Lease contracts are entered into for fixed term of 4 months to 2 years, without any extension nor termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Property Holding Company applies the definition of a contract and determines the period for which the contract is enforceable.

As at 31 March 2020, 2021 and 2022 and, 30 September 2022, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

18. Investment property

	<i>HK\$'000</i>
At fair value	
At 1 April 2019	157,400
Fair value change	<u>(8,400)</u>
At 31 March 2020	149,000
Fair value change	<u>1,900</u>
At 31 March 2021	150,900
Fair value change	<u>1,400</u>
At 31 March 2022	152,300
Fair value change	<u>(15,200)</u>
At 30 September 2022	<u>137,100</u>

The fair value of the Property Holding Company's investment property has been arrived at on the basis of a valuation carried out by Peak Vision Appraisals Limited, an independent qualified professional valuer, who is not connected to the Property Holding Company.

In determining the fair value of the property, the directors of the Property Holding Company determine the appropriate valuation techniques and inputs for fair value measurements. The Property Holding Company engages third party qualified valuers to perform the valuation. The directors of the Property Holding Company works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

In estimating the fair value of the property, the highest and best use of the property is its current use.

Fair value hierarchy	Valuation technique and key input	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Level 3	Income capitalisation approach — by reference to capitalisation rate, taking into account the capitalisation of rental income potential, nature of the property, and prevailing market condition.	Capitalisation rate: 31 March 2020: 2.9%–3.9% 31 March 2021: 2.9%–3.9% 31 March 2022: 2.8%–3.8% 30 September 2022: 3.0%–4.0%	A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa

There were no transfers into or out of level 3 during the Track Record Period.

There has been no change from the valuation technique used during the Track Record Period.

The Property Holding Company leases out properties under operating leases. None of the leases includes contingent rentals.

The investment property has been pledged to secure banking borrowings granted to the Property Holding Company as disclosed in Note 25.

In addition, the investment property has been further pledged to the lender where the Property Holding Company acted as a mortgagor with details disclosed in Note 26. The shareholders of the Property Holding Company (i.e. Mr. Cheung and Ms. Kong Choy Heung) have undertaken that the pledge shall be released or discharged on or before the completion of the Acquisition.

19. Trade and other receivables

	As at 31 March			As at 30 September
	2020	2021	2022	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables (<i>note</i>)	—	15	54	—
Utility and refundable rental deposits	250	250	12	20
	250	265	66	20
Amount shown under Non-current assets	236	—	—	—
Amount shown under current assets	14	265	66	20

Note: As at 31 March 2022, HK\$54,000 of trade receivables are due from Man Sun Property Limited, which Mr. Cheung is also a director of this company.

As at 1 April 2019, trade receivables amounted to nil.

The following is an ageing analysis of trade receivables based on the invoice dates:

	As at 31 March			As at 30 September
	2020	2021	2022	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0–30 days	—	15	54	—

Details of impairment assessment of trade and other receivables are set out in note 7.

The Property Holding Company does not hold any collateral over its trade and other receivables.

20. Amount due from a director

Name	Maximum amounts outstanding							
	As at 31 March		As at 30 September	During the year ended 31 December			During the six months ended	
	2020	2021	2022	2020	2021	2022	30 September 2022	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Mr. Cheung	45,045	40,745	40,545	36,435	57,941	45,045	40,745	40,545

The amount was due from Mr. Cheung, which was unsecured, interest-free, and repayable on demand. The shareholders of the Property Holding Company (i.e. Mr. Cheung and Ms. Kong Choy Heung) have undertaken that this amount due shall be discharged, released and waived on or before the completion of the Acquisition.

21. Bank balances and cash

Bank balances carried interest at prevailing market rates throughout the Track Record Period.

22. Other payables and accruals

	As at 31 March			As at
	2020	2021	2022	30 September
	HK\$'000	HK\$'000	HK\$'000	2022
				HK\$'000
Other payables (<i>note</i>)	2,363	—	2,220	—
Accruals	906	6	6	9
Deposit received	<u>927</u>	<u>1,055</u>	<u>966</u>	<u>878</u>
	<u>4,196</u>	<u>1,061</u>	<u>3,192</u>	<u>887</u>

Note: Included in other payables of HK\$1,940,000 and HK\$1,660,000 as at 31 March 2020 and 31 March 2022, respectively, are due to related companies which Mr. Cheung is also a director of them.

23. Lease liabilities

	As at 31 March			As at
	2020	2021	2022	30 September
	HK\$'000	HK\$'000	HK\$'000	2022
				HK\$'000
Lease liabilities payable:				
Within one year	1,354	1,163	—	—
Within a period of more than one year but not more than two years	<u>1,163</u>	<u>—</u>	<u>—</u>	<u>—</u>
	2,517	1,163	—	—
Less: Amount due for settlement with 12 months shown under current liabilities	<u>(1,354)</u>	<u>(1,163)</u>	<u>—</u>	<u>—</u>
Amount due for settlement after 12 months shown under non-current liabilities	<u>1,163</u>	<u>—</u>	<u>—</u>	<u>—</u>

The weighted average incremental borrowing rate applied to lease liabilities was 3.30% for the years ended 31 March 2020 and 2021.

24. Contract liabilities

Contract liabilities mainly included prepayments received from customers which are recognised as contract liabilities. They are expected to be recognised as revenue within one year upon receipt at the beginning of the year, they were recognised as revenue in current period upon the satisfaction of performance obligation, i.e. the provision of services to customers.

As at 1 April 2019, contract liabilities amounted to HK\$64,000.

25. Bank borrowings

	As at 31 March			As at
	2020	2021	2022	30 September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2022</i>
				<i>HK\$'000</i>
Bank borrowings, secured	<u>51,250</u>	<u>49,567</u>	<u>46,128</u>	<u>44,409</u>
Carrying amounts of the bank borrowings that contain repayment on demand clause (shown under current liabilities) but repayable*:				
Within one year	3,000	3,439	3,439	3,439
Within a period of more than one year but not exceeding two years	3,000	3,439	42,689	40,970
Within a period of more than two years but not exceeding five year	<u>45,250</u>	<u>42,689</u>	<u>—</u>	<u>—</u>
Amount shown under current liabilities	<u>51,250</u>	<u>49,567</u>	<u>46,128</u>	<u>44,409</u>

* The amount due are based on schedule repayment dates set out in the loan agreement.

Bank borrowings carry variable interest at 1.6% to 3.9% per annum during the years ended 31 March 2020, 2021 and 2022, and for the six months ended 30 September 2022. The weighted average effective interest rate on bank borrowings as at 31 March 2020, 2021 and 2022, and 30 September 2022 was 3.2%, 2.2%, 2.1% and 2.5% per annum, respectively. The Property Holding Company's bank borrowings carry interests at margins over HIBOR as appropriate.

As at 31 March 2020 and 2021, the bank borrowings are: (i) secured by investment property of the Property Holding Company; (ii) guaranteed by personal guarantee by directors of the Property Holding Company, Mr. Cheung and Mr. Cheung Shun Yee; and (iii) guaranteed by corporate guarantee of certain related companies which Mr. Cheung is also a director of them.

As at 31 March 2022 and 30 September 2022, the bank borrowings are: (i) secured by investment property of the Property Holding Company; and (ii) guaranteed by personal guarantee by directors of the Property Holding Company, Mr. Cheung and Mr. Cheung Shun Yee.

26. Financial guarantee contract and contingent liabilities

In August 2020, the Property Holding Company as a mortgagor entered into a contract, whereby the investment property (note 18) held by the Property Holding Company was pledged as security for the liabilities of a business partner of Mr. Cheung Shun Yee, who is an independent third party of the Property Holding Company as represented by the management of the Property Holding Company, with a maximum exposure of HK\$80,000,000 given by the Property Holding Company; and Mr. Cheung Shun Yee provided personal guarantee to this liabilities of such business partner.

Accordingly, it constituted a financial guarantee contract made by the Property Holding Company since August 2020.

In April 2022, the Property Holding Company further entered into a contract confirming that the investment property held by the Property Holding Company remained as the security for liabilities of the above business partner and Mr. Cheung Shun Yee and their respective associates and such liabilities were guaranteed continuously by Mr. Cheung Shun Yee.

Hence, as at 31 March 2021 and 2022 and, 30 September 2022, in the opinion of the directors of the Property Holding Company, the aggregate amount of outstanding financial guarantees was at its maximum exposure of HK\$80,000,000 if such guarantees were called upon in entirety. The shareholders of the Property Holding Company (i.e. Mr. Cheung and Ms. Kong Choy Heung) have undertaken that the pledge and this financial guarantee shall be released or discharged on or before the completion of the Acquisition.

27. Share capital

	Number of shares	Share capital HK\$'000
<i>Issued and fully paid:</i>		
At 1 April 2019 and 31 March 2020	1,000,000	1,000
Issue of new shares on 30 July 2020	<u>3,000,000</u>	<u>3,000</u>
As 31 March 2021 and 2022, and 30 September 2022	<u>4,000,000</u>	<u>4,000</u>

The new shares rank *pari passu* with the existing shares in all respects.

28. Related party transactions***(a) Transactions with related parties***

Name of related parties	Relationship	Nature of transaction	Year ended 31 March			Six months ended	Six months ended
			2020	2021	2022	30 September 2021	30 September 2022
			HK\$'000	HK\$'000	HK\$'000	(unaudited) HK\$'000	HK\$'000
Big Team Development Limited	<i>Note</i>	Repair and maintenance expenses	63	—	—	—	—
Charm Engineering Limited	<i>Note</i>	Repair and maintenance expenses	106	—	—	—	—
Total Grace Limited	<i>Note</i>	Repair and maintenance expenses	443	506	700	700	—
Grace World Investment Limited	<i>Note</i>	Management fee expenses	280	480	600	300	300
Public Weal Limited	<i>Note</i>	Rental expenses	520	—	—	—	—
Main Trend Limited	<i>Note</i>	Rental expenses	240	—	—	—	—
Jolly World Limited	<i>Note</i>	Rental expenses	—	—	360	180	180
Man Sun Property Limited	<i>Note</i>	Rental income	—	—	216	108	—

Note:

Mr. Cheung is the director of these related companies.

(b) Balances with related parties

The significant balances with related parties have been disclosed in notes 19, 20 and 22.

(c) Compensation of key management personnel

No remuneration was paid to the directors and key management personnel during Track Record Periods, except that the Property Holding Company has been providing accommodation, which is leased from a third party, to Mr. Cheung for use by him and his family members at no charge during the years ended 31 March 2020, 2021 and 2022.

(d) Guarantees provided by related parties

Details of guarantees provided by related parties for the Property Holding Company's bank borrowings have been disclosed in note 25.

(e) Guarantees provided to a related party

Details of a financial guarantee provided by the Property Holding Company to a related party have been disclosed in note 26.

29. Operating lease arrangements*The Property Holding Company as lessor*

The Property Holding Company leases out investment properties under operating leases. The leases typically run for an initial period of 1 to 2 years. None of the leases includes variable lease payments.

Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Property Holding Company in future periods as follows:

	As at 31 March			As at
	2020	2021	2022	30 September
	HK\$'000	HK\$'000	HK\$'000	2022
				HK\$'000
Within 1 year	2,594	3,039	3,853	3,190
Over 1 year but within 5 years	<u>345</u>	<u>1,792</u>	<u>1,520</u>	<u>604</u>
	<u>2,939</u>	<u>4,831</u>	<u>5,373</u>	<u>3,794</u>

30. Major non-cash transactions

During the year ended 31 March 2020, the Property Holding Company entered into new lease agreement for the use of residential property and carpark for 2 years. On the lease commencement, the Property Holding Company recognised HK\$2,738,000 of right-of-use asset and HK\$2,738,000 of lease liabilities.

During the year ended 31 March 2021, the Property Holding Company issued 3,000,000 ordinary shares. The consideration of new ordinary shares amounting to HK\$3,000,000 was settled through amount due from a director.

During the year ended 31 March 2022, the Property Holding Company has early terminated the lease on the right-of-use assets with the landlord, accordingly, the Company has derecognised right-of-use assets and lease liabilities of HK\$818,000. The remaining lease liabilities of HK\$18,000 has been derecognised through recognising as gain from early termination of this lease in profit or loss.

During the six months ended 30 September 2022, other payables of HK\$780,000 in relation to rental expenses and management fee were settled by Mr. Cheung on behalf of the Property Holding Company, accordingly, these payables were settled through amount due from a director.

31. Reconciliation of liabilities arising from financing activities

The table below details changes in the Property Holding Company'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 statements of cash flows as cash flows from financing activities.

	Interest payables (included in other payables) <i>HK\$ '000</i>	Bank borrowings <i>HK\$ '000</i>	Lease liabilities <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
At 1 April 2019	—	64,443	2,863	67,306
Financing cash outflows:	(1,837)	(13,193)	(3,137)	(18,167)
New lease entered	—	—	2,738	2,738
Finance costs	1,837	—	53	1,890
At 31 March 2020	—	51,250	2,517	53,767
Financing cash outflows:	(1,103)	(1,683)	(1,416)	(4,202)
New lease entered	—	—	—	—
Finance costs	1,103	—	62	1,165
At 31 March 2021	—	49,567	1,163	50,730
Financing cash outflows:	(948)	(3,439)	(335)	(4,722)
Termination of lease	—	—	(836)	(836)
Finance costs	948	—	8	956
At 31 March 2022	—	46,128	—	46,128
Financing cash outflows:	(577)	(1,719)	—	(2,296)
Finance costs	577	—	—	577
At 30 September 2022	—	44,409	—	44,409

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Property Holding Company in respect of any period subsequent to 31 March 2022.

Set out below is the management discussion and analysis of the Property Holding Company for the three years ended 31 March 2020, 2021 and 2022 and the six months ended 30 September 2022 (the “**Relevant Period**”), for the purpose of this Appendix only.

BUSINESS REVIEW

The Property Holding Company is an investment holding company incorporated in Hong Kong with limited liability. Its major asset is the Property, which is a 5-storey (including mezzanine floor) tenement building located at no. 127 Kweilin Street, Kowloon, Hong Kong.

RESULTS OF OPERATIONS

	For the six months 30 September 2022	For the year ended 31 March		
	(audited) Approximately HK\$'000	(audited) Approximately HK\$'000	(audited) Approximately HK\$'000	(audited) Approximately HK\$'000
Rental income	2,112	4,255	3,753	3,811
Other income, gains or losses	(27)	41	2	1,019
Fair value change of an investment property	(15,200)	1,400	1,900	(8,400)
Recognition of financial guarantee contract	—	—	(10,121)	—
Reversal on impairment loss on financial guarantee contract	38	226	285	—
Administrative expenses	(1,441)	(4,379)	(3,577)	(4,928)
Finance costs	(577)	(956)	(1,165)	(1,890)
(Loss)/profit before tax	(15,095)	587	(8,923)	(10,388)
Income tax expense	—	—	—	—
(Loss)/profit and other comprehensive (expense) income for the period/year	(15,095)	587	(8,923)	(10,388)

FINANCIAL REVIEW**Revenue**

During the Relevant Period, the revenue recorded by the Property Holding Company was approximately HK\$3.8 million, HK\$3.8 million, HK\$4.3 million and HK\$2.1 million respectively, which was the rental income generated from the tenancies of the Property subsisted during the Relevant Period.

Fair value change of investment property

During the year ended 31 March 2020, the loss on fair value change of investment property recorded by the Property Holding Company was approximately HK\$8.4 million.

During the year ended 31 March 2021 and 2022, the gain on fair value change of investment property recorded by the Property Holding Company was approximately HK\$1.9 million and HK\$1.4 million respectively.

During the six months ended 30 September 2022, the loss on fair value change of investment property recorded by the Property Holding Company was approximately HK\$15.2 million.

Other income, gains or losses

For the years ended 31 March 2020, 2021 and 2022 the net other income and gain recorded by the Property Holding Company was approximately HK\$1,019,000, HK\$2,000 and HK\$41,000 respectively.

For the six months ended 30 September 2022, the Property Holding Company recorded the net other losses of approximately HK\$27,000.

Administrative expenses

During the Relevant Period, the administrative expenses recorded by the Property Holding Company were approximately HK\$4.9 million, HK\$3.6 million, HK\$4.4 million and HK\$1.4 million respectively.

Finance costs

During the Relevant Period, the finance costs recorded by the Property Holding Company were approximately HK\$1.9 million, HK\$1.2 million, HK\$0.9 million and HK\$0.6 million, respectively.

Income tax expense

During the Relevant Period, there was no income tax expense recorded by the Property Holding Company.

Dividend paid

During the Relevant Period, no dividend was paid or proposed by the Property Holding Company.

Liquidity and financial resources

The current ratio of the Property Holding Company, calculated as current assets divided by current liabilities, as at 31 March 2020, 2021 and 2022 and 30 September 2022 was approximately 80.3%, 69.9%, 69.2% and 67.2% respectively. The bank balances and cash of the Property Holding Company as at 31 March 2020, 2021 and 2022 and 30 September 2022 were approximately HK\$0.6 million, HK\$2.1 million, HK\$0.2 million and HK\$0.4 million respectively, all of which were denominated in Hong Kong dollar.

Gearing ratio

The gearing ratio of the Property Holding Company was calculated by the total borrowings divided by the total equity as at the end of each financial year and multiplied by 100%. The gearing ratio as at 31 March 2020, 2021 and 2022 and 30 September 2022 was approximately 36.7%, 37.1%, 34.4% and 37.3% respectively.

As at 31 March 2020, 2021 and 2022 and 30 September 2022, the Property Holding Company had bank borrowings of approximately HK\$51.3 million, HK\$49.6 million, HK\$46.1 million and HK\$44.4 million, respectively.

Charges on assets

As at 31 March 2020, 2021 and 2022 and 30 September 2022, the Property was pledged to secure bank borrowings of the Property Holding Company.

The Property was pledged as security under a financial guarantee contract entered into by the Property Holding Company in August 2020. For further details, please refer to note 26 of the accountants' report of the Property Holding Company as set out in Appendix II to this circular.

Pursuant to the terms of the Agreement, the aforesaid financial guarantee contract shall be released or discharged on or before the Completion.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

There were no significant investments, material acquisitions or disposals during the Relevant Period.

SEGMENTAL INFORMATION

The operation of the Property Holding Company represents a single operating and reportable segment, which is property investment. As such, there is no segment information available for the Relevant Period.

CAPITAL STRUCTURE

During the Relevant Period, the Property Holding Company's capital structure comprises lease liabilities, bank borrowings, bank balances and cash, and issued share capital and reserves. The Property Holding Company finances its operations and activities primarily by rental income generated from the tenancies of the Property subsisted during the Relevant Period.

FOREIGN EXCHANGE EXPOSURE

The Property Holding Company's income and monetary assets and liabilities are denominated in Hong Kong dollars. There was no foreign exchange exposure during the Relevant Period. As at the Latest Practicable Date, the Property Holding Company did not have a foreign currency hedging policy.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

As at 31 March 2020, 2021 and 2022 and 30 September 2022, the Property Holding Company had contingent liabilities of approximately nil, HK\$80 million, HK\$80 million and HK\$80 million, respectively.

During the Relevant Period, the Property Holding Company did not have capital commitments.

FUTURE PLAN FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Property Holding Company had no plan for material investments or capital assets during the Relevant Period.

EMPLOYEES

The Property Holding Company had 2, 4, 6 and 4 employees as at 31 March 2020, 2021 and 2022 and 30 September 2022, respectively.

No remuneration was paid to the directors and key management personnel during the Relevant Period, except that the Property Holding Company has been providing accommodation, which is leased from a third party, to Mr. Cheung Shun Kut for use by him and his family members at no charge during the Relevant Period. Such leasing contract has expired on or before 30 September 2022.

* *All capitalised terms herein have the same meaning as those defined in the Circular, unless otherwise indicated.*

**Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group
as at 30 September 2022**

The following is an illustrative and unaudited pro forma consolidated statement of assets and liabilities of the Group and the Property Holding Company (the Group and the Property Holding Company hereinafter collectively referred to as the “**Enlarged Group**”) (the “**Unaudited Pro Forma Consolidated Statement of Assets and Liabilities**”), which have been prepared on the basis as set out in the notes below to illustrate the effect of the proposed acquisition of 100% equity interest in the Property Holding Company.

The Unaudited Pro Forma Consolidated Statement of Assets and Liabilities has been prepared in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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**”), for the purpose of illustrating the effect of the Acquisition as if the Acquisition had been completed on 30 September 2022. The Unaudited Pro Forma Consolidated Statement of Assets and Liabilities has been prepared by the Directors to provide information of the Group upon completion of the Acquisition. It is prepared for illustrative purpose only and based on a number of assumptions, estimates and uncertainties. Because of its hypothetical nature, the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities may not give a true picture of the financial position of the Enlarged Group following the Completion of the Acquisition or any future date.

The Unaudited Pro Forma Consolidated Statement of Assets and Liabilities should be read in conjunction with the historical financial information as set out in the Company’s published interim report for the period ended 30 September 2022, the accountants’ report of the Property Holding Company as set out in Appendix II of the circular and other financial information included elsewhere in the circular.

APPENDIX IV
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	The Group <i>HK\$'000</i>	Property Holding Company <i>HK\$'000</i>	Proforma adjustment <i>HK\$'000</i>		The Enlarged Group <i>HK\$'000</i>
	<i>Note 1</i>	<i>Note 2</i>	<i>Note 3 and 4</i>	<i>Note 5</i>	<i>Note 6</i>
Non-current assets					
Property, plant and equipment	68,705	—	—	—	68,705
Right-of-use assets	1,244	—	—	—	1,244
Investment property	—	137,100	(12,100)	—	125,000
Intangible assets	2,200	—	—	—	2,200
Prepayments and deposits	27,167	—	—	—	27,167
	<u>99,316</u>	<u>137,100</u>	<u>(12,100)</u>	<u>—</u>	<u>224,316</u>
Current assets					
Inventories	19,030	—	—	—	19,030
Trade and other receivables, prepayments and deposits	40,278	20	—	—	40,298
Amount due from a director	—	36,435	(36,435)	—	—
Tax recoverable	246	—	—	—	246
Equity investments at fair value through profit or loss	8,874	—	—	—	8,874
Cash and cash equivalents	61,680	433	(80,157)	—	(18,044)
	<u>130,108</u>	<u>36,888</u>	<u>(116,592)</u>	<u>—</u>	<u>50,404</u>
Current liabilities					
Trade payables, other payables and accruals	15,962	887	—	2,000	18,849
Contract liabilities	35	—	—	—	35
Bank and other borrowings	88,008	44,409	—	—	132,417
Lease liabilities	1,356	—	—	—	1,356
Refund liabilities	1,230	—	—	—	1,230
Tax payables	1,716	—	—	—	1,716
Financial guarantee contract	—	9,572	(9,572)	—	—
	<u>108,307</u>	<u>54,868</u>	<u>(9,572)</u>	<u>2,000</u>	<u>155,603</u>
Net current assets/(liabilities)	<u>21,801</u>	<u>(17,980)</u>	<u>(107,020)</u>	<u>(2,000)</u>	<u>(105,199)</u>
Total assets less current liabilities	<u>121,117</u>	<u>119,120</u>	<u>(119,120)</u>	<u>(2,000)</u>	<u>119,117</u>
Non-current liability					
Deferred tax liabilities	26	—	—	—	26
	<u>26</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>26</u>
Net assets	<u>121,091</u>	<u>119,120</u>	<u>(119,120)</u>	<u>(2,000)</u>	<u>119,091</u>

Notes:

1. The financial information of the Group is extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 September 2022 as set out in the Company's published interim report for the period ended 30 September 2022.
2. The financial information of the Property Holding Company as at 30 September 2022 are extracted from the accountants' report of the Property Holding Company as set out in Appendix II to this circular.
3. Pursuant to the agreement entered into by the Purchaser, with respect to the Acquisition, the consideration for the Acquisition of HK\$125,000,000 (subject to the Completion Adjustments) will be satisfied by cash in two stages: i) an initial deposit of HK\$44,000,000 shall be paid by the Purchaser to the Vendors upon signing the Agreement; ii) upon Completion of the Acquisition, the remaining balance of the consideration subject to the Completion Adjustments shall be paid by the Purchaser to the Vendors. Pursuant to the terms of the Agreement, the Consideration is subject to the Completion Adjustments as following:
 - (a) Unless otherwise agreed by the Purchaser in writing, all Liabilities of the Property Holding Company shall be discharged by the Vendors on or before the Completion; and all outstanding Liabilities on the Completion Date shall be deducted from the Consideration.
 - (b) All government rates, government rents, management fees and all other outgoings in respect of the Property up to and inclusive of the Completion Date shall be discharged by the Vendors. All such rates, rents, fees and outgoings shall be apportioned between the Vendors and the Purchaser on Completion.

The Consideration is assumed to be adjusted as below:

	<i>HK\$,000</i>
Consideration stated in the Agreement	125,000
(a) Assumed outstanding liabilities to be discharged on the Completion Date (the total current liabilities of approximately HK\$54,868,000 excluding the financial guarantee contract of approximately HK\$9,572,000 that assumed to be released as further described in below, as extracted from the Appendix II to this circular)	(45,296)
	79,704
(b) Assumed other Assets to be taken up by the Purchaser on the Completion Date, including:	
Trade and other receivables (as extracted from the Appendix II to this circular)	20
Bank balances and cash (as extracted from the Appendix II to this circular)	433
Assumed Consideration after the Completion Adjustments	80,157

Besides, further pursuant to the terms of the Agreement, the Vendors undertake to the Purchaser that both (i) the amount due from a director of the Property Holding Company of approximately HK\$36,435,000 shall be waived, and (ii) the financial guarantee contract of approximately HK\$9,572,000 where the Vendors procured such guarantee shall be released or discharged, on or before completion of the Acquisition, and therefore both the amount due from a director and financial guarantee contract were eliminated in the statement of assets and liabilities of the Enlarged Group as if the Acquisition had taken place on 30 September 2022.

The actual cash consideration payable by the Group and the actual purchase cost allocation of net assets to be acquired is subject to change and will be determined as of the date of completion of the Acquisition and may differ materially from the amount disclosed above in the pro forma financial information.

The negative cash and cash equivalents balances of the Enlarged Group as shown in the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group was the result of the pro forma adjustment of HK\$80,157,000 of the Consideration (as calculated above), that would be settled by cash and be deducted from cash and cash equivalents as if the Acquisition had taken place on 30 September 2022. In the opinion of the Directors, the Group has sufficient bank balances to complete the Acquisition and the Enlarged Group would have positive cash and cash equivalents balances upon the completion of the Acquisition as the Consideration will be funded by way of the Group's internal resources and partly by way of loan facilities available and/or to be available to the Group. The Company has successfully negotiated with another commercial bank in Hong Kong to refinance the repayment of the bank and other borrowings of the Property Holding Company with term equivalent or better upon completion of the Acquisition. In addition, the Company had been negotiating with financial institutions and successfully obtained indications from these parties that they will be able to provide an aggregate debt financing of approximately HK\$31 million for terms of around 15 years at annual interest rates ranging from HKD Prime Rate plus 3% to 7% to the Company.

No pro forma adjustment has been made to reflect above mentioned financing activities in the pro forma consolidated statement of assets and liabilities.

- The Property Holding Company is a property holding company established for the holding of the properties. The Group elected to apply the optional concentration test in accordance with Hong Kong Financial Reporting Standard 3 Business Combinations. This acquisition has been accounted for as an acquisition of assets rather than a business combination, given that substantially all of the fair value of the gross assets acquired is concentrated in a group of similar identifiable assets (i.e. investment property).

Assumed Consideration of the Acquisition shall be allocated to the individual identifiable assets and liabilities of the Property Holding Company on the basis of their relative fair values at the completion date of the Acquisition, as follows:

	Adjusted carrying amount as at 30 September 2022
Investment property	125,000
Trade and other receivables	20
Bank balances and cash	433
Trade and other payables	(887)
Bank and other borrowings	<u>(44,409)</u>
	<u><u>80,157</u></u>

Note:

The actual purchase allocation of net assets to be acquired is subject to change and will be determined as of the date of completion of the Acquisition and may differ materially from the amount disclosed above in the pro forma financial information.

5. The adjustment represents the estimated transaction costs of the Acquisition, including but not limited to legal and professional fees and stamp duty of approximately HK\$2,000,000 directly attributable to the Acquisition.
6. No adjustments have been made to the Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group to reflect any trading results or other transactions of the Group and Property Holding Company entered into subsequent to 30 September 2022.

The following is the text of the independent reporting accountants' assurance report received from Moore Stephens CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

**Moore Stephens CPA Limited**

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**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****To the Directors of Shunten International (Holdings) Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Shunten International (Holdings) Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 September 2022 and related notes as set out on pages IV-2 to IV-5 of the circular issued by the Company dated 20 February 2023 (the “**Circular**”). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages 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 100% equity interest in Daisyluck Industries Limited (hereinafter referred to as the “**Property Holding Company**”) (the “**Acquisition**”) on the Group's financial position as at 30 September 2022 as if the Acquisition had taken place at 30 September 2022. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's unaudited condensed consolidated financial statements for the six months ended 30 September 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 behavior.

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

Reporting Accountants’ Responsibilities

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

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants 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 September 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.

Moore Stephens CPA Limited
Certified Public Accountants
Registered Public Interest Entity Auditors
Lai Hung Wai
Practising Certificate Number: P06995

Hong Kong, 20 February 2023

The following is the text of a letter and property valuation report prepared for the purpose of incorporation in this circular received from Peak Vision Appraisals Limited, an independent property valuer, in connection with its opinion of market value of the Property as at 30 November 2022.



Peak Vision
Appraisals Limited

Unit 702, 7th Floor
Capital Centre
No. 151 Gloucester Road
Wanchai, Hong Kong
www.peakval.com
Tel (852) 2187 2238
Fax (852) 2187 2239

20 February 2023

The Board of Directors
Shunten International (Holdings) Limited
27th Floor, The Galaxy
313 Castle Peak Road
Kwai Chung
Hong Kong

Dear Sirs,

Re: No. 127 Kweilin Street, Sham Shui Po, Kowloon, Hong Kong

In accordance with the instruction from Shunten International (Holdings) Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for us to value the captioned property located in the Hong Kong Special Administrative Region (“**Hong Kong**”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for providing you with our opinion of value of the property as at 30 November 2022 (the “**Valuation Date**”) for public documentation purpose.

This letter, forming part of our valuation report, identifies the property being valued, explains the basis and methodology of our valuation and lists out the assumptions and title investigations, which we have made in the course of our valuation, as well as the limiting conditions.

Our valuation is our opinion of market value which is defined 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 and where the parties had each acted knowledgeably, prudently and without compulsion”.

In valuing the property, we have adopted the Investment Method by taking into account the current rents passing and the reversionary income potential of the tenancies or, where appropriate, the Direct Comparison Method assuming the property is capable of being sold in its existing state and by making reference to comparable sales evidence as available in the relevant markets.

Our valuation has been made on the assumption that the owner sells the property on the open market in its existing state without the benefit of deferred terms contracts, leasebacks, joint ventures, management agreements or any similar arrangements which could serve to affect the value of the property. No forced sale situation in any manner is assumed in our valuation. In addition, we have not considered any option or right of pre-emption which would concern or affect the sale of the property.

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

We have caused title search to be made at the Land Registry of Hong Kong in respect of the property. However, we have not searched the original documents to verify the ownership or to ascertain the existence of any amendments.

In valuing the property located in Hong Kong, of which the Government Lease has expired before 30 June 1997, we have taken into account the provisions contained in the Basic Law of the Hong Kong Special Administrative Region and the New Territories Leases (Extension) Ordinance 1988 that such lease has been extended without any additional payment of premium until 30 June 2047 and that an annual rent equivalent to three per cent of the rateable value of the property will be charged from the date of extension.

The property was inspected during December 2022 by Mr. Nick C. L. Kung, a director of our firm who has over 20 years of experience in the inspection of properties in Hong Kong and abroad. We have inspected the exterior and, where possible, the interior of the property. In the course of our inspections, 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 on-site measurements to verify the correctness of the site and floor areas of the property but have assumed that the site and floor areas shown on the documents and floor plans available to us are correct. Dimensions, measurements and areas included in the attached property valuation report are based on information contained in the documents provided to us and are, therefore, only approximations.

We have relied to a considerable extent on the information provided by the Group and have accepted advice on such matters as planning approvals, statutory notices, easements, tenures, particulars of occupancy, tenancy agreements, site and floor areas and all other relevant materials regarding the property.

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 facts have been omitted from the information provided. 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. The management of the Group has reviewed and confirmed the factual content and has agreed to the assumptions and limiting conditions of this report.

In valuing the property, we have complied with all the requirements set out in Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards 2020 Edition issued by the Hong Kong Institute of Surveyors and the International Valuation Standards (Effective 31 January 2022) published by the International Valuation Standards Council, where applicable, and under generally accepted valuation procedures and practices.

Our valuation has been prepared based on the economic, market and other conditions as they existed on, and information made available to us as of the Valuation Date only. It has come to our attention that the outbreak of Coronavirus Disease (COVID-19) has caused significant disruption to economic activities around the world. It is uncertain how long the disruption will last and to what extent it will affect the economy and it may cause volatility and uncertainty such that the input parameters and assumptions adopted in our valuation may change significantly and unexpectedly over a short period of time. It should therefore be noted that any market volatility, policy, geopolitical and social changes or other circumstances after the Valuation Date may affect the value of the property after the Valuation Date.

Unless otherwise stated, all monetary amounts stated in this report are in Hong Kong Dollars (HK\$).

We hereby confirm that we have no material connection or involvement with the Group, the property or the value reported herein and that we are in a position to provide an objective and unbiased valuation.

Our property valuation report is enclosed herewith.

Yours faithfully,
For and on behalf of
Peak Vision Appraisals Limited
Nick C. L. Kung
MRICS, MHKIS, RPS (G.P.),
RICS Registered Valuer, MCIREA
Director

Note: Mr. Nick C. L. Kung is a RICS Registered Valuer and a Registered Professional Surveyor who has over 20 years of experience in the valuation of properties in Hong Kong and abroad.

Property Valuation Report

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 November 2022
<p>No. 127 Kweilin Street, Sham Shui Po, Kowloon, Hong Kong</p> <p>Section A of New Kowloon Inland Lot No. 265</p>	<p>The property comprises a 5-storey (including mezzanine floor) tenement building with ground floor and mezzanine floor occupied for commercial use and upper floors occupied for residential use, completed in about 1950, erected on a rectangular shaped site with a registered site area of approximately 855 sq.ft. (79.43 sq.m.). It is located on the northwestern side of the intersection between Kweilin Street and Apliu Street, within Sham Shui Po, Kowloon.</p>	<p>As advised by the Group, as at the Valuation Date, the property (excluding the mezzanine floor) was subject to various tenancies yielding a total monthly rental of HK\$362,300 with the latest tenancy expiring on 6 October 2024, whilst the mezzanine floor of the property was vacant.</p>	<p>HK\$135,000,000</p>
	<p>The property completed alterations in about 2015 and as at the Valuation Date, the property having a total gross floor area and a total saleable area of approximately 3,822 sq.ft. (355.072 sq.m.) and approximately 3,513 sq.ft. (326.366 sq.m.) respectively, both excluding flat roof and roof areas of approximately 1,056 sq.ft. (98.105 sq.m.). (<i>See (Note i) below</i>)</p>		
	<p>New Kowloon Inland Lot No. 265 is held under a Government Lease for a term of 75 years from 1 July 1898 renewed for a further term of 24 years which has been statutorily extended to 30 June 2047.</p>		
	<p>The government rent payable for the property is an amount equal to 3% of the rateable value from time to time of the property.</p>		

Notes:

i) Details of the gross floor area and saleable area breakdown of the property are listed as follows:

Floor	Approximate Gross Floor Area (sq.ft.)	Approximate Gross Floor Area (sq.m.)	Approximate Saleable Area (sq.ft.)	Approximate Saleable Area (sq.m.)
3 rd Floor	394	36.603	328	30.472
2 nd Floor	1,037	96.340	963	89.465
1 st Floor	1,097	101.914	1,025	95.225
Mezzanine Floor	439	40.784	367	34.095
Ground Floor	855	79.431	830	77.109
Total:	<u>3,822*</u>	<u>355.072*</u>	<u>3,513*</u>	<u>326.366*</u>

* Excluding flat roof and roof areas

ii) According to the Land Registry Search conducted on 9 December 2022, the property is subject to the following encumbrances:

- a) The registered owner of the property is Daisyluck Industries Limited vide Memorial No. UB4748989 dated 21 February 1991 for a consideration of HK\$4,000,000.
- b) Mortgage for all moneys in favour of The Hongkong and Shanghai Banking Corporation Limited vide Memorial No. 17050200460232 dated 7 April 2017.
- c) Rent Assignment in favour of The Hongkong and Shanghai Banking Corporation Limited vide Memorial No. 17050200460240 dated 7 April 2017.
- d) Second Mortgage for all monies in favour of Leung Lisa vide Memorial No. 20090300750012 dated 10 August 2020.
- e) Order No. "UMB/MB01/2001-286/0001" by the Building Authority under Section 30B(3) of the Buildings Ordinance vide Memorial No. 21102601630324 dated 27 August 2021.
- f) Legal Charge for all monies in favour of Leung Lisa vide Memorial No. 22041100980016 dated 4 April 2022.
- g) Transfer of Mortgages in favour of Ruima Group Limited by Leung Lisa vide Memorial No. 22042800650020 dated 20 April 2022.
- h) Confirmatory Legal Charge vide Memorial No. 22050300430016 dated 20 April 2022.

iii) As at the Valuation Date, the property was zoned as "Residential (Group A)" under Draft Cheung Sha Wan Outline Zoning Plan No. S/K5/38 dated January 2022.

- iv) In our valuation, we have adopted average market rent of approximately HK\$324.5 per sq.ft./month for the ground floor of the property and approximately HK\$28.6 per sq.ft./month for the remaining portion of the property. The market yield of the property is about 3.1%.

We have made reference to monthly rental transaction comparables in the vicinity. The market rental comparables are about HK\$236.7 to HK\$548.5 per sq.ft./month for ground floor of the property and about HK\$26.0 to HK\$36.4 for the remaining portion of the property. The unit rates adopted by us are consistent with the said rental transaction comparables references after due adjustments. Due adjustments to those rental transaction comparables have been made to reflect factors including but not limited to floor, layout, time, size and location in arriving at our opinion of value.

- v) The reconciliation between the capital value of the property as at 30 September 2022 and the capital value of the property as at 30 November 2022 has been detailed below:

Capital value as at 30 September 2022	:	HK\$137,100,000
Change in capital value	:	-HK\$2,100,000
Capital value as at 30 November 2022	:	HK\$135,000,000

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Directors and chief executives

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

Long positions in the Shares

Number of Shares held, capacity and nature of interest

Name of Director	Capacity/Nature	Number of Shares held ⁽¹⁾	Approximate % of issued share capital of the Company as at the Latest Practicable Date
Mr. Cheung Siu Fai	Interest of controlled corporation	723,242,000 (L) ⁽²⁾	23.27%
	Beneficial owner	12,952,000 (L) ⁽³⁾	0.42%
	Interest of controlled corporation	723,242,000 (S) ⁽⁴⁾	23.27%

Notes:

- (1) The letters “L” and “S” denote the Director’s long and short position in the shares of the Company respectively.
- (2) Based on the public information of disclosure of interests from the website of the Stock Exchange (<http://www.hkexnews.hk/di/di.htm>), with reference to the notices of disclosures of interests of Leading Virtue Holdings Limited (“**Leading Virtue**”) and Mr. Cheung Siu Fai filed with the Stock Exchange on 9 November 2022, 723,242,000 shares of the Company are held by Leading Virtue, a company wholly-owned by Mr. Cheung Siu Fai. As such, Mr. Cheung Siu Fai is deemed to be interested in the shares held by Leading Virtue by virtue of the SFO.
- (3) Mr. Cheung Siu Fai, an executive director of the Company, is a beneficial owner of 12,952,000 shares of the Company.
- (4) Based on the public information of disclosure of interests from the website of the Stock Exchange (<http://www.hkexnews.hk/di/di.htm>), with reference to the notices of disclosures of interests of Hammer Capital Ventures Limited (“**Hammer Capital Ventures**”) and Mr. Cheung Siu Fai filed with the Stock Exchange on 28 December 2022, the short position of 723,242,000 shares of the Company represents the shares lent by Leading Virtue as lender to Hammer Capital Ventures as borrower pursuant to a securities borrowing and lending agreement dated 21 December 2022. Hammer Capital Ventures is wholly-owned by Mr. Cheung Siu Fai. As such, Mr. Cheung Siu Fai is deemed to be interested in the interest held by Hammer Capital Ventures by virtue of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company nor their associates had registered an interest or short position in any Shares or underlying Shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they are taken or deemed to have under such provisions of the SFO) or that was required to be recorded in the register kept by the Company pursuant to section 352 of the SFO, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Substantial Shareholders

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had an interest in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO:

Long positions in the Shares

Number of Shares held, capacity and nature of interest

Name of Shareholders	Capacity/Nature	Number of Shares held ⁽¹⁾	Approximate % of issued share capital of the Company as at the Latest Practicable Date
Leading Virtue Holdings Limited	Beneficial owner	723,242,000 (L) ⁽²⁾	23.27%
Hammer Capital Ventures Limited	Other	723,242,000 (S) ⁽³⁾	23.27%
Ms. Leung Lisa	Interest of controlled corporation	718,804,033 (L) ⁽⁴⁾	23.13%
Prosper Rich Investments Limited (“Prosper Rich”)	Beneficial owner	718,804,033 (L) ⁽⁴⁾	23.13%

Notes:

- (1) The letters “L” and “S” denote the Director’s long and short position in the shares of the Company respectively.
- (2) Based on the public information of disclosure of interests from the website of the Stock Exchange (<http://www.hkexnews.hk/di/di.htm>), with reference to the notices of disclosures of interests of Leading Virtue and Mr. Cheung Siu Fai filed with the Stock Exchange on 28 December 2022, 723,242,000 shares of the Company are held by Leading Virtue, a company wholly-owned by Mr. Cheung Siu Fai. As such, Mr. Cheung Siu Fai is deemed to be interested in the shares held by Leading Virtue by virtue of the SFO.

- (3) Based on the public information of disclosure of interests from the website of the Stock Exchange (<http://www.hkexnews.hk/di/di.htm>), with reference to the notices of disclosures of interests of Hammer Capital Ventures and Mr. Cheung Siu Fai filed with the Stock Exchange on 28 December 2022, the short position of 723,242,000 shares of the Company represents the shares lent by Leading Virtue as lender to Hammer Capital Ventures as borrower pursuant to a securities borrowing and lending agreement dated 21 December 2022. Hammer Capital Ventures is wholly-owned by Mr. Cheung Siu Fai. As such, Mr. Cheung Siu Fai is deemed to be interested in the interest held by Hammer Capital Ventures by virtue of the SFO.
- (4) Based on the public information of disclosure of interests from the website of the Stock Exchange (<http://www.hkexnews.hk/di/di.htm>), with reference to the notices of disclosure of interests of Prosper Rich and Ms. Leung Lisa filed with the Stock Exchange on 20 June 2022, 718,804,033 shares of the Company are held by Prosper Rich, a company wholly-owned by Ms. Leung Lisa. As such, Ms. Leung Lisa is deemed to be interested in the shares held by Prosper Rich by virtue of the SFO.

As informed by the Directors of the Company, save and except Mr. Cheung Siu Fai, being a director of the Company, is a director and sole shareholder of Leading Virtue Holdings Limited and Hammer Capital Ventures Limited, both of which are substantial shareholders of the Company, the other Directors are not a director or employee of any substantial shareholders of the Company.

Save as disclosed above, as at the Latest Practicable Date and so far as is known to any Director or chief executive of the Company, no other person had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited consolidated accounts of the Group were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries.

As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group which was not determinable by the relevant member of the Group within one year without payment of compensation, other than statutory compensation.

5. COMPETING INTERESTS OF DIRECTORS AND CLOSE ASSOCIATES

As at the Latest Practicable Date, to the best knowledge and belief of the Directors after having made all reasonable enquiries, none of the Directors or their respective close associates had any interests in businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

6. EXPERT AND CONSENT

The followings are the qualification of the experts who have been named in this circular or have given opinion or letter contained in this circular:

Name	Qualification
Moore Stephens CPA Limited	Certified public accountants
Peak Vision Appraisals Limited	Qualified independent valuer

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

As at the Latest Practicable Date, each of the experts above did not have any shareholding in any member of the Group, nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the experts above did not have any direct or indirect interest in any assets which have been, since 31 March 2022 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. MATERIAL CONTRACTS

The following contracts, not being a contract entered into in the ordinary course of business of the Group, were entered into by members of the Group during the two years immediately preceding the date of this circular and are or may be material:

- (i) the sale and purchase agreement dated 12 August 2021 entered into between Cosmo Group Holdings Limited as vendor, Super Winner Enterprises Limited as purchaser and the Company in relation to the sale and purchase of 43.05% issued share capital in Aggressive Resources Limited for a consideration of approximately HK\$66,687,691;

- (ii) the agreement dated 30 September 2021 and entered into between the Company as vendor and Lucky Glory International Group Limited as purchaser in relation to the sale and purchase of all obligations, liabilities and debts owing or incurred by Grand Spread Limited to the Company under the promissory note pursuant to the agreement on 27 March 2020;
- (iii) the sale and purchase agreement dated 16 June 2022 entered into between Super Winner Enterprises Limited as vendor, Mr. Wu Lianju as purchaser and the Company in relation to the disposal of 43.05% issued share capital in Aggressive Resources Limited for a consideration of approximately HK\$66,000,000; and
- (iv) the Agreement.

8. LITIGATION

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group that would have a material adverse effect on the results of operations or financial conditions of the Group.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Electronic copies of the following documents are published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.shunten.com.hk) for a period of 14 days from the date of this circular (both days inclusive):

- (a) the accountants' report on the Property Holding Company issued by Moore Stephens CPA Limited, the text of which is set out in Appendix II to this circular;
- (b) the report on the unaudited pro forma financial information of the Enlarged Group issued by Moore Stephens CPA Limited, the text of which is set out in Appendix IV to this circular;
- (c) the report from Peak Vision Appraisals Limited in relation to the valuation of the Property, the text of which is set out in Appendix V to this circular;
- (d) the written consents referred to in the paragraph headed "6. EXPERT AND CONSENT" in this Appendix;
- (e) copies of the material contracts referred to in the paragraph headed "7. MATERIAL CONTRACTS" in this Appendix; and
- (f) this circular.

10. MISCELLANEOUS

- (a) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (b) The place of business of the Company in Hong Kong is at 27/F., The Galaxy, 313 Castle Peak Road, Kwai Chung, Hong Kong.
- (c) The Cayman Islands principal share registrar and transfer office of the Company is Suntera (Cayman) Limited at Suite 3204, Unit 2A, Block 3, Building D, P.O. Box 1586, Gardenia Court, Camana Bay, Grand Cayman, KY1-1110, Cayman Islands.
- (d) The Hong Kong branch share registrar and transfer agent of the Company is Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (e) The company secretary of the Company is Ms. Chan Yuk Chi, who holds a Bachelor of Business Administration degree in accounting from Lingnan University and a Master of Corporate Governance degree from The Hong Kong Polytechnic University. Ms. Chan Yuk Chi is a Certified Public Accountant (Practising) registered under the Accounting and Financial Reporting Council Ordinance (Cap. 588), a fellow member of The Hong Kong Institute of Certified Public Accountants, an associate member of The Institute of Chartered Accountants in England and Wales, a Chartered Secretary, a Chartered Governance Professional and a fellow member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.
- (f) In case of any inconsistency between English and Chinese versions of this circular, the English version shall prevail.



Shunten International (Holdings) Limited

順騰國際(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 932)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Shunten International (Holdings) Limited (the “Company”) will be held at Duo Room, Coral Hub, Unit D, 21/F., Roxy Industrial Centre, 58–66 Tai Lin Pai Road, Kwai Chung, Hong Kong on Wednesday, 8 March 2023 at 3:00 p.m. for the purpose to, as ordinary business, consider and if thought fit, passing the following ordinary resolution with or without amendments:

ORDINARY RESOLUTION

1. “THAT:

- (a) the sale and purchase agreement entered into between Mr. Cheung Shun Kut (as vendor A), Ms. Kong Choy Heung (as vendor B) and Shunten Credit Services Limited, a wholly-owned subsidiary of the Company (as purchaser) dated 20 December 2022 (the “Agreement”) in relation the acquisition of the entire issued share capital of Daisyluck Industries Limited at a consideration of HK\$125,000,000, subject to completion adjustments (a copy of the Agreement has been produced to the meeting marked “A” and initialed by the Chairman of the meeting for the purpose of identification) and all the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified; and
- (b) any one director of the Company be and is hereby authorised to sign, execute and deliver all such documents, deeds or instruments and to affix the common seal of the Company thereon, where applicable, and do all such

NOTICE OF EGM

things and acts of as he/she may in his/her discretion consider necessary, expedient or desirable for the purpose of or in connection with the implementation of the Agreement and the transactions contemplated thereunder.”

By Order of the Board
Shunten International (Holdings) Limited
Cheung Siu Fai
Chairman and Executive Director

Hong Kong, 20 February 2023

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

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

27/F., The Galaxy
313 Castle Peak Road
Kwai Chung
Hong Kong

Notes:

1. A member entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or more proxy to attend and to vote on his/her/its behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the Company's Hong Kong branch share registrar and transfer agent, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time for holding the EGM (i.e. 3:00 p.m. (Hong Kong Time) on 6 March 2023) or any adjournment thereof. Completion and return of a form of proxy will not preclude a shareholder of the Company from attending in person and voting at the EGM or any adjournment thereof, should he/she/it so wish.
3. In the case of joint holders of shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he/she/it was solely entitled thereto, but if more than one of such joint holders are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
4. Delivery of a form of proxy shall not preclude a member from attending and voting in person at the meeting and in such event, the form of proxy shall be deemed to be revoked.

NOTICE OF EGM

5. If a Typhoon Signal No. 8 or above is hoisted or a Black Rainstorm Warning Signal is in force at or at any time after 9:00 a.m. on the date of the meeting, the meeting will be adjourned. The Company will post an announcement on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the website of the Company at www.shunten.com.hk and to notify shareholders of the date, time and place of the adjourned meeting. The meeting will be held as scheduled when an Amber or a Red Rainstorm Warning Signal is in force. Shareholders should decide on their own whether they would attend the meeting under bad weather conditions bearing in mind their own situations.
6. The health of our Shareholders, staff and stakeholders is of paramount importance to us. To safeguard the health and safety of the Shareholders and to prevent the spreading of the coronavirus disease (COVID-19) pandemic, the Company will strictly implement the following precautionary measures at the EGM to protect attending Shareholders, staff and stakeholders from the risk of infection:
 - i. no gifts and refreshment packs or coffee/tea will be served at the EGM to avoid close contact of attendees;
 - ii. at the entrance of the EGM venue, a compulsory body temperature check will be conducted on every person attending the EGM. Any person with a body temperature of over 37.3 degree Celsius, or who has any flu-like symptoms, or is otherwise apparently unwell will not be admitted to the EGM venue;
 - iii. all attendees must wear face masks at all times inside the EGM venue or at the waiting area outside the Venue;
 - iv. seating at the EGM venue will be arranged in a manner to allow for appropriate social distancing. As a result, there may be limited capacity for Shareholders to attend the EGM venue. The Company may limit the number of attendees to avoid over-crowding; and
 - v. all attendees are recommended to clean their hands with alcohol-based hand sanitizer before entering the Venue.
- To the extent permitted under the applicable laws, the Company reserves the right to deny any person entry into the EGM venue or require any person to leave the EGM venue so as to ensure the health and safety of the other attendees at the EGM. Subject to the development of COVID-19, the Company may be required to change the EGM arrangements at short notice. Shareholders should check the websites of the Company (www.shunten.com.hk) and the Stock Exchange (www.hkexnews.hk) for further announcements and updates on the EGM arrangements.
7. The translation into Chinese language of this Notice is for reference only. In case of any inconsistency, the English version shall prevail.
8. As at the date of this notice, the Board comprises five Directors, Mr. Cheung Siu Fai (Chairman) and Mr. Lam Wai Tong (Chief Executive Officer) as executive Directors; Mr. Leung Winson Kwan Yau, Mr. Liu Ying Shun and Ms. Dong Jian Mei as independent non-executive Directors.