
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Value Convergence Holdings Limited (the “Company”), you should at once hand this circular accompanying with the form of proxy to the purchaser or transferee, or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.



Value Convergence Holdings Limited

(Incorporated in Hong Kong with limited liability)

Website: <http://www.vcgroup.com.hk>

(Stock Code: 821)

**(1) MAJOR TRANSACTION IN RELATION TO
THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN
AND THE SALE LOAN OF
BRIGHT ELEMENT INVESTMENTS LIMITED
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

A notice convening the extraordinary general meeting of the Company to be held at 29th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong on Monday, 15 October 2018 at 11:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular.

Whether or not you are able to attend and/or vote at the extraordinary general meeting of the Company in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company’s share registrar and transfer office, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the extraordinary general meeting of the Company or any adjournment thereof (as the case may be) should you so wish.

26 September 2018

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DEFINITIONS

The following terms have the following meanings in this circular unless the context otherwise requires:

“Acquisition”	the acquisition of the Sale Share and the Sale Loan pursuant to the Agreement
“Agreement”	the conditional sale and purchase agreement dated 29 June 2018 entered into between the Purchaser and the Vendor relating to the Acquisition
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday, public or statutory holiday and days on which a typical 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.) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“Company”	Value Convergence Holdings Limited, a company incorporated in Hong Kong with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Agreement
“Completion Date”	the date falling on the 5th Business Day after the fulfillment or waiver of the conditions precedent set out in the Agreement, or such later date as may be agreed between the Vendor and the Purchaser
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Conversion Shares”	the new Shares to be allotted and issued by the Company upon exercise of the conversion rights attached to the Convertible Bonds
“Convertible Bonds”	the convertible bonds to be issued by the Company to the Vendor as consideration pursuant to the Agreement
“Directors”	directors of the Company

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Convertible Bonds and the grant of the specific mandate for the allotment and issue of the Conversion Shares upon conversion of the Convertible Bonds)
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Last Trading Day”	29 June 2018, being the last trading day immediately before the entering into of the Agreement
“Latest Practicable Date”	20 September 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange
“Long Stop Date”	31 October 2018, or such other dates the parties agreed in writing
“MOU”	the non-legally binding memorandum of understanding dated 13 June 2018 entered into between the Vendor and the Purchaser in relation to the acquisition of the entire issued share capital of the Target Company
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Project Company”	Shanghai Yuyang Trading Limited# (上海玉洋貿易有限公司), a company established in the PRC
“Property”	the first 4 levels of a 6-storey complex of a total gross floor area of approximately 5,443.32 square meters situated at Sichuan North Road, Hongkou District, Shanghai, the PRC
“Purchaser”	VC Global Investments Limited, an indirect wholly-owned subsidiary of the Company
“Reorganisation”	the reorganisation of the Target Group, upon completion of which the Target Company shall become the ultimate holding company of the Target WFOE and the PRC Project Company

DEFINITIONS

“Sale Share”	1 share in the Target Company, being the entire issued share capital of the Target Company as at the date of the Agreement which is legally and beneficially owned by the Vendor
“Sale Loan”	all obligations, liabilities and debts owing by the Target Company to the Vendor on or at any time prior to the Completion whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Completion which as at the date of the Agreement, amounted to approximately HK\$59,494,000
“Share(s)”	the issued ordinary share(s) in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Target Company”	Bright Element Investments Limited, a company incorporated in the British Virgin Islands with limited liability, the ultimate holding company of the Target WFOE and the PRC Project Company upon completion of the Reorganisation
“Target Group”	the Target Company and its subsidiaries, which shall include the Target WFOE and the PRC Project Company
“Target WFOE”	Madison International Trading (Tianjin) Co., Limited [#] (美迪森國際貿易(天津)有限公司), a company established in the PRC
“Vendor”	Mr. Ting Pang Wan Raymond, the sole shareholder of the Target Company
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

[#] *In this circular, translated English names of Chinese entities for which no official English translation exists are unofficial translations for identification purposes only, and in the event of any inconsistency between the Chinese names and their English translation, the Chinese names shall prevail*

In this circular, translation of RMB into HK\$ is based on the exchange rate of RMB1: HK\$1.19. No representation is made that any amounts in RMB and HK\$ can be or could have been converted at the above exchange rate or any other rates.

LETTER FROM THE BOARD



Value Convergence Holdings Limited

(Incorporated in Hong Kong with limited liability)

Website: <http://www.vcgroup.com.hk>

(Stock Code: 821)

Executive Directors:

Mr. Fu Yiu Man (*Chairman*)
Mr. Tin Ka Pak, Timmy (*Chief Executive Officer*)
Mr. Lin Hoi Kwong, Aristo
Mr. Xie Jintai
Ms. Shen Li
Mr. Zhang Min
Mr. Jiang Tian

Registered Office:

28th Floor, The Centrium
60 Wyndham Street
Central
Hong Kong

Independent Non-Executive Directors:

Mr. Wong Chung Kin, Quentin
Mr. Wong Kam Choi, Kerry, MH
Mr. Siu Miu Man, Simon
Mr. Chiang Ho Wai

26 September 2018

To the Shareholders

Dear Sir or Madam,

**(1) MAJOR TRANSACTION IN RELATION TO
THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN
AND THE SALE LOAN OF
BRIGHT ELEMENT INVESTMENTS LIMITED
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 29 June 2018 in relation to, among other things, the Acquisition.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition; (ii) the financial information of the Target Group; (iii) the valuation report on the Property; and (iv) a notice convening the EGM.

LETTER FROM THE BOARD

THE AGREEMENT

Set out below are the principal terms of the Agreement:

Date: 29 June 2018

Parties: VC Global Investments Limited, as purchaser; and

Mr. Ting Pang Wan Raymond, as vendor

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, save and except that the Vendor is interested directly and indirectly, in aggregate, in 54,204,000 Shares, representing approximately 4.84% of the entire issued share capital of the Company as at the Latest Practicable Date, and the convertible bonds in the principal amount of HK\$100,000,000 of the Company which can be converted into 76,923,077 Shares, representing approximately 6.87% of the entire issued share capital of the Company as at the Latest Practicable Date, the Vendor is an independent third party not connected to the Company and its connected persons.

Asset to be acquired

Pursuant to the Agreement, the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell (i) the Sale Share, representing the entire issued share capital in the Target Company as at the Latest Practicable Date and upon Completion; and (ii) the Sale Loan, representing all obligations, liabilities and debts owing by the Target Company to the Vendor on or at any time prior to the Completion.

As at the Latest Practicable Date, the PRC Project Company is the legal and beneficial owner of the Property. Pursuant to the Agreement, it is a condition that the Target Company shall undergo the Reorganisation which includes (i) the incorporation of relevant member(s) of the Target Group; and (ii) the completion of acquisition of the Target WFOE and the PRC Project Company by an indirect wholly-owned subsidiary of the Target Company, so that the Target Company will become the ultimate holding company of the Target WFOE and the PRC Project Company. The steps and procedures of the Reorganisation shall be conducted to the satisfaction of the Purchaser and shall be in compliance with the PRC laws.

Consideration

The total consideration for the Sale Share and the Sale Loan is HK\$257,200,000, and shall be settled by the Purchaser by procuring the Company to issue the Convertible Bonds in the principal amount of HK\$257,200,000 to the Vendor on the Completion Date.

The Consideration was determined after arm's length negotiations between the parties to the Agreement, after taking into account, among others, (i) the preliminary valuation of the Property of approximately RMB350,000,000 (equivalent to approximately HK\$416,500,000) prepared by an independent professional valuer; and (ii) the aggregate net assets value of the Target Group.

LETTER FROM THE BOARD

As at 31 May 2018, the net asset value of the Target Group amounted to approximately RMB115.8 million, being the difference of the total assets of approximately RMB353.4 million and the total liabilities of approximately RMB237.6 million, of which the total liabilities comprise of (a) deferred tax liabilities of approximately RMB50.4 million; and (b) an amount due to a related company of approximately RMB50.0 million. Given that the Vendor will enter into a deed of tax indemnity to indemnify the Purchaser for any tax liabilities borne by the Target Group, and a deed of assignment of loan to assign to the Purchaser any amount owed to the Vendor, upon Completion, the Group shall not be required to assume the deferred tax liabilities, and the loan will be eliminated after Completion. Hence, the net asset value of the Target Group will be adjusted from approximately RMB115.8 million to approximately RMB216.2 million (equivalent to approximately HK\$257.2 million).

Set out below is the reconciliation of the difference between the book value of the Property as of 31 May 2018 and the market value as of 27 June 2018, being the date of valuation of the Property:

	<i>RMB million</i>
Book value of the Property as at 31 May 2018	348
Add: net valuation surplus	<u>2</u>
Market value of the Property as at 27 June 2018	<u><u>350</u></u>

During the negotiation of the terms of the Acquisition, the Vendor initially requested for cash consideration. However, in view of the cash position of the Group, it is anticipated that there would not be sufficient cash to settle the consideration upon Completion. The Directors proposed to settle the consideration by the issuance of a promissory note but the Vendor declined. Hence, the parties agreed to use the Convertible Bonds as the consideration of the Acquisition.

Also, as the Vendor has extensive experience in the financial industry, the Directors believe that, through the Acquisition and the issuance of the Convertible Bonds, the Company and the Vendor can establish a closer business relationship, which may benefit the Group's business. Currently, the Vendor has no intention to convert the Convertible Bonds to become a substantial shareholder of the Company, nor will he appoint any director to the Board.

Further, the valuation report was conducted by Prudential Surveyors (Hong Kong) Limited, and Mr. Leo S.D. Cheung, who is the key person involved for the preparation of such report, (i) is the Professional Member of Hong Kong Institute of Surveyors (General Practice and Property & Facility Management) and the Professional Member of the Royal Institution of Chartered Surveyors and Registered Professional Surveyor (General Practice), and (ii) possesses 19 years of experience in the valuation of properties in various jurisdictions, including Hong Kong, Macau, the PRC and the Asia Pacific Region, etc. As confirmed with the valuer, it is independent to the Company, the Purchaser, the Vendor and/or any of their respective substantial shareholders, directors or chief executive, or any of their respective associates. Hence, the Board is of the view that the valuer possesses sufficient professional qualifications and independence required to perform the valuation of the Property.

LETTER FROM THE BOARD

In view of the above, the Directors consider that the consideration is fair and reasonable and the Agreement is on normal commercial terms and is fair and reasonable, and the entering into of the Agreement and the issue of the Convertible Bonds to satisfy the consideration are in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion is subject to the following conditions having been fulfilled:

- (a) the Purchaser being satisfied with the results of the due diligence review to be conducted on the assets, liabilities, operations and affairs of the Target Group;
- (b) all necessary consents, licences and approvals from the shareholders, bankers, financial institutions and regulators required to be obtained on the part of the Vendor and the Target Group in respect of the Agreement and the transactions contemplated thereby having been obtained and remain in full force and effect;
- (c) all necessary consents, licences and approvals from the shareholders, bankers, financial institutions and regulators required to be obtained on the part of the Purchaser in respect of the Agreement and the transactions contemplated thereby having been obtained and remain in full force and effect;
- (d) the passing by the Shareholders at an extraordinary general meeting to be convened and held of an ordinary resolution, approving the Agreement and the transactions contemplated thereunder including but not limited to the issue of the Convertible Bonds and the issue of the Conversion Shares which may fall to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds;
- (e) the obtaining of a legal opinion (in form and substance satisfactory to the Purchaser) from a firm of PRC legal advisers appointed by the Purchaser covering such matters of the PRC laws relevant to the transactions contemplated from the Agreement, including but not limited to the following aspects: (i) the due and proper establishment and valid existence under the laws of the PRC of the PRC Project Company; (ii) the power and authority of the PRC Project Company to carry on its business as set forth in its constitutional documents; (iii) the ownership of the registered and paid-up capitals of the PRC Project Company; (iv) the title of the PRC Project Company to the Property; (v) the taxation payable by the Target Group and/or the Vendor relating to the Property; and (vi) any other matters as may be required by the Purchaser;
- (f) the obtaining of a valuation report (in form and substance satisfactory to the Purchaser) from a firm of independent professional valuers appointed by the Purchaser showing the valuation of the Property to be not less than the amount of RMB350,000,000;
- (g) the completion of the Reorganisation, which shall be conducted in such manner and on such terms and conditions as the Vendor and the Purchaser may agree;

LETTER FROM THE BOARD

- (h) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Conversion Shares;
- (i) the production by the Vendor to the Purchaser of evidence or documentary proof to the satisfaction of the Purchaser that:
 - (1) the certificate(s) in respect of the Property has/have been issued in the name of the PRC Project Company and remain in full force and effect on the Completion Date;
 - (2) the paid-up capital of the PRC Project Company has been contributed in full by the Vendor in RMB;
 - (3) all necessary consents, licences and approvals required to be obtained from the relevant PRC governmental and regulatory authorities or agencies in relation to the remittance of the capital contribution made by the Vendor to the Target WFOE and/or the PRC Project Company, have been obtained and remain in full force and effect on the Completion Date;
 - (4) all relevant tax and fees relating to the Property has been paid by the Target Group in full; and
- (j) all the warranties remaining true and accurate in all respects from the date of the Agreement up to and immediately before Completion.

Save for condition (j), all the conditions precedent above are incapable of being waived. The Purchaser may at its absolute discretion at any time waive in writing condition (j) and such waiver may be made subject to such terms and conditions as are determined by the Purchaser. As at the Latest Practicable Date, the Purchaser has no intention to waive such condition.

If any of the conditions has not been satisfied (or, as the case may be, waived by the Purchaser) on or before 5:00 p.m. on the Long Stop Date or such later date as the Vendor and the Purchaser may agree, the Agreement shall cease and determine and neither party shall have any obligations and liabilities under the Agreement save for any antecedent breaches of the terms thereof.

As at the Latest Practicable Date, save as condition (g), no other conditions have been fulfilled.

Completion

Completion shall take place on the Completion Date, falling on the 5th Business Day after all the conditions of the Agreement have been fulfilled or waived or such later date as may be agreed between the Vendor and the Purchaser.

Upon Completion, the Target Group will become indirect wholly-owned subsidiaries of the Company and therefore, the financial information of the Target Group will be consolidated into the financial statements of the Group.

LETTER FROM THE BOARD

Principal terms of the Convertible Bonds

Set out below are the proposed principal terms of the Convertible Bonds:

- Issuer: the Company
- Principal amount: HK\$257,200,000
- Interest: the Convertible Bonds shall bear interest at a rate of 2% per annum, payable annually on the last Business Day of each 12 months, provided that interest for the last 12-month period shall be paid on the maturity date of the Convertible Bonds
- Maturity Date: the date falling on the 3rd anniversary of the date of issue of the Convertible Bonds (the “**Maturity Date**”)
- Conversion price: HK\$1.25 per Share, which represents:
- (i) a discount of approximately 6.72% to the closing price of HK\$1.34 per Share as quoted on the Stock Exchange on 29 June 2018, being the date of the Agreement;
 - (ii) a discount of approximately 25.15% to the average of the closing price of approximately HK\$1.67 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Agreement; and
 - (iii) a premium of approximately 60.26% over the closing price of HK\$0.78 per Share as quoted on the Stock Exchange on the Latest Practicable Date

The conversion price has been determined after arm’s length negotiations between the Vendor and the Purchaser with reference to, among others, (a) the closing price of the Shares on the date of the Agreement of HK\$1.34; (b) the interest rate of the Convertible Bonds of 2%; and (c) the then prevailing best lending rate offered by the banks without security of approximately 9%. As the interest rate under the Convertible Bonds is much lower than the then prevailing best lending rate offered by the banks without security, the Directors considered that the conversion price, including the discount to the closing price of the Shares on the Last Trading Day, is fair and reasonable and in the interests of the Company and the Shareholders as a whole

LETTER FROM THE BOARD

Number of Conversion Shares:	<p>based on the conversion price of HK\$1.25, up to 205,760,000 Conversion Shares will be allotted and issued upon exercise in full of the conversion rights attaching to the Convertible Bonds, representing:</p> <ul style="list-style-type: none">(i) approximately 18.37% of the existing issued share capital of the Company as at the Latest Practicable Date;(ii) approximately 22.99% of the existing issued share capital of the Company as at the date of the Agreement; and(iii) approximately 18.70% of the issued share capital of the Company as at the date of the Agreement as enlarged by the allotment and issue of the Conversion Shares upon full conversion of the Convertible Bonds at the conversion price, assuming that there would be no other Shares to be allotted and issued <p>There is no change in control of the Company after the allotment and issue of the Conversion Shares to the Vendor upon full conversion of the Convertible Bonds.</p>
Status of the Conversion Shares:	<p>the Conversion Shares, when issued and delivered in the manner contemplated by the Convertible Bonds, will rank <i>pari passu</i> and carry the same rights and privileges in all respects with the other Shares in issue and shall be entitled to all dividends and other distributions declared, paid or made thereon</p>
Adjustment events:	<p>the conversion price shall from time to time be subject to adjustment upon occurrence of consolidation or subdivision of the Shares</p>
Conversion period:	<p>the period commencing from the date of issue of the Convertible Bonds and up to and including the date which is 3 days prior to the Maturity Date</p>
Early redemption:	<p>neither the Company nor the holder(s) of the Convertible Bonds may redeem the Convertible Bonds before the Maturity Date</p>
Voting:	<p>the Convertible Bonds do not confer any voting right at any meetings of the Company</p>
Transferability:	<p>the Convertible Bonds are transferable except that no Convertible Bonds shall be transferred to any person who is not independent of the Group or the connected persons of the Company (unless otherwise permitted with prior written consent of the Company)</p>

LETTER FROM THE BOARD

Listing: no application will be made by the Company for the listing of the Convertible Bonds on the Stock Exchange. The Company shall make an application to the Stock Exchange for the listing of, and the permission to deal in, the Conversion Shares

Conversion restriction: no conversion of the Convertible Bonds would be permitted, if immediately after such conversion (a) the minimum public float requirement for the Shares as required under the Listing Rules could not be maintained; or (b) the holder of the Convertible Bonds whether alone or together with parties acting in concert with it will trigger a mandatory general offer obligations under Rule 26 of the Takeovers Code on the part of the holder of the Convertible Bonds

As such, the conversion of the Convertible Bonds shall not cause a change of control of the Company, i.e. the holder of the Conversion Shares shall not in aggregate holds 30% or more of the total issued share capital of the Company at all time

Specific mandate

The Conversion Shares upon conversion of the Convertible Bonds will be allotted and issued under a specific mandate to be sought for approval from the Shareholders at the EGM.

The Directors consider that the entering into of the Agreement is on normal commercial terms, not in the ordinary course of business of the Group and the terms of the Agreement including the conversion price are fair and reasonable and is in the interests of the Group and its Shareholders as a whole.

Potential effects on the shareholding structure of the Company

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the full conversion of Convertible Bonds at the conversion price, assuming that there is no change in the existing shareholding of the Company:

	As at the Latest Practicable Date		Immediately after the full conversion of the Convertible Bonds at the conversion price (for illustration only)	
	<i>Number of Shares</i>	<i>Approx. %</i>	<i>Number of Shares</i>	<i>Approx. %</i>
Power Global Group Limited (<i>Note 1</i>)	75,000,000	6.70	75,000,000	5.66
Mr. Chung Chi Shing, Eric (<i>Note 1</i>)	245,352,000	21.91	245,352,000	18.51
Mr. Wong Chung Kin, Quentin (<i>Note 2</i>)	500,000	0.04	500,000	0.04
The Vendor (<i>Note 3</i>)	54,204,000	4.84	259,964,000	19.61
Public Shareholders	744,818,675	66.51	744,818,675	56.18
Total	1,119,874,675	100.00	1,325,634,675	100.00

LETTER FROM THE BOARD

Notes:

1. Mr. Chung Chi Shing, Eric, a former executive Director who resigned on 2 March 2018, is beneficially interested in 245,352,000 Shares and is deemed to be interested in 75,000,000 Shares owned by Power Global Group Limited, the entire issued share capital of which is legally and beneficially owned by him, under Part XV of the SFO.
2. Mr. Wong Chung Kin, Quentin is an independent non-executive Director.
3. The Vendor is beneficially interested in 400,000 Shares, and is deemed to be interested in (i) 48,000 Shares owned by his spouse, (ii) 49,336,000 Shares owned by Kaiser Capital Holdings Limited, and (iii) 4,420,000 Shares owned by Highgrade Holding Limited, the entire issued share capital of Kaiser Capital Holdings Limited and Highgrade Holding Limited being legally and beneficially owned by the Vendor, under Part XV of the SFO.

INFORMATION OF THE TARGET GROUP

The Target Company is incorporated in the British Virgin Islands with limited liability on 6 June 2018 and the entire issued share capital of which is wholly and beneficially owned by the Vendor as at the Latest Practicable Date. Each of the Target Company and its wholly-owned subsidiary incorporated in Hong Kong is an investment holding company.

The PRC Project Company has a registered capital of RMB50,500,000 which has been fully paid up, and is wholly-owned by the Target WFOE, a company established in the PRC in 2012 with the registered capital of HK\$10 million of which HK\$5,630,000 has been paid up. The Target WFOE was principally engaged in wine trading but has ceased to operate since January 2017. The PRC Project Company is principally engaged in property holding.

As at the Latest Practicable Date, the PRC Project Company is the legal and beneficial owner of the Property which comprises the first 4 levels (G/F, 2/F, 3/F & 4/F) of a 6-storey complex situated in Sichuan North Road, Hongkou District, Shanghai, the PRC. The Property is currently fully leased and occupied by a bank, 5 restaurants and a serviced apartment of 120 units, with the total annual rental income of approximately RMB9.3 million.

Set out below is the financial information of (i) the Target Group (excluding the Target WFOE and the PRC Project Company) from the date of incorporation of the Target Company (being 6 June 2018) to 21 June 2018 based on the management accounts of the Target Group (excluding the Target WFOE and the PRC Project Company) for the same period and prepared in accordance with generally accepted accounting principles in Hong Kong, as provided by the Vendor; (ii) the Target WFOE, based on the audited financial statements of the Target WFOE for two years ended 31 December 2017 and prepared in accordance with generally accepted accounting principles in the PRC; (iii) the PRC Project Company, based on the audited financial statements of the PRC Project Company for two years ended 31 December 2017 and prepared in accordance with generally accepted accounting principles in the PRC, as provided by the Vendor:

LETTER FROM THE BOARD

(i) **the Target Group (excluding the Target WFOE and the PRC Project Company)**

	For the period from the date of incorporation to 21 June 2018 <i>HK\$</i> (unaudited)
Turnover	–
Loss before taxation	7,332
Loss after taxation	7,332

The unaudited net liabilities of the Target Group (excluding the Target WFOE and the PRC Project Company) as at 21 June 2018 was approximately HK\$7,000. As at the date of the Agreement, the Sale Loan amounted to approximately HK\$59,494,000.

(ii) **the Target WFOE**

	For the year ended 31 December 31 December 2016 2017 <i>RMB'000 RMB'000</i> (audited) (audited)	
Turnover (<i>Note</i>)	73	(71)
Loss before taxation	157	130
Loss after taxation	157	130

Note: The Target WFOE was principally engaged in wine trading and it has ceased to operate since January 2017. The negative turnover for the year ended 31 December 2017 was caused by a refund to a customer for the return of wine products.

The unaudited net assets of the Target WFOE as at 31 May 2018 was approximately RMB3,633,000.

(iii) **the PRC Project Company**

	For the year ended 31 December 31 December 2016 2017 <i>RMB'000 RMB'000</i> (audited) (audited)	
Turnover	5,077	8,496
Loss before taxation	7,911	3,474
Loss after taxation	7,911	3,474

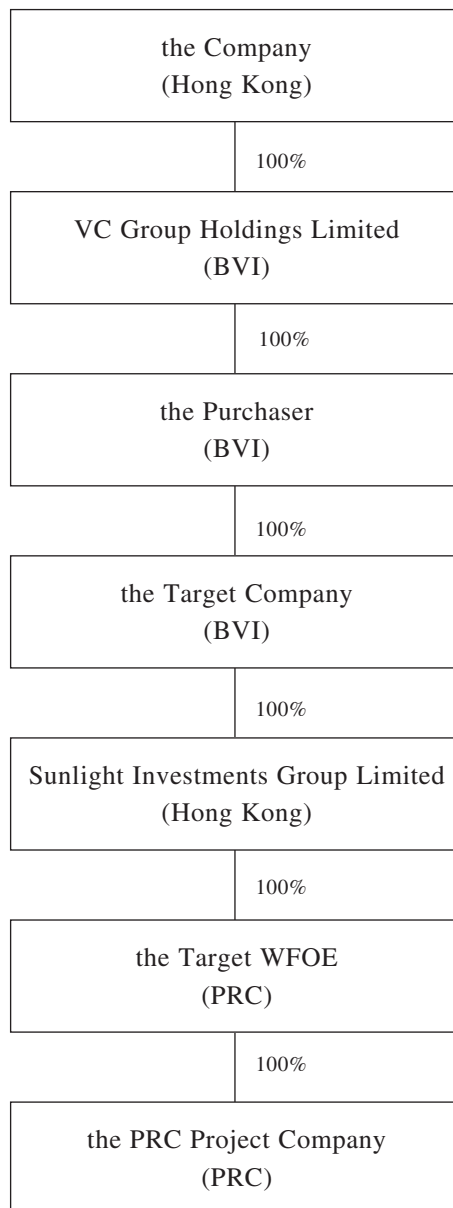
LETTER FROM THE BOARD

The unaudited net liabilities of the PRC Project Company as at 31 May 2018 was approximately RMB43,337,000.

As at the Latest Practicable Date, the PRC Project Company is the legal and beneficial owner of the Property which comprises the first 4 levels (G/F, 2/F, 3/F & 4/F) of a 6-storey complex situated in Sichuan North Road, Hongkou District, Shanghai, the PRC, and generates stable rental income to the PRC Project Company.

GROUP STRUCTURE

The following chart shows the group structure of the Company immediately upon the Completion:



LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE ACQUISITION ON EARNINGS, ASSETS AND LIABILITIES OF THE ENLARGED GROUP

Upon Completion, the Target Group will become wholly-owned subsidiaries of the Group and the profit and loss, and assets and liabilities of the Target Group will be consolidated into the financial statements of the Group in accordance with Hong Kong Financial Reporting Standards. Please refer to the Appendix IV to this circular for basis of preparing the unaudited pro forma financial information on the Enlarged Group and the unaudited pro forma financial information on the Enlarged Group after Completion.

Earnings

The Acquisition has no immediate effect on the revenue of the Enlarged Group. As set out in the unaudited pro forma financial information of the Enlarged Group in Appendix IV to this circular, the Enlarged Group would incur an estimated transaction cost of the Acquisition of approximately HK\$2.2 million.

Assets and liabilities

As set out in the unaudited pro forma financial information of the Enlarged Group in Appendix IV to this circular, the respective pro forma total assets and pro forma total liabilities of the Enlarged Group following the Acquisition would have amounted to approximately HK\$1,652 million and approximately HK\$735 million as compared to the respective total assets and total liabilities of the Group amounting to approximately HK\$1,217 million and approximately HK\$377 million as at 30 June 2018 before the Acquisition, representing an increase of HK\$435 million in total assets and HK\$358 million in total liabilities.

Financial and trading prospect of the Enlarged Group

The Group's business will be diversified by the Acquisition to have rental income as an additional source of revenue. The Enlarged Group's revenue is also more balanced geographically as the Group's original revenue is denominated in HK\$ whereas the additional rental income is denominated in RMB.

The Group's existing principal activities, namely provision of full-ranged financial services and proprietary trading, had been providing solid contribution to the Group although recently impacted by external turbulence of the global economy. The Board expects to continue the existing business on the basis of sound financial capability and pragmatic operating strategy.

The Board expects that the Target Group will continue to generate rental income from the Property to the Group upon Completion and the Company has no intention to commence or conduct any new business by the Target Group.

LETTER FROM THE BOARD

The Company has no intention or negotiation or entered into any agreement, arrangement or understanding to scale down its existing business. Save as disclosed in the announcement of the Company dated 24 June 2018 for the potential acquisition of a PRC company which is principally engaged in the provision of multi-cryptocurrencies mining pool to which miners can connect through servers located worldwide to implement encrypted communications, the Company has no intention or negotiation or entered into any agreement, arrangement or understanding regarding any potential acquisition(s)/ disposal(s). As at the Latest Practicable Date, the parties were still negotiating the terms and no binding agreement was entered into. The Company will make further announcement(s) to disclose the details when the potential acquisition materialises.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in (i) the provision of financial services including securities, futures and options brokering and dealing, margin financing and money lending, and placing and underwriting services, corporate finance and other advisory services, and asset management services; and (ii) proprietary trading including the trading of equity securities, debt securities and other financial products.

The Company has been actively seeking business opportunities from time to time in order to enhance the long-term growth potential of the Company and its shareholders' value. Given that (i) Shanghai remained the PRC's most active property investment market in the first quarter of 2018, with deals totalling over US\$2 billion; and (ii) the Property is located in a district which is well established with a mix of commercial and residential developments and retail shopping facilities enjoying high volume of pedestrian flow, the Board is positive with the outlook of property market in the PRC and the long-term appreciation of the value of the Property and therefore consider that it would be beneficial to expand and diversify its business to invest in the Property through the Target Group.

Further, as the Property is currently leased out and have generated an aggregate annual rent of approximately RMB9.3 million, this will provide a stable income stream to the Company after the Completion. Taking into account that from January to February 2018, Shanghai achieved a total retail sales of consumer goods of approximately RMB206.089 billion, an increase of 6.7% over the same period of 2017, resulting in the continuous increase in the ground floor prime retail rents in Shanghai's major retail areas, the Directors are also positive that the Property will continue to bring a stable rental income to the Group. In view of the above, the Directors consider that the terms of the Agreement are fair and reasonable, and that the investment in the Property through the acquisition of the Target Group is in the best interests of the Company and its Shareholders as a whole.

Shareholders and potential investors of the Company should be aware that the Acquisition and the transaction contemplated thereunder are subject to certain conditions being satisfied, and consequently the Acquisition may or may not proceed. Accordingly, they are advised to exercise caution when dealing in the securities of the Company.

LISTING RULES IMPLICATIONS

As some of the percentage ratios (as defined under the Listing Rules) in respect of the Acquisition are greater than 25% but less than 100%, the Acquisition constitutes a major transaction on the part of the Company pursuant to Rule 14.06(3) of the Listing Rules. Accordingly, the Acquisition and the transactions contemplated respectively thereunder are subject to, among others, the approval of the Shareholders at the EGM.

LETTER FROM THE BOARD

EGM

A notice convening the EGM to be held at 29th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong on Monday, 15 October 2018 at 11:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for 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.

As at the Latest Practicable Date, the Vendor and his associates are interested in 54,204,000 Shares, representing approximately 4.84% shareholding in the entire issued share capital of the Company. Each of them will abstain from voting in relation to the resolutions to approve the Agreement and the transactions contemplated thereunder at the EGM.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save as disclosed above, no Shareholder has a material interest in the transactions contemplated under the Agreement and is required to abstain from voting on the resolution to approve the Agreement and any vote exercised by the Shareholders taken at the EGM shall be taken by way of poll.

RECOMMENDATION

The Board considers that the terms of the Agreement are fair and reasonable and the entering into of the Agreement is in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors would recommend the Shareholders to vote in favour of the resolution approving the Agreement and the transactions contemplated thereunder at the EGM.

ADDITIONAL INFORMATION

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

By order of the Board
Value Convergence Holdings Limited
Fu Yiu Man
Chairman & Executive Director

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the three years ended 31 December 2017 are disclosed on pages 55-120 of the 2015 annual report published on 18 April 2016, pages 60-124 of the 2016 annual report published on 19 April 2017, pages 60-124 of the 2017 annual report published on 2 April 2018 respectively, which are published on both the website of the Stock Exchange (<http://www.hkex.com.hk>) and the website of the Company (<http://www.vcgroup.com.hk>). Please refer to the hyperlinks as stated below:

2015 annual report:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0418/LTN20160418347.pdf>

2016 annual report:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0419/LTN20170419257.PDF>

2017 annual report:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0402/LTN20180402281.pdf>

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 July 2018, being the latest practicable date for the purpose of our indebtedness statement, the indebtedness of the Enlarged Group was as follows:

Borrowings and banking facilities

The Group

The Group had nil outstanding bank borrowings.

The Group held banking facilities of HK\$100 million granted from a bank to VC Brokerage Limited, the indirect wholly owned subsidiary of the Company, which is secured by bank deposits of HK\$40 million provided by VC Brokerage Limited and corporate guarantee of HK\$100 million provided by the Company. Among the available banking facilities, HK\$40 million is general short-term money market loan and current account overdraft. The other HK\$50 million is short-term money market loan for margin financing business, which is required to be secured by VC Brokerage Limited's margin clients' listed securities when utilised. The balance of HK\$10 million is used for drawings against uncleared cheques. As at 31 July 2018, none of the facilities has been utilised by the Group.

As at 31 July 2018, the Group held convertible bonds of principal amount of approximately HK\$235 million and interest payable of approximately HK\$0.45 million which is owed to the bondholders. The amount was unsecured and unguaranteed.

Target Group

The PRC Project Company obtained a term loan from a PRC bank secured by its property and guaranteed by personal guarantees. As at 31 July 2018, the outstanding balance of the term loan amounted to RMB68 million.

As at 31 July 2018, the amount due to a related company owed to the sole shareholder of the Target Company amounted to approximately RMB50 million. The amount was unsecured and unguaranteed.

As at 31 July 2018, other advances owed to the independent third parties amounted to approximately RMB71 million. These amounts were unsecured and unguaranteed.

Apart from those disclosed above and intra-group liabilities, as at 31 July 2018, the Enlarged Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, and term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments, mortgages, charges, material contingent liabilities or guarantees.

3. WORKING CAPITAL

The Directors are of the opinion that taking into account of the Group's internal resources, cash flow from operations, the existing facilities available to the Enlarged Group and the effect of the Acquisition, the Enlarged Group will have sufficient working capital for a period of 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

The Group recorded a substantial increase in the unaudited consolidated loss attributable to shareholders for the six months ended 30 June 2018 as compared to the same period in 2017. The increase was mainly attributable to (i) recognition of net realised and unrealised loss on financial assets held for trading as compared to a net gain in the same period last year; (ii) share-based payment expense incurred pursuant share options granted by the Company; (iii) recognition of impairment loss on certain accounts receivable as compared to a reversal in the same period last year; (iv) imputed interest in convertible bonds issued by the Company; and (v) loss on acquisition of and unrealised loss on fair value change in convertible bonds issued by China Fortune Financial Group Limited acquired by the Company.

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2017 being the date to which the latest published audited financial statements of the Group was made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is an established financial services group committed to delivering premier financial services and products that fulfill the various investment and wealth management needs of clients in the Greater China region. The Group's expertise includes provision of financial services comprising securities, futures and options brokering and dealing, financing services, placing and underwriting services, corporate finance and other advisory services and asset management, and proprietary trading.

Looking ahead, uncertainties prevail against the backdrop of complicated political and economic environment. The trade disputes between China and the United States has escalated and investors are concerned about triggering a full blown international trade war that could hinder economic growth. In addition, the Hong Kong Dollar interest rate is expected to track the pace of normalization of US interest rates and the increase of borrowing costs may potentially impact the economy. These factors have already triggered adjustment of the stock market and greater volatility compared with last year.

On the other hand, there are also positives to the Hong Kong capital market following the listing reforms of The Hong Kong Exchange and Clearing Limited (HKEX) released in April 2018. The introduction of “weighted voting rights” could enhance the competitiveness of Hong Kong as listing venue especially for technology companies, where the structure and requirements align with other mature bourses such as the United States. Besides, the HKEX will apply new distinct requirements on biotech companies which cannot meet the Main Board’s financial eligibility tests due to their high research and development costs. The Listing Rule changes aims to attract more listing participants from high-growth tech and biotech sectors. The Group believes that the reforms would enhance the competitiveness as a listing venue and we could seize more fund raising businesses within the more vibrant capital market.

The increased quota of the Stock Connects also widens the gate for capital flow from both mainland China and international. This is especially important amid MSCI Inc’s decision to add around 230 China-listed shares to its emerging market index starting June 2018, which is expected to attract strong foreign capital to the mainland stock market. The Group will benefit from the anticipated increase in the Northbound trading volume in the long run.

Our business strategies continue to include enlarging our revenue base through fostering our core businesses, and tapping into new emerging markets with expanded business initiatives. While applying our excellent operational capabilities to serve our clients, the Group will devote increased resources to business diversification and acquisition when opportunities arise, with the view to strengthening our all-round business position in Hong Kong and beyond. The Group will continue to explore the business opportunities in the PRC market. At the same time, the Group also keeps a firm grasp on the business opportunities with comparably positive growth and return in the local financial market and more resources will then be devoted.

CAPITAL COMMITMENT

As at 30 June 2018, the Group’s commitments contracted but not provided for in respect of capital contribution to a joint venture in the amount of approximately HK\$544,369,000, considerations for acquisition of equity securities of approximately HK\$147,000,000 and the Acquisition of approximately HK\$257,200,000, respectively.

On 21 July 2016, VC Brokerage Limited, an indirect wholly owned subsidiary of the Company, entered into a joint venture agreement (the “**Joint Venture Agreement**”) with three independent third parties to establish a joint venture in Guangxi, the PRC, in which the principal activity is securities broking (the “**JV Company**”). Pursuant to the Joint Venture Agreement, VC Brokerage Limited will contribute RMB445 million (equivalent to approximately HK\$544 million), representing 44.5% shareholding in the JV Company.

On the same date, the Company entered into a placing agreement with a placing agent to procure on a best effort basis, to not less than six independent parties, to subscribe for the convertible bonds in the aggregate principal amount of up to HK\$850 million during the placing period, to finance the investment of the abovementioned JV Company.

Details of the consideration for the acquisition of equity securities of approximately HK\$147,000,000 is disclosed in the section headed “DETAILS OF MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES” below.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group financed its business operations and investments with internal resources, cash revenue generated from operating activities, shares placement and issue of convertible bonds.

The Group adopts a prudent treasury policy. As at 30 June 2018, all borrowings and almost all the bank balances and cash were denominated in Hong Kong dollars. The Group intends to maintain minimum exposure to foreign exchange risks. Further, all the bank balances and cash were put in time deposits, saving deposits and current accounts as at 30 June 2018.

As at 30 June 2018, the Group held banking facilities of HK\$100 million granted from a bank to VC Brokerage Limited, which is required to be secured by bank deposits of HK\$40 million and corporate guarantee of HK\$100 million provided by the Company. Among the available banking facilities, HK\$40 million is general short-term money market loan and current account overdraft. The other HK\$50 million is short-term money market loan for margin financing business, which is required to be secured by VC Brokerage Limited’s margin clients’ listed securities when utilised. The balance of HK\$10 million is used for drawings against uncleared cheques.

As at 30 June 2018, the Group did not utilise any banking facilities. As at 30 June 2018, the Group’s bank balances and cash, net current assets and shareholders’ equity (other than clients’ segregated accounts) amounted to approximately HK\$158.8 million (31 December 2017: HK\$228.2 million), HK\$578.5 million (31 December 2017: HK\$740.5 million) and HK\$840.1 million (31 December 2017: HK\$752.2 million) respectively. Current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of about 9.9 times as at 30 June 2018 (31 December 2017: 8.9 times). These showed that the Group still maintained a solid financial position as at 30 June 2018.

As at 31 December 2017 and 30 June 2018, the total numbers of issued ordinary shares of the Company were 794,616,829 and 894,816,829 respectively. The increase of share capital in during the six months ended 30 June 2018 was attributable to the conversion of convertible bonds by a bondholder and exercise of share options by an employee.

SIGNIFICANT INVESTMENTS HELD, THEIR PERFORMANCE DURING THE FINANCIAL YEAR AND THEIR FUTURE PROSPECTS

As at 30 June 2018, the Group held equity securities listed in Hong Kong of approximately HK\$283.2 million (31 December 2017: HK\$272.7 million) as financial assets held for trading, which was stated at market value. The fair value of these listed equity securities represents about 23% of the Group's total assets as at 30 June 2018 (31 December 2017: 32%). The Group started to devote more resources for proprietary trading business from the second half of 2016 so as to capture opportunities arising from improving market sentiments and considered it as one of the Group's core businesses thereafter.

The Group invests mainly through purchases in the secondary market. The management follows strictly the internal securities investment policy and seeks the approval from the Board, when necessary, so as to enhance the financial returns to the Shareholders and limit the risk exposure associated therewith. During the six months ended 30 June 2018, there was net additional purchase in securities investment of approximately HK\$26.1 million (six months ended 30 June 2017: HK\$15.3 million).

For the six months ended 30 June 2018, the Group did not record any revenue from the proprietary trading business, which was mainly the dividend income received on the trading investments (six months ended 30 June 2017: Nil). Meanwhile, the Group recognised a net loss of approximately HK\$61.5 million (including a realised gain of approximately HK\$2.8 million and an unrealised loss of approximately HK\$64.3 million) on the trading investments for the six months ended 30 June 2018 (six months ended 30 June 2017: net gain of approximately HK\$13.8 million (including a realised loss of approximately HK\$9.8 million and an unrealised gain of approximately HK\$23.6 million)). Overall, the Group's proprietary trading business recorded an operating loss after tax of approximately HK\$66.8 million for the six months ended 30 June 2018 (six months ended 30 June 2017: operating profit of HK\$9.7 million).

DETAILS OF MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES**Acquisition of convertible bonds issued by China Fortune Financial Group Limited**

On 18 October 2017, the Company entered into a sale and purchase agreement with Pacific Alliance Limited (“**PAL**”) as vendor, pursuant to which the Company agreed to purchase, and PAL agreed to sell, the 3-year two per cent. unsecured redeemable convertible bonds in the principal amount of HK\$153,585,000 issued by China Fortune Financial Group Limited (“**China Fortune**”, Stock Code: 290) on 30 March 2017 (the “**China Fortune Convertible Bonds**”) for an aggregate consideration of HK\$400,000,000 (the “**290CB Acquisition**”). The consideration of HK\$40,000,000 will be satisfied in cash and the balance of the consideration of HK\$360,000,000 will be satisfied by way of issue of the convertible bonds by the Company (the “**VC Convertible Bonds**”) at the completion date of the 290CB Acquisition. The China Fortune Convertible Bonds are convertible into 2,559,750,000 conversion shares at the initial conversion price of HK\$0.06 per conversion share (subject to adjustments), which representing approximately 26.54% of the enlarged issued share capital of China Fortune as at 8 January 2018, being the date of completion of the 290CB Acquisition. The VC Convertible Bonds is a 3-year zero interest unsecured redeemable convertible bonds in the principal amount of HK\$360,000,000, which are

convertible into 288,000,000 conversion shares at the initial conversion price of HK\$1.25 per conversion share (subject to adjustments), which representing approximately 26.60% of the enlarged issued share capital of the Company as at the date of completion.

One of the Group's principal businesses is proprietary trading including the trading of equity securities. Taking an optimistic view of the prospect of the financial services industry in Hong Kong and the PRC, the Group intends to hold the China Fortune Convertible Bonds for trading purposes with a view to achieve capital gains through disposal of the China Fortune Convertible Bonds or the conversion shares of the China Fortune Convertible Bonds. The 290CB Acquisition had been approved by the Shareholders during the extraordinary general meeting held on 27 December 2017 and completed on 8 January 2018. Details of the 290CB Acquisition had been disclosed in the Company's announcements dated 18 October 2017, 27 December 2017 and 8 January 2018; and the Company's circular dated 7 December 2017.

Acquisition of 18% of the entire issued share capital of Hackett Enterprises Limited

On 8 March 2018, Apex Treasure International Limited, the Company's indirect wholly owned subsidiary, entered into a sale and purchase agreement with CVP Financial Group Limited ("**CVP Financial**") as vendor pursuant to which the Company intends to acquire and CVP Financial intends to sell 18% of the entire issued share capital of Hackett Enterprises Limited (the "**Target Company**") at a consideration of HK\$160 million (the "**Consideration**"). The Target Company and its subsidiaries are principally engaged in the provision of loan financing and financial consultancy services in the PRC and the provision of money lending services in Hong Kong. The Consideration will be settled by issue of a 3-year two per cent. unsecured convertible bonds by the Company in the principal amount of HK\$160 million, which are convertible into 123,076,923 conversion shares at an initial conversion price of HK\$1.3 per conversion share (subject to adjustments). The transaction had been approved by the Shareholders during the extraordinary general meeting held on 3 May 2018 and completed on 8 June 2018. Details of the transaction had been disclosed in the Company's announcements dated 16 January 2018, 8 March 2018 and 8 June 2018; and the Company's circular dated 16 April 2018.

Acquisition of 49% of the entire issued share capital of BTCC Pool Limited

On 24 June 2018, Initial Honour Limited ("**Initial Honour**"), the Company's indirect wholly owned subsidiary, entered into the non-legally binding memorandum of understanding (the "**MOU**") with Mr. Chong Wing Chuen, Vincent ("**Mr. Vincent Chong**") in relation to the proposed acquisition of 49% of the entire issued capital of BTCC Pool Limited ("**BTCC**"). BTCC, through its subsidiaries, is principally engaged in the provision of multi-cryptocurrencies mining pool to which miners can connect through servers located worldwide to implement encrypted communications. The consideration for the proposed acquisition shall be HK\$147,000,000 and is expected to be satisfied by Initial Honour by a combination of cash and consideration shares of the Company at the issue price of HK\$1.5 per consideration share. As at the date of this circular, no definitive agreements had been executed between Initial Honour and Mr. Vincent Chong. Details of the MOU had been disclosed in the Company's announcement dated 24 June 2018.

Top-up placing and subscription of new shares of the Company under general mandate

On 26 June 2018, the Company entered into the placing and subscription agreement with Shenwan Hongyuan Securities (H.K.) Limited (the “**Placing Agent**”) and Mr. Chung Chi Shing (“**Mr. Chung**”) whereby (i) Mr. Chung agreed to appoint the Placing Agent and the Placing Agent has agreed to act as agent of Mr. Chung and use its best endeavour to procure not less than six places for up to 60,000,000 Shares at HK\$1.45 per placing shares; and (ii) Mr. Chung has agreed to subscribe for up to 60,000,000 Shares at HK\$1.45 per subscription share.

The completion of the placing took place on 29 June 2018 and a total of 50,904,000 Shares (the “**Placing Shares**”) were successfully placed to not less than six places at the HK\$1.45 per Placing Share. All the conditions of the subscription as set out in the placing and subscription agreement have been fulfilled and completion of the subscription took place on 10 July 2018 whereby a total of 50,904,000 Shares (the “**Subscription Shares**”) were allotted and issued to Mr. Chung at HK\$1.45 per Subscription Share.

The net proceeds from the placing is approximately HK\$72.6 million after deduction of commission and other related expenses of the placing from the gross proceeds of approximately HK\$73.8 million. The Company intends to use the net proceeds from the placing for (i) general working capital of the Group; (ii) expanding the Group’s proprietary trading, brokerage and financing and corporate finance businesses; and (iii) possible investment(s) in the future when opportunities arise.

Details of the top-up placing and subscription had been disclosed in the Company’s announcements dated 26 June 2018 and 10 July 2018.

NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES, SHARE OPTION SCHEME AND SHARE AWARD SCHEME**Headcount and employees information**

As at 30 June 2018, the Group employed a total of 83 (31 December 2017: 122), which excluded 18 self-employed account executives for brokerage services (31 December 2017: 7), and 78 and 5 were located in Hong Kong and the PRC respectively (31 December 2017: 117 and 5).

Salaries and staff benefits costs (including the Directors’ emoluments) and staff commission amounted to approximately HK\$53.7 million and HK\$5 million respectively for the six months ended 30 June 2018 (six months ended 30 June 2017: HK\$28.6 million and HK\$4.7 million).

Emolument policy and employee benefits

The Group understands that employees are valuable assets, therefore it provides competitive remuneration package to attract and motivate the employees. The emolument policy of the Group is set up by the Remuneration Committee of the Company. The Group’s employees are selected, remunerated and promoted on the basis of their merit, qualifications, performance and competence. Regular revision for each employee is conducted annually. Meanwhile, the emoluments of the Directors and senior management of the Group are decided by the Remuneration Committee and/or the Board, having regard to the performance of individuals, the Group’s operating results and comparable market statistics.

Apart from the basic salaries and participation in Mandatory Provident Fund Scheme, the Group also provides medical coverage, sales commission, discretionary performance-based bonus, discretionary share options and share awards to all employees.

Share option scheme

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 8 June 2009, the Company adopted a share option scheme (the “**2009 Share Option Scheme**”). The purpose of the 2009 Share Option Scheme is to recognize the contribution made by the participants to the Group and also provide them an opportunity to have a personal stake in the Company with the view to motivating them to optimize their performance and efficiency for the benefit of the Group and to attract and retain or otherwise maintain ongoing business relationship with them whose contributions are beneficial to the long term growth of the Group.

At an extraordinary general meeting held on 14 June 2018, the Shareholders approved the adoption of a new share option scheme (the “**2018 Share Option Scheme**”). which superseded the 2009 Share Option Scheme. The purpose of 2018 Share Option Scheme is same as the 2009 Share Option Scheme.

Share award scheme

On 31 March 2008, the Company adopted two share incentive award schemes, namely The VC Share Purchase Scheme Trust (the “**Share Purchase Scheme**”) and The VC Share Award Scheme Trust (the “**Share Subscription Scheme**”) (the Share Purchase Scheme and the Share Subscription Scheme collectively are referred to as the “**Share Award Schemes**”). The purpose of Share Award Schemes is to attract skilled and experienced personnel, to provide incentives for them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS AND THEIR EXPECTED SOURCES OF FUNDING IN THE COMING YEAR

As at the Latest Practicable Date, the Group had no other known plans with regard to material investments or capital assets and their expected sources of funding in the coming year except for the formation of the joint venture securities company in the PRC as disclosed in the section headed “CAPITAL COMMITMENT” in this appendix. Material capital expenditure will be incurred when the Group begins to pursue different investments or projects in the coming years. The Group will finance the respective investments or projects by using its internal resources and/or different financing options available, whichever should be deemed appropriate.

Meanwhile, as at 30 June 2018, the Group did not have any significant commitments contracted but not provided for in respect of purchase of property and equipment.

The following is the text of a report prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, SHINEWING (HK) CPA Limited, Certified Public Accountants.



SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION ON BRIGHT ELEMENT INVESTMENTS LIMITED AND ITS SUBSIDIARIES TO THE DIRECTORS OF VALUE CONVERGENCE HOLDINGS LIMITED

INTRODUCTION

We report on the historical financial information of Bright Element Investments Limited (the "Target Company") and its subsidiary (hereinafter collectively referred to as the "Target Group") set out on pages IIA-4 to IIA-44, which comprises the combined statements of financial position as at 31 December 2015, 2016, 2017 and 31 May 2018, the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for the years ended 31 December 2015, 2016, 2017 and the five months ended 31 May 2018 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages IIA-4 to IIA-44 forms an integral part of this report, which has been prepared for inclusion in the circular of Value Convergence Holdings Limited (the "Company") dated 26 September 2018 (the "Circular") in connection with, amongst other matters, the acquisition of the entire equity interest in and the sale loan of the Target Company by a subsidiary of the Company (the "Acquisition").

SOLE DIRECTOR'S RESPONSIBILITIES OF THE HISTORICAL FINANCIAL INFORMATION

The sole director of the Target Company is responsible for the preparation of the Historical Financial Information that give a true and fair view in accordance with the basis of preparation which set out in note 2 to the Historical Financial Information, and for such internal control as the sole director of the Target Company determines is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

APPENDIX IIA FINANCIAL INFORMATION OF THE TARGET GROUP

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 the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation 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 Target 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 Target Group's financial position as at 31 December 2015, 2016 and 2017 and 31 May 2018 and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2 to the Historical Financial Information, which indicates that the Target Group had net current liabilities of approximately RMB126,306,000 as at 31 May 2018. This condition indicates that a material uncertainty exists that may cast significant doubt on the Target Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

The comparative combined statements of profit or loss and other comprehensive income, cash flows and changes in equity of the Target Group for the period from 1 January 2017 to 31 May 2017 together with the notes thereon have been extracted from the Target Group's unaudited financial information for the same period (the "31 May 2017 Financial Information") which was prepared by the sole director of the Target Company solely for the purpose of this report. We have reviewed the 31 May 2017 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the 31 May 2017 Financial Information consisted 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 on the 31 May 2017 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 31 May 2017 Financial Information is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 to the Historical Financial Information.

ADJUSTMENTS

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

DIVIDENDS

We refer to note 11 to the Historical Financial Information which states that no dividends have been declared or paid by the Target Company in respect of the Relevant Periods.

Yours faithfully,

SHINEWING (HK) CPA Limited

Certified Public Accountants

Kwan Chi Fung

Practising Certificate Number: P06614

Hong Kong

26 September 2018

APPENDIX IIA FINANCIAL INFORMATION OF THE TARGET GROUP

A. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

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

The combined financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by SHINEWING (HK) 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 Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the year ended 31 December			For the five months ended 31 May	
		2015 RMB'000	2016 RMB'000	2017 RMB'000	2017 RMB'000 (unaudited)	2018 RMB'000
Revenue	6	9,440	4,373	8,805	3,726	3,980
Cost of sales		(4,864)	(43)	(74)	(1)	(32)
Other gains	7	4,576	4,330	8,731	3,725	3,948
Fair value change on investment properties	12	20	207	215	7	139
Selling and distribution expenses		7,000	8,000	15,000	6,250	8,000
Administrative expenses		(34)	(33)	(80)	(20)	(21)
Finance costs	8	(3,305)	(2,530)	(2,233)	(976)	(911)
		(8,097)	(5,827)	(5,049)	(2,190)	(1,837)
Profit before taxation	9	160	4,147	16,584	6,796	9,318
Income tax expense	10	(2,781)	(3,034)	(4,784)	(1,714)	(2,343)
(Loss) profit for the year/period and total comprehensive (expense) income for the year/period		<u>(2,621)</u>	<u>1,113</u>	<u>11,800</u>	<u>5,082</u>	<u>6,975</u>

APPENDIX IIA FINANCIAL INFORMATION OF THE TARGET GROUP

COMBINED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at
		2015	2016	2017	31 May
	Notes	RMB'000	RMB'000	RMB'000	2018
					RMB'000
NON-CURRENT ASSETS					
Investment properties	12	317,000	325,000	340,000	348,000
Property and equipment	13	—	—	—	—
		<u>317,000</u>	<u>325,000</u>	<u>340,000</u>	<u>348,000</u>
CURRENT ASSETS					
Inventories	14	43	—	32	—
Accounts receivable	15	290	317	1,988	2,740
Prepayments and other receivables	16	3,089	3,105	595	510
Pledged bank deposits	17	70	47	48	32
Bank balances and cash	17	527	705	251	2,149
		<u>4,019</u>	<u>4,174</u>	<u>2,914</u>	<u>5,431</u>
CURRENT LIABILITIES					
Accounts payable	18	4	4	5	5
Other payables	19	32,875	48,883	60,038	65,237
Amount due to a related company	20	49,995	49,995	49,995	49,995
Bank borrowings	21	12,000	14,000	16,000	16,500
		<u>94,874</u>	<u>112,882</u>	<u>126,038</u>	<u>131,737</u>
NET CURRENT LIABILITIES		<u>(90,855)</u>	<u>(108,708)</u>	<u>(123,124)</u>	<u>(126,306)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>226,145</u>	<u>216,292</u>	<u>216,876</u>	<u>221,694</u>
NON-CURRENT LIABILITIES					
Bank borrowings	21	90,000	76,000	60,000	55,500
Deferred tax liabilities	22	40,203	43,237	48,021	50,364
		<u>130,203</u>	<u>119,237</u>	<u>108,021</u>	<u>105,864</u>
NET ASSETS		<u>95,942</u>	<u>97,055</u>	<u>108,855</u>	<u>115,830</u>
SHARE CAPITAL AND RESERVES					
Share capital	23	4,578	4,578	4,578	4,578
Reserves		<u>91,364</u>	<u>92,477</u>	<u>104,277</u>	<u>111,252</u>
TOTAL EQUITY		<u>95,942</u>	<u>97,055</u>	<u>108,855</u>	<u>115,830</u>

APPENDIX IIA FINANCIAL INFORMATION OF THE TARGET GROUP

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Retained earnings	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2015	4,578	93,985	98,563
Loss and total comprehensive expense for the year	<u>–</u>	<u>(2,621)</u>	<u>(2,621)</u>
At 31 December 2015 and 1 January 2016	4,578	91,364	95,942
Profit and total comprehensive income for the year	<u>–</u>	<u>1,113</u>	<u>1,113</u>
At 31 December 2016 and 1 January 2017	4,578	92,477	97,055
Profit and total comprehensive income for the year	<u>–</u>	<u>11,800</u>	<u>11,800</u>
At 31 December 2017 and 1 January 2018	4,578	104,277	108,855
Profit and total comprehensive income for the period	<u>–</u>	<u>6,975</u>	<u>6,975</u>
As at 31 May 2018	<u><u>4,578</u></u>	<u><u>111,252</u></u>	<u><u>115,830</u></u>
At 1 January 2017 (audited)	4,578	92,477	97,055
Profit and total comprehensive income for the period	<u>–</u>	<u>5,082</u>	<u>5,082</u>
At 31 May 2017 (unaudited)	<u><u>4,578</u></u>	<u><u>97,559</u></u>	<u><u>102,137</u></u>

APPENDIX IIA FINANCIAL INFORMATION OF THE TARGET GROUP

COMBINED STATEMENTS OF CASH FLOWS

	For the year ended 31 December			For the five months ended 31 May	
	2015	2016	2017	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
OPERATING ACTIVITIES					
Profit before taxation	160	4,147	16,584	6,796	9,318
Adjustments for:					
Bank interest income	(10)	(3)	(4)	(1)	(1)
Fair value gains on investment properties	(7,000)	(8,000)	(15,000)	(6,250)	(8,000)
Impairment loss on inventories	334	–	96	–	–
Impairment loss on accounts receivable	–	–	–	–	3
Finance costs	8,097	5,827	5,049	2,190	1,837
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
MOVEMENTS IN WORKING CAPITAL	1,581	1,971	6,725	2,735	3,157
Decrease (increase) in inventories	4,864	43	(128)	–	32
Increase in accounts receivable	(200)	(27)	(1,671)	(2,326)	(755)
(Increase) decrease in prepayments and other receivables	(851)	(16)	2,510	193	85
Increase in account payables	–	–	1	34	–
(Decrease) increase in other payables	(1,878)	1,728	(1,235)	(50)	799
Decrease (increase) in pledged bank deposits	77	23	(1)	(28)	16
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
CASH GENERATED FROM OPERATING ACTIVITIES	3,593	3,722	6,201	558	3,334
Interest received	10	3	4	1	1
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET CASH GENERATED FROM OPERATING ACTIVITIES	<u>3,603</u>	<u>3,725</u>	<u>6,205</u>	<u>559</u>	<u>3,335</u>

APPENDIX IIA FINANCIAL INFORMATION OF THE TARGET GROUP

	For the year ended 31 December			For the five months ended 31 May	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
FINANCING ACTIVITIES				(unaudited)	
Proceeds from advances	17,070	14,280	12,390	7,250	4,500
Repayment of advances	(5,000)	–	–	–	(100)
Repayment of bank borrowings	(10,000)	(12,000)	(14,000)	(3,500)	(4,000)
Payment of interest	(8,097)	(5,827)	(5,049)	(2,190)	(1,837)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	<u>(6,027)</u>	<u>(3,547)</u>	<u>(6,659)</u>	<u>1,560</u>	<u>(1,437)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(2,424)</u>	<u>178</u>	<u>(454)</u>	<u>2,119</u>	<u>1,898</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	<u>2,951</u>	<u>527</u>	<u>705</u>	<u>705</u>	<u>251</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD, representing bank balances and cash	<u>527</u>	<u>705</u>	<u>251</u>	<u>2,824</u>	<u>2,149</u>

APPENDIX IIA FINANCIAL INFORMATION OF THE TARGET GROUP

B. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATION INFORMATION

The Target Company was incorporated in the British Virgin Islands (the “BVI”) with limited liability on 6 June 2018. The Target Company is principally engaged in investment holding. Its sole shareholder is Mr. Ting Pang Wan Raymond. The address of the registered office of Target Company is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

Pursuant to a group reorganisation (the “Reorganisation”), the Target Company became the holding company of the companies now comprising the Target Group upon the completion of the Reorganisation on 27 July 2018.

The Target Company acts as an investment holding company. The activities of the subsidiaries are set out as below.

At the end of the Relevant Periods, the Target Company has three subsidiaries which is 100% held by the Target Company directly during the Relevant Periods and as at date of this report:

Name of subsidiary	Date and place of establishment	Paid up issued/ registered ordinary share capital	Percentage of equity interest attributable to the Target Group				Principal activity
			31 December 2015	2016	2017	31 May 2018	
Sunlight Investments Group Limited	21 March 2018, Hong Kong	HK\$1/HK\$1	N/A	N/A	N/A	100%	Investment holdings
美迪森國貿易(天津)有限公司 ("Madison International Trading (Tianjin) Limited*")	27 September 2012, PRC	HK\$5,630,000/ HK\$10,000,000	100%	100%	100%	100%	Sale of wines
上海玉洋貿易有限公司 ("Shanghai Yuyang Trading Limited*")	8 June 2009, PRC	RMB50,500,000/ RMB50,500,000	100%	100%	100%	100%	Property investments

These subsidiaries do not issued any debt securities subsisting at the end of the Relevant Periods or at any time during the Relevant Periods.

The statutory financial statements of Madison International Trading (Tianjin) Limited for the years ended 31 December 2015, 2016 and 2017 were audited by 北京雙斗會計師事務所(普通合伙) (Beijing Shuangdou Certified Public Accountant*).

* For translation purpose only

The statutory financial statements of Shanghai Yuyang Trading Limited for the years ended 31 December 2015, 2016 and 2017 were audited by Shanghai Hddy Certified Public Accountants Company Limited.

The statutory financial statements of Sunlight Investments Group Limited have not been issued as they are not due.

The Historical Financial Information is presented in Renminbi (“RMB”), which is the same as the functional currency of the major operating subsidiary.

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

Pursuant to the Reorganisation, the Target Company became the holding company of the companies now comprising the Target Group on 27 July 2018. The Target Group, comprising the Target Company and its subsidiaries, resulting from the Reorganisation, was directly and/or beneficially owned by the same ultimate beneficial owner, Mr. Ting Pang Wan Raymond, before and after the Reorganisation.

As such, this Reorganisation is effectively interspersing a shell company over the subsidiaries and there was a continuation of risks and benefits to the ultimate beneficial owner. Accordingly, the Target Group comprising the Target Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. The Historical Financial Information of the Target Group has been prepared on the combined basis as if the Target Company had always been the holding company of the companies comprising the Target Group throughout the Relevant Periods.

The combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows included the results and cash flows of the companies now comprising the Target Group as if the current group structure had been in existence throughout the Relevant Periods. The combined statements of financial position of the Target Group as at 31 December 2015, 2016 and 2017 and 31 May 2018 has been prepared to present the assets and liabilities of the companies comprising the Target Group using the carrying amounts as if the current group structure had been in existence as at those dates. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

The sole directors of the Target Company adopts the going concern basis in preparing the combined financial statements. As of 31 May 2018, the Target Group had net current liabilities of approximately RMB126,306,000. This condition indicates the existence of a material uncertainty which may cast significant doubt on the Target Group’s ability to continue as a going concern and therefore the Target Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Notwithstanding the above, the combined financial statements have been prepared on a going concern basis as the sole director has given careful consideration to the impact of the current and anticipated future liquidity of the Target Group and are satisfied that:

- (i) a related company owned by the sole shareholder of the Target Company has undertaken to provide ongoing financial support to enable the Target Group to meet in full its financial obligations as they fall due in the foreseeable future; and

- (ii) a related company owned by the sole shareholder of the Target Company and certain creditors included in other payables have agreed not to demand for repayment of the balances due from the Target Group until the Target Group has financial ability to repay without impairing its liquidity position; and
- (iii) the Company has undertaken to provide ongoing financial support to enable the Target Group to meet in full its financial obligations as they fall due in the foreseeable future after the completion of the Acquisition.

Accordingly, the sole director of the Target Company prepares these combined financial statements on a going concern basis. The combined financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Target Group be unable to continue as a going concern.

The Historical Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

For the purpose of preparing and presenting the Historical Financial Information during the Relevant Periods, the Target Group has consistently applied all of the new and revised HKFRSs, Hong Kong Accounting Standards (“HKASs”), amendments and interpretations (“ints”) (hereinafter collectively referred to as “new and revised HKFRSs”), issued by the HKICPA which are effective for the financial year beginning on 1 January 2018 throughout the Relevant Periods.

New and revised HKFRSs issued but not yet effective

The Target Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ²
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 19	Employee benefits ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹

¹ Effective for annual periods beginning on or after 1 January 2019.

² Effective for annual periods beginning on or after 1 January 2021.

³ Effective date not yet been determined.

The sole director of the Target Company anticipates that the application of these new and revised HKFRSs will have no material impact of the results and the financial position of the Target Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared on the historical cost basis. Historical cost is generally based on fair value of the consideration given in exchange for 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 Target Group takes into account the characteristic 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 the Historical Financial Information is determined on such a basis, except for leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of Assets”.

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.

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 principle accounting policies are set out below.

Merger accounting for business combination involving entities under common control

The combined financial statements include the financial statements items of the combining entities or businesses in which the common control combination occurs as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party’s perspective. No amount is recognised as consideration for goodwill or excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party’s interest.

The combined statement of profit or loss/profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Target Group are eliminated in full on consolidation.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Target Group expects to be entitled in exchange for those goods or services. Specifically, the Target Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Target Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to customers.

Control of the asset may be transferred over time or at a point in time. Control of the asset is transferred over time if:

- the customer simultaneously receives and consumes the benefits provided by the Target Group’s performance as the Target Group performs; or
- the Target Group’s performance creates and enhances an asset that the customer controls as the Target Group performs; or
- the Target Group’s performance does not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

If the control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

For sales of goods for which the control of goods is transferred at a point in time, revenue is recognised when the customer obtains the control of the goods and the Target Group has present right to payment and the collection of the consideration is probable.

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Retirement benefits scheme contributions

Payment to the defined contribution plans in the PRC is recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

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

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

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 period/year. Taxable profit differs from profit (loss) before tax as reported in the combined statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods/years and it further excludes items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of the Relevant Periods.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the Historical Financial Information and the corresponding tax base 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 profit 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 goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantially enacted by the end of the Relevant Periods.

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

For the purposes of measuring deferred tax liabilities or deferred tax assets 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 properties are depreciable and are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property and equipment

Property and equipment is stated in the combined statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to allocate the cost of items of plant and equipment, 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 Relevant Periods, with the effect of any changes in estimate accounted for on a prospective basis.

An item of 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 plant and equipment is determined as the difference between the sales proceeds and 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 their fair values. 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 disposals. 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 the profit or loss in the period in which the property is derecognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all costs necessary to make the sale.

Cash and cash equivalents

Cash and short-term deposits in the combined statement of financial position comprise cash at banks and on hand.

For the purpose of the combined statement of cash flows, cash and cash equivalents consist of cash as defined above.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. 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.

Financial assets***Classification and measurement of financial assets***

The Target Group's management has reviewed and assessed all financial assets held by the Target Group on the basis of the Target Group's business model for managing these financial assets and their contractual cash flow characteristics, and has classified its financial assets and financial liabilities into the appropriate categories of HKFRS 9, as explained below:

Accounts receivable and other receivables, pledged bank deposits and bank balances and cash

They are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets continue to be subsequently measured at amortised cost upon application of HKFRS 9.

Impairment of financial assets

The Target Group recognises a loss allowance for expected credit losses ("ECL") on financial assets which are subject to impairment under HKFRS 9 (including accounts receivable, other receivables, pledged bank deposits, and bank balances). 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. Assessment are done based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

Accounts receivable

The Target Group applied the simplified approach to provide for ECL under HKFRS 9 and recognised lifetime expected losses for all accounts receivable. The accounts receivable are grouped based on shared credit risk characteristics and others (past due information) for measuring ECL.

Other receivables, pledged bank deposits and bank balances and cash

For other receivables, pledged bank deposit and bank balances and cash, the Target Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Target Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

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

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

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

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

Despite the foregoing, the Target Group assumes that the credit risk on a financial asset at amortised cost has not increased significantly since initial recognition if the financial asset at amortised cost is determined to have low credit risk at the reporting date. A financial asset at amortised cost is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

The Target Group considers that default has occurred when the instrument is more than 90 days past due unless the Target Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

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 adjusted by forward-looking information.

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

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 Target Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts receivable where the corresponding adjustment is recognised through a loss allowance account.

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 debtor; or
- a breach of contract, such as a default or past due event; or
- the lender(s) of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession(s) that the lender(s) would not otherwise consider; or

- it is becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

Financial liabilities and equity instruments

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

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 net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Equity instruments

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

Other financial liabilities

Other financial liabilities (including accounts payable, other payables, amount due to related company and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derecognition

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when, and only when, the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Government grants

Government grants are not recognised until there is reasonable assurance that the Target Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Target Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Group should purchase, construct or otherwise acquire non-current assets are recognised as other payables and accrued charges in the combined statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Target Group as lessor

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

The Target Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in note 4 above, the sole director of the Target Company is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on the 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.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the sole director of the Target Company have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the combined financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the sole director of the Target Company have reviewed the Target Group's investment property portfolios and concluded that the Target Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Target Group's deferred taxation on such investment properties, the sole director of the Target Company have determined that the presumption that the carrying amounts of investment properties measured at fair value model are recovered entirely through sale is rebutted.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Going concern consideration

The Historical Financial Information has been prepared on a going concern basis, the validity of which depends on the ongoing financial support from the related companies wholly owned by the sole shareholder of the Target Company and the creditors up to the completion of Acquisition and financial support from the Company after the completion of the Acquisition. Details are set out in note 2.

Deferred tax

As at 31 December 2015, 2016 and 2017 and 31 May 2018, the Target Group has unused tax losses of approximately RMB74,833,000, RMB61,516,000, RMB52,544,000 and RMB52,955,000 available respectively for offsetting against future profits. Deferred tax assets have been recognised in respect of approximately RMB51,783,000, RMB51,783,000, RMB51,783,000 and RMB52,136,000 of such losses respectively. No deferred tax asset has been recognised in respect of the remaining amounts approximately RMB23,050,000, RMB9,733,000, RMB761,000 and RMB819,000 respectively due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are more than expected, or changes in facts and circumstances which result in revision of future taxable profits estimation, a material recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a recognition takes place. Details of the deferred tax liabilities are set out in note 22.

Fair value of investment properties

Investment properties are carried in the combined statements of the financial position as at 31 December 2015, 2016 and 2017 and 31 May 2018 at their fair values of approximately RMB317,000,000, RMB325,000,000, RMB340,000,000 and RMB348,000,000 respectively. The fair value was based on a valuation on these properties conducted by an independent firm of professional valuer using property valuation techniques which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Target Group's properties and corresponding adjustments to the amount of gain or loss reported in the combined statements of profit or loss and other comprehensive income.

Estimated impairment of accounts receivable

The Target Group follows the guidance of HKFRS 9 to determine when a accounts receivable is impaired. This determination requires significant judgement and estimation. In making this judgement and estimation, the Target Group evaluates, among other factors, the duration of receivables and the financial health collection history of individual debtors and expected future change of credit risks, including the consideration of factors such as general economy measure, change in macroeconomic indicators, etc. As at 31 December 2015, 2016 and 2017 and 31 May 2018, the carrying amounts of accounts receivable were approximately RMB290,000, RMB317,000, RMB1,988,000 and RMB2,740,000, net of accumulated allowances of impairment losses of accounts receivable of approximately nil, nil, nil and RMB3,000 respectively.

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6. REVENUE

The following is an analysis of the Target Group's revenue for the Relevant Periods.

	For the year ended 31 December			For the five months ended 31 May	
	2015	2016	2017	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Sales of wines	4,923	73	133	2	55
Rental income	4,517	4,300	8,672	3,724	3,925
	<u>9,440</u>	<u>4,373</u>	<u>8,805</u>	<u>3,726</u>	<u>3,980</u>

7. OTHER GAINS

	For the year ended 31 December			For the five months ended 31 May	
	2015	2016	2017	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Bank interest income	10	3	4	1	1
Government grant (<i>note</i>)	10	40	-	-	10
Sundry income	-	164	211	6	128
	<u>20</u>	<u>207</u>	<u>215</u>	<u>7</u>	<u>139</u>

Note: Government grant was received from local government authority for the Target Group's contribution to local economies, of which there are no unfulfilled conditions or contingencies relating to the grant.

APPENDIX IIA FINANCIAL INFORMATION OF THE TARGET GROUP

8. FINANCE COSTS

	For the year ended 31 December			For the five months ended 31 May	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Interest on bank borrowings	8,097	5,827	5,049	2,190	1,837

9. PROFIT BEFORE TAXATION

	For the year ended 31 December			For the five months ended 31 May	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Profit for the year/period has been arrived after charging (crediting):					
Sole director's emoluments	-	-	-	-	-
Staff costs					
– staff salaries, termination benefit and other allowances	299	606	530	232	206
– retirement benefits scheme	73	137	146	61	68
Total staff costs	372	743	676	293	274
Cost of inventories recognised as expense	4,864	43	74	1	32
Impairment loss on inventories (included in other operating expenses)	334	-	96	-	-
Impairment loss on accounts receivable (included in other operating expenses)	-	-	-	-	3
Gross rental income from investment properties	(4,830)	(4,390)	(8,722)	(3,734)	(3,933)
Less: direct operating expenses incurred for investment properties that generated rental income during the year/period	387	111	75	15	74
Minimum lease payments under operating leases in respect of office premises and warehouses	35	38	30	15	12

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10. INCOME TAX EXPENSE

	For the year ended 31 December			For the five months ended 31 May	
	2015	2016	2017	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Deferred tax (<i>Note 22</i>)	2,781	3,034	4,784	1,714	2,343
	<u>2,781</u>	<u>3,034</u>	<u>4,784</u>	<u>1,714</u>	<u>2,343</u>

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25%. Accordingly, provision for PRC EIT for the PRC subsidiary is calculated at 25% on the estimated assessable profit for the year/period. No EIT is provided for the Relevant Periods as the Target Group did not derive any assessable profit subject to EIT.

No provision for Hong Kong Profits Tax has been made as the Target Group did not have any assessable profits subject to Hong Kong Profits Tax.

The income tax expense for the Relevant Periods can be reconciled to the profit before taxation per the combined statement of profit or loss and other comprehensive income as follows:

	For the year ended 31 December			For the five months ended 31 May	
	2015	2016	2017	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Profit before taxation	160	4,147	16,584	6,796	9,318
	<u>160</u>	<u>4,147</u>	<u>16,584</u>	<u>6,796</u>	<u>9,318</u>
Tax calculated at statutory tax rate of 25%	40	1,036	4,146	1,699	2,329
Tax effect of tax loss not recognised	3,074	2,016	901	15	14
Others	(333)	(18)	(263)	-	-
	<u>(333)</u>	<u>(18)</u>	<u>(263)</u>	<u>-</u>	<u>-</u>
Income tax expense	2,781	3,034	4,784	1,714	2,343
	<u>2,781</u>	<u>3,034</u>	<u>4,784</u>	<u>1,714</u>	<u>2,343</u>

11. DIVIDENDS

No dividends were paid, declared or proposed by the Target Group during the Relevant Periods, nor has any dividend been proposed by the Target Group since the end of the Relevant Periods.

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12. INVESTMENT PROPERTIES

The movement and reconciliation of Level 3 fair value measurements of investment properties are as below:

	As at 31 December			As at
	2015	2016	2017	31 May
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fair Value				
At beginning and end of the year/period	310,000	317,000	325,000	340,000
Increase in fair value recognised in profit or loss	<u>7,000</u>	<u>8,000</u>	<u>15,000</u>	<u>8,000</u>
At end of the year/period	<u><u>317,000</u></u>	<u><u>325,000</u></u>	<u><u>340,000</u></u>	<u><u>348,000</u></u>

- (a) The fair value of all of the Target Group's investment properties as at 31 December 2015, 2016 and 2017 and 31 May 2018 have been arrived at on the basis of a valuation carried out on the respective dates by Prudential Surveyors (Hong Kong) Limited, an independent qualified professional valuers to the Target Group and the Company and its subsidiaries.
- (b) All of the Target Group's properties interests are held under operating leases to earn rentals or for capital appreciation purposes and are measured using the fair value model and are classified and accounted for as investment properties.
- (c) All of the above investment properties are located in the PRC.
- (d) The fair value of the Target Group's investment properties as at 31 December 2015, 2016 and 2017 and 31 May 2018 was determined based on Direct Comparison Method. The method involves the selection of suitable comparables and the making of adjustments on comparable transactions in a number of aspects such as time, building age, floor level, size, orientation, view, quality of development, facilities, accessibility and environment. Adjustments are made to reflect the differences in various aspects between comparables and the Target Group's investment properties. Details of the valuation techniques and assumptions are discussed in note (f).
- (e) There has been no change from the valuation technique used during the Relevant Periods. In estimating the fair value of the properties, it is assumed that the Target Group has free and uninterrupted rights to use or to assign the property interests for the whole of the unexpired term granted.

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- (f) Details of the Target Group's investment properties and information about the fair value hierarchy as at 31 December 2015, 2016 and 2017 and 31 May 2018 are as follows:

	As at 31 December			As at
	2015	2016	2017	31 May
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2018</i>
				<i>RMB'000</i>
Investment properties located in the PRC (categorised as Level 3)	317,000	325,000	340,000	348,000

There was no transfer between levels of fair value hierarchy during the year/period.

The following table gives information about how the fair values of the investment properties as at 31 December 2015, 2016 and 2017 and 31 May 2018 are determined (in particular, the valuation techniques and inputs used):

		Fair value hierarchy	Fair value	Valuation technique and key inputs	Significant unobservable inputs	Range	Relationship of key inputs and significant unobservable inputs to fair value
Investment Properties located in the PRC	Level 3	31 December 2015: RMB317,000,000 31 December 2016: RMB325,000,000 31 December 2017: RMB340,000,000 31 May 2018: RMB348,000,000	Direct Comparison Method – involves the selection of suitable comparables and the making of adjustments on comparable transactions in a number of aspects	Price per square meter	31 December 2015: RMB49,500 to RMB68,000 31 December 2016: RMB50,800 to RMB70,000 31 December 2017: RMB53,400 to RMB73,000 31 May 2018: RMB55,000 to RMB75,000	The higher price per square meter, the higher the fair value	

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13. PROPERTY AND EQUIPMENT

	Computer equipment <i>RMB'000</i>
Cost	
At 1 January 2015, 31 December 2015, 31 December 2016, 31 December 2017 and 31 May 2018	<u><u>4</u></u>
 ACCUMULATED DEPRECIATION	
At 1 January 2015, 31 December 2015, 31 December 2016, 31 December 2017 and 31 May 2018	<u><u>4</u></u>
 CARRYING VALUES	
At 31 December 2015, 31 December 2016, 31 December 2017 and 31 May 2018	<u><u>–</u></u>

The above items of property and equipment are depreciated on a straight-line basis, after taking into account of their estimated residual values, over their estimated useful lives as follows:

Computer equipment	30%
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14. INVENTORIES

	As at 31 December			As at
	2015	2016	2017	31 May
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Goods held for resale	<u><u>43</u></u>	<u><u>–</u></u>	<u><u>32</u></u>	<u><u>–</u></u>

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15. ACCOUNTS RECEIVABLE

The followings are the balances of accounts receivable, net of impairment losses:

	As at 31 December			As at
	2015	2016	2017	31 May
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accounts receivable	290	317	1,988	2,743
Less: impairment	—	—	—	(3)
	<u>290</u>	<u>317</u>	<u>1,988</u>	<u>2,740</u>

The Target Group does not hold any collateral over the accounts receivable.

The credit period granted to the Target Group's trade customers generally ranges from 0 to 90 days for the years ended 31 December 2015, 2016 and 2017 and five months ended 31 May 2018. The ageing analysis of accounts receivable presented based on the invoice dates, which approximates the respective revenues recognition dates, at the end of the Relevant Periods, which is as follows:

	As at 31 December			As at
	2015	2016	2017	31 May
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 to 90 days	290	78	1,895	1,538
91 to 180 days	—	—	90	1,112
181 to 365 days	—	239	3	90
	<u>290</u>	<u>317</u>	<u>1,988</u>	<u>2,740</u>

The ageing analysis of accounts receivable which are past due but not impaired is as follows:

	As at 31 December			As at
	2015	2016	2017	31 May
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 to 90 days	—	—	90	1,112
91 to 180 days	—	—	—	—
181 to 365 days	—	239	3	90
	<u>—</u>	<u>239</u>	<u>93</u>	<u>1,202</u>

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Accounts receivable that were past due but not impaired relate to independent customers that have a long relationship record with the Target Group. The sole director of the Target Company determined that no impairment allowance is necessary in respect of these balances as these balances were either subsequently settled or there has not been a significant change in credit quality and the amounts are still considered recoverable.

Accounts receivable are individually impaired and recognised based on the simplified approach to provide ECL under HKFRS 9 and recognised lifetime expected losses for all accounts receivable. In estimating the ECL, the Target Group has established a provision matrix taking into account the Target Group's credit history of the customers, such as financial difficulties at default in payments, and current market conditions. Impairment losses of approximately nil, nil, nil and RMB3,000 were recognised for the years ended 31 December 2015, 2016, 2017 and five months ended 31 May 2018 respectively.

The movements of impairment of accounts receivable are as follow:

	As at 31 December			As at
	2015	2016	2017	31 May
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning and end of the year/period	–	–	–	–
Impairment losses recognised on accounts receivable	–	–	–	3
	<u>–</u>	<u>–</u>	<u>–</u>	<u>3</u>
At end of the year/period	<u>–</u>	<u>–</u>	<u>–</u>	<u>3</u>

16. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			As at
	2015	2016	2017	31 May
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other receivables	3,029	3,030	515	291
Prepayments	60	75	80	219
	<u>3,089</u>	<u>3,105</u>	<u>595</u>	<u>510</u>

17. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits

Pledged bank deposits represented deposits pledged to banks to secure banking facilities granted to the Target Group. Deposits amounting to approximately RMB70,000, RMB47,000, RMB48,000 and RMB32,000 as at 31 December 2015, 2016 and 2017 and 31 May 2018 respectively had been pledged to secure bank borrowings falling due within one year and are therefore classified as current assets.

The pledged deposits carried interest at prevailing market rate for each of the year ended 31 December 2015, 2016 and 2017 and for the five months ended 31 May 2018.

Bank balances and cash

Bank balances carries interest at prevailing market rate for the years ended 31 December 2015, 2016 and 2017 and for the five months ended 31 May 2018.

18. ACCOUNTS PAYABLE

	As at 31 December			As at
	2015	2016	2017	31 May
	RMB'000	RMB'000	RMB'000	2018
Accounts payable	4	4	5	5
	<u>4</u>	<u>4</u>	<u>5</u>	<u>5</u>

The following is an ageing analysis of accounts payable presented based on the invoice date at the end of the Relevant Periods.

	As at 31 December			As at
	2015	2016	2017	31 May
	RMB'000	RMB'000	RMB'000	2018
181 to 365 days	–	–	1	–
Over 1 year	4	4	4	5
	<u>4</u>	<u>4</u>	<u>5</u>	<u>5</u>
	<u>4</u>	<u>4</u>	<u>5</u>	<u>5</u>

The Target Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

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19. OTHER PAYABLES

	As at 31 December			As at
	2015	2016	2017	31 May
	RMB'000	RMB'000	RMB'000	2018 RMB'000
Deferred rental income	–	1,365	120	739
Tenant's rental deposit	200	200	100	100
Advances (<i>Note</i>)	31,875	46,155	58,545	62,945
Others	800	1,163	1,273	1,453
	<u>32,875</u>	<u>48,883</u>	<u>60,038</u>	<u>65,237</u>

Note: These advances are made from independent third parties which are unsecured, interest-free and repayable on demand.

20. AMOUNT DUE TO A RELATED COMPANY

The related company is owned by the sole shareholder of the Company. The amount is unsecured, non-interest bearing and not repayable up to the completion of the Acquisition.

21. BANK BORROWINGS

	As at 31 December			As at 31 May
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Secured bank loans	<u>102,000</u>	<u>90,000</u>	<u>76,000</u>	<u>72,000</u>
Bank borrowings repayable (based on scheduled repayment dates set out in loan agreements):				
Within one year	12,000	14,000	16,000	16,500
More than one year but not exceeding two years	14,000	16,000	18,000	18,500
More than two years but not exceeding five years	54,000	60,000	42,000	37,000
More than five years	<u>22,000</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>102,000</u>	<u>90,000</u>	<u>76,000</u>	<u>72,000</u>
Less: Amounts due within one year shown under current liabilities	<u>(12,000)</u>	<u>(14,000)</u>	<u>(16,000)</u>	<u>(16,500)</u>
Amount shown under non-current liabilities	<u>90,000</u>	<u>76,000</u>	<u>60,000</u>	<u>55,500</u>

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As at 31 December 2015, 2016 and 2017 and 31 May 2018, secured bank loans bore interest at floating rate and were due at December 2021. The borrowings carried interest rates at the rate offered by the Peoples Bank of China (“PBOC rate”) plus 20% markup per annum during the years ended 31 December 2015, 2016 and 2017 and five months ended 31 May 2018.

As at 31 December 2015, 2016 and 2017 and 31 May 2018, secured bank loans were secured by the Target Group’s investment properties as set out in note 12.

22. DEFERRED TAX LIABILITIES

The followings are the major deferred tax assets (liabilities) recognised and movements thereon during the Relevant Periods:

	Fair value changes of investment properties RMB'000	Accelerated tax depreciation RMB'000	Unused tax losses RMB'000	Total RMB'000
At 1 January 2015	(45,389)	(4,979)	12,946	(37,422)
Charged to combined statements of profit or loss and other comprehensive income for the year	<u>(1,750)</u>	<u>(1,031)</u>	<u>–</u>	<u>(2,781)</u>
At 31 December 2015 and 1 January 2016	(47,139)	(6,010)	12,946	(40,203)
Charged to combined statements of profit or loss and other comprehensive income for the year	<u>(2,000)</u>	<u>(1,034)</u>	<u>–</u>	<u>(3,034)</u>
At 31 December 2016 and 1 January 2017	(49,139)	(7,044)	12,946	(43,237)
Charged to combined statements of profit or loss and other comprehensive income for the year	<u>(3,750)</u>	<u>(1,034)</u>	<u>–</u>	<u>(4,784)</u>
At 31 December 2017 and 1 January 2018	(52,889)	(8,078)	12,946	(48,021)
Charged to combined statements of profit or loss and other comprehensive income for the period	<u>(2,000)</u>	<u>(431)</u>	<u>88</u>	<u>(2,343)</u>
At 31 May 2018	<u><u>(54,889)</u></u>	<u><u>(8,509)</u></u>	<u><u>13,034</u></u>	<u><u>(50,364)</u></u>

As at 31 December 2015, 2016 and 2017 and 31 May 2018, the Target Group has unused tax losses of approximately RMB74,833,000, RMB61,516,000, RMB52,544,000 and RMB52,955,000 available respectively for offsetting against future profits. Deferred tax assets have been recognised in respect of RMB51,783,000, RMB51,783,000, RMB51,783,000 and RMB52,136,000 of such losses respectively. No deferred tax asset has been recognised in respect of the remaining approximately RMB23,050,000, RMB9,733,000, RMB761,000 and RMB819,000 respectively due to the unpredictability of future profit streams. As at 31 May 2018, the unused tax losses of approximately RMB13,470,000, RMB15,108,000, RMB12,297,000, RMB8,065,000, RMB3,604,000 and RMB411,000 will be expired on 31 December 2018, 2019, 2020, 2021, 2022 and 2023 respectively.

23. SHARE CAPITAL

For the purpose of presenting the share capital of the Target Group prior to the completion of the Reorganisation in the combined statements of financial position, the share capital presented in the combined statements of financial position as at 31 December 2015, 2016 and 2017 and 31 May 2018 represented the share capital of Sunlight Investments Group Limited and Madison International Trading (Tianjin) Limited.

24. RETIREMENT BENEFITS SCHEME

Pursuant to the regulation of the relevant authorities in the PRC, the subsidiary of the Target Group in this country participate in respective government retirement benefit schemes (the “Schemes”) whereby the subsidiaries are required to contribute to the Schemes to fund the retirement benefits of the eligible employees. Contribution made to the Schemes is calculated base on the certain percentages of the applicable payroll costs as stipulated under the requirements in the PRC. The relevant authorities of the PRC are responsible for the entire pension obligations payable to the retired employees. The only obligation of the Target Group with respect to the Schemes is to pay the ongoing required contribution under the Schemes.

25. OPERATING LEASE ARRANGEMENTS**The Target Group as lessor**

Rental income earned was approximately RMB4,517,000, RMB4,300,000, RMB8,672,000, RMB3,724,000 and RMB3,925,000 during the years ended 31 December 2015, 2016 and 2017 and five months ended 31 May 2017 and 2018 respectively. The properties generated annualised rental yields of 1.42%, 1.32%, 2.55%, 2.70% and 2.71% respectively on an on-going basis. The properties leased out have committed tenants for five to ten years.

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At the end of the Relevant Periods, the Target Group had contracted with tenants for the following future minimum lease payments:

	As at 31 December			As at
	2015	2016	2017	31 May
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	4,139	3,504	7,900	9,534
In the second to fifth year inclusive	15,135	11,631	30,068	32,338
After five years	122	121	22,947	28,817
Total	19,396	15,256	60,915	70,689

The Target Group as lessee

At the end of the reporting periods, the Target Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December			As at
	2015	2016	2017	31 May
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	22	23	15	20
In the second to fifth year inclusive	-	2	-	-
Total	22	25	15	20

Operating lease payments represent rentals payable by the Target Group for certain of its office premises and warehouses. Leases are negotiated for terms ranged from one to three years and rentals are fixed over the term of lease. No provision for contingent rent and terms of renewal was established in the leases.

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26. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	1/1/2015	Financing cash flows	Finance cost incurred	31/12/2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Advances (<i>Note 19</i>)	19,805	12,070	–	31,875
Bank borrowings (<i>Note 21</i>)	112,000	(18,097)	8,097	102,000
	<u>131,805</u>	<u>(6,027)</u>	<u>8,097</u>	<u>133,875</u>
	<u><u>131,805</u></u>	<u><u>(6,027)</u></u>	<u><u>8,097</u></u>	<u><u>133,875</u></u>
	1/1/2016	Financing cash flows	Finance cost incurred	31/12/2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Advances (<i>Note 19</i>)	31,875	14,280	–	46,155
Bank borrowings (<i>Note 21</i>)	102,000	(17,827)	5,827	90,000
	<u>133,875</u>	<u>(3,547)</u>	<u>5,827</u>	<u>136,155</u>
	<u><u>133,875</u></u>	<u><u>(3,547)</u></u>	<u><u>5,827</u></u>	<u><u>136,155</u></u>
	1/1/2017	Financing cash flows	Finance cost incurred	31/12/2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Advances (<i>Note 19</i>)	46,155	12,390	–	58,545
Bank borrowings (<i>Note 21</i>)	90,000	(19,049)	5,049	76,000
	<u>136,155</u>	<u>(6,659)</u>	<u>5,049</u>	<u>134,545</u>
	<u><u>136,155</u></u>	<u><u>(6,659)</u></u>	<u><u>5,049</u></u>	<u><u>134,545</u></u>

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	1/1/2018	Financing	Finance	31/5/2018
	<i>RMB'000</i>	cash flows	cost	<i>RMB'000</i>
		<i>RMB'000</i>	incurred	
			<i>RMB'000</i>	<i>RMB'000</i>
Advances (Note 19)	58,545	4,400	–	62,945
Bank borrowings (Note 21)	76,000	(5,837)	1,837	72,000
	<u>134,545</u>	<u>(1,437)</u>	<u>1,837</u>	<u>134,945</u>

	1/1/2017	Financing	Finance	31/5/2017
	<i>RMB'000</i>	cash flows	cost	<i>RMB'000</i>
		<i>RMB'000</i>	incurred	<i>RMB'000</i>
		(unaudited)	(unaudited)	(unaudited)
Advances (Note 19)	46,155	7,250	–	53,405
Bank borrowings (Note 21)	90,000	(5,690)	2,190	86,500
	<u>136,155</u>	<u>1,560</u>	<u>2,190</u>	<u>139,905</u>

27. CAPITAL RISK MANAGEMENT

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

The capital structure of the Target Group consists of net debt, which includes advances, bank borrowings net of cash and cash equivalents and equity attributable to shareholder of the Target Group, comprising issued capital and accumulated losses.

The sole director of the Target Company reviews the capital structure regularly. As part of this review, the sole director of the Target Company considers the cost of capital and risks associated with each class of capital. Based on recommendations of the sole director of the Target Company, the Target Group will balance its overall capital structure through the payment of dividends, new share issues and issue of new debt.

28. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December			As at
	2015	2016	2017	31 May
	RMB'000	RMB'000	RMB'000	2018
				RMB'000
Financial assets				
At amortised cost (including cash and cash equivalents)	3,916	4,099	2,802	5,212
Financial liabilities				
At amortised cost	184,874	187,517	185,918	186,498

(b) Financial risk management objectives and policies

The Target Group's major financial instruments include accounts receivable and other receivables, pledged bank deposits, bank balances and cash, accounts payable, other payables, amount due to a related company and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit 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.

Market risk

Interest rate risk

The Target Group is exposed to cash flow interest rate risk in relation to variable-rate pledged bank deposits, bank balances and bank borrowings. To mitigate the impact of interest rate fluctuations, the Target Group assesses and monitors the exposure to interest rate risk.

The Target Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the prevailing market rates on pledged bank deposits, bank balances and the fluctuation of PBOC rate arising from the bank borrowings.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of reporting period. The analysis is prepared assuming the amount of assets and liabilities outstanding at the end of reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Target Group's pre-tax profit for the year ended 31 December 2015, 2016 and 2017 and five months ended 31 May 2018 would decrease/increase by approximately RMB510,000, RMB450,000, RMB380,000 and RMB360,000. This is mainly attributable to the Target Group's exposure to cash flow interest rate risk on its variable rate bank borrowings.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Target Group.

As at the end of the Relevant Periods, the Target Group's maximum exposure to credit risk which will cause a financial loss to the Target Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the combined statement of financial position.

The Target Group's major financial assets include accounts receivable, other receivables, pledged bank deposits and bank balances and cash, which represent the Target Group's maximum exposure to credit risk in relation to financial assets.

For accounts receivable, in order to minimise the credit risk, the management of the Target Company is responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts (including accounts receivable). In addition, the Target Group reviews the recoverable amount of each individual accounts and other receivables at the end of the Relevant Periods to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the sole director of the Target Company considers that the Target Group's credit risk is significantly reduced.

The Target Group's concentration of credit risk by geographical locations is mainly in the PRC.

As at 31 December 2015, 2016 and 2017 and 31 May 2018, the Target Group has concentration of credit risk as 82%, 75%, 88% and 88%, of the total accounts receivable was due from the Target Group's largest customer while 100%, 100%, 95% and 96% of the total accounts receivable was due from the Target Group's five largest customer respectively.

The credit risk on liquid funds which are deposited with several banks with high credit ratings is considered to be minimal.

Liquidity risk

The Target Group is exposed to liquidity risk. As at 31 May 2018, the Target Group had net current liabilities of approximately RMB126,306,000. Before completion of the Proposed Acquisition, the validity of the Target Group as a going concern depends on the ongoing financial support from the related companies owned by the sole shareholder of the Target Company and the creditors. After the completion of the Acquisition, the validity of the Target Group as a going concern depends on the ongoing financial support from the Company.

The sole director of the Target Company has given careful consideration on the measures currently undertaken in respect of the Target Group's liquidity position. As disclosed in note 2, the sole director of the Target Company believes that the Company will be able to meet in full its financial obligations as they fall due in the foreseeable future.

The following table details the Target Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the Relevant Periods.

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Liquidity tables

	On demand or within one year <i>RMB'000</i>	More than 1 year and less than 2 years <i>RMB'000</i>	More than 2 years and less than 5 years <i>RMB'000</i>	More than 5 years <i>RMB'000</i>	Total contractual undiscounted cash flows <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
At 31 December 2015						
Non-derivative financial liabilities						
Accounts payable	4	-	-	-	4	4
Other payables	32,875	-	-	-	32,875	32,875
Amount due to a related company	49,995	-	-	-	49,995	49,995
Bank borrowings	17,733	18,983	63,276	22,809	122,801	102,000
	<u>100,607</u>	<u>18,983</u>	<u>63,276</u>	<u>22,809</u>	<u>205,675</u>	<u>184,874</u>

	On demand or within one year <i>RMB'000</i>	More than 1 year and less than 2 years <i>RMB'000</i>	More than 2 years and less than 5 years <i>RMB'000</i>	Total contractual undiscounted cash flows <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
At 31 December 2016					
Non-derivative financial liabilities					
Accounts payable	4	-	-	4	4
Other payables	47,518	-	-	47,518	47,518
Amount due to a related company	49,995	-	-	49,995	49,995
Bank borrowings	18,983	20,116	65,969	105,068	90,000
	<u>116,500</u>	<u>20,116</u>	<u>65,969</u>	<u>202,585</u>	<u>187,517</u>

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	On demand or within one year <i>RMB'000</i>	More than 1 year and less than 2 years <i>RMB'000</i>	More than 2 years and less than 5 years <i>RMB'000</i>	Total contractual undiscounted cash flows <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
At 31 December 2017					
Non-derivative financial liabilities					
Accounts payable	5	–	–	5	5
Other payables	59,918	–	–	59,918	59,918
Amount due to a related company	49,995	–	–	49,995	49,995
Bank borrowings	20,116	21,131	44,838	86,085	76,000
	<u>130,034</u>	<u>21,131</u>	<u>44,838</u>	<u>196,003</u>	<u>185,918</u>

	On demand or within one year <i>RMB'000</i>	More than 1 year and less than 2 years <i>RMB'000</i>	More than 2 years and less than 5 years <i>RMB'000</i>	Total contractual undiscounted cash flows <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
At 31 May 2018					
Non-derivative financial liabilities					
Accounts payable	5	–	–	5	5
Other payables	64,498	–	–	64,498	64,498
Amount due to a related company	49,995	–	–	49,995	49,995
Bank borrowings	20,219	21,185	38,857	80,261	72,000
	<u>134,717</u>	<u>21,185</u>	<u>38,857</u>	<u>194,759</u>	<u>186,498</u>

(c) Fair value measurements of financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis. The sole director of the Target Company considers that the carrying amounts of current financial assets and financial liabilities recorded at amortised cost in the combined financial statements approximate their fair values due to their immediate or short-term maturities.

The sole director of the Target Company considers that the carrying amounts of the other non-current financial liabilities recorded at amortised cost using the effective interest rate method in the combined financial statements approximate their fair values.

C. SUBSEQUENT FINANCIAL STATEMENTS

As at the date of this report, no audited financial statements of the Target Group, the Company or any of the companies now comprising the Target Group have been prepared in respect of any period subsequent to 31 May 2018.

Set out below is the management discussion and analysis on the Target Group for the three years ended 31 December 2015, 2016 and 2017 and the five months ended 31 May 2018, which is based on the financial information of the Target Group as set out in Appendix IIA to this circular.

BUSINESS OVERVIEW

The Target Company was incorporated in the British Virgin Islands with limited liability on 6 June 2018. The Target Company is principally engaged in investment holding. As at the Latest Practicable Date, the Target Company held the entire equity interest in the Target WFOE and the PRC Project Company, the latter being the principal subsidiary of the Target Group. The principal asset of the PRC Project Company is the Property located at G/F, 2/F, 3/F & 4/F, No. 818 Sichuan North Road, Hongkou District, Shanghai, China. The site area is approximately 1,374 square meters (14,790 square feet) and the total gross floor area of the Property is approximately 5,422.32 square meters (58,366 square feet), respectively.

The Target WFOE was principally engaged in wholesale or wine products and other alcoholic beverages and has ceased to operate since January 2017.

Save as disclosed above, the Target Group had not conducted any business activities since its incorporation and up to the Latest Practicable Date and did not have any other principal assets as at the Latest Practicable Date.

FINANCIAL OVERVIEW

The table below sets out the Target Group's combined statements of profit or loss and other comprehensive income for the three years ended 31 December 2015, 2016 and 2017 and the five months ended 31 May 2018.

	For the year ended 31 December			For the five months ended 31 May	
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2017 RMB'000 (unaudited)	2018 RMB'000
Revenue	9,440	4,373	8,805	3,726	3,980
Cost of sales	(4,864)	(43)	(74)	(1)	(32)
	4,576	4,330	8,731	3,725	3,948
Other gains	20	207	215	7	139
Fair value change on investment properties	7,000	8,000	15,000	6,250	8,000
Selling and distribution expenses	(34)	(33)	(80)	(20)	(21)
Administrative expenses	(3,305)	(2,530)	(2,233)	(976)	(911)
Finance costs	(8,097)	(5,827)	(5,049)	(2,190)	(1,837)
Profit before taxation	160	4,147	16,584	6,796	9,318
Income tax expense	(2,781)	(3,034)	(4,784)	(1,714)	(2,343)
(Loss) profit for the year/period and total comprehensive (expense) income for the year/period	(2,621)	1,113	11,800	5,082	6,975

Revenue

The Target Group generates revenue of rental income through the PRC Project Company and wine products trading from the Target WFOE. The Target WFOE ceased the business of wine trading since January 2017. The PRC Project Company entered into tenancy agreements with various tenants ending during the range of year 2021 to 2026.

The following table sets forth a breakdown of the Target Group's revenue for the years/periods indicated below:

	For the year ended 31 December			For the five months ended 31 May	
	2015	2016	2017	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sales of wines	4,923	73	133	2	55
Rental income	4,517	4,300	8,672	3,724	3,925
	<u>9,440</u>	<u>4,373</u>	<u>8,805</u>	<u>3,726</u>	<u>3,980</u>

Cost of sales

The Target Group's cost of sales consists of depreciation, land use tax, maintenance expenses and other purchase costs. There has been no purchase costs after 2017 as the business of wine trading had ceased.

For the three years ended 31 December 2015, 2016 and 2017 and the five months ended 31 May 2018, the cost of sales of the Target Group were approximately RMB4,864,000, RMB43,000, RMB74,000 and RMB32,000 respectively.

Gross profit

For the three years ended 31 December 2015, 2016 and 2017 and the five months ended 31 May 2018, the gross profit of the Target Group was approximately RMB4,576,000, RMB4,330,000, RMB8,731,000 and RMB3,948,000 respectively. Gross profit was essentially rental income from the Property since year 2016.

Other gains

Other income of the Target Group during the three years ended 31 December 2015, 2016 and 2017 and the five months ended 31 May 2018 consist of bank interest income, government grant and sundries.

For the three years ended 31 December 2015, 2016 and 2017 and the five months ended 31 May 2018, the other gains of the Target Group were approximately RMB20,000, RMB207,000, RMB215,000 and RMB139,000 respectively.

Fair value change on investment properties

The Property had been recognised as investment properties since 31 December 2015. The Property of the Target Group are held for rental purposes. The Property were revalued on 31 December 2015, 31 December 2016, 31 December 2017 and 31 May 2018 by Prudential Surveyors (Hong Kong) Limited. The Property are currently leased to various independent third parties under operating leases. The changes in fair value which amounted to RMB8,000,000, RMB15,000,000 and RMB8,000,000 were recognised as profit or loss for the years ended 31 December 2016 and 31 December 2017 and the five months ended 31 May 2018 respectively.

Selling and distribution expenses

The selling and distribution expenses of the Target Group consist of storage, packing, transportation charges and other selling and distribution expenses.

For the three years ended 31 December 2015, 2016 and 2017 and the five months ended 31 May 2018, the selling and distribution expenses of the Target Group were approximately RMB34,000, RMB33,000, RMB80,000 and RMB21,000 respectively.

Administrative expenses

The administrative expenses of the Target Group mainly consist of property tax, salaries and social insurance and motor vehicle expenses.

For the three years ended 31 December 2015, 2016 and 2017 and the five months ended 31 May 2018, the administrative expenses of the Target Group were approximately RMB3,305,000, RMB2,530,000, RMB2,233,000 and RMB911,000 respectively.

Finance costs

The finance costs of the Target Group consist of bank borrowing costs. For the three years ended 31 December 2015, 2016 and 2017 and the five months ended 31 May 2018, the finance costs of the Target Group were approximately RMB8,097,000, RMB5,827,000, RMB5,049,000 and RMB1,837,000 respectively.

Profit/(loss) for the year/period and total other comprehensive income/(expense) for the year/period recorded improvements during the period from 1 January 2015 to 31 May 2018. The turnaround from loss to profit from the year ended 31 December 2017 was mainly due to increase in the rental income derived from the PRC Project Company and fair value change in the investment properties.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Set out below is the financial information on the Target Group as at 31 December 2015, 2016 and 2017 and 31 May 2018.

	As at 31 December			As at 31 May
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	317,000	325,000	340,000	348,000
Current assets	4,019	4,174	2,914	5,431
Total assets	321,019	329,174	342,914	353,431
Non-current liabilities	130,203	119,237	108,021	105,864
Current liabilities	94,874	112,882	126,038	131,737
Total liabilities	225,077	232,119	234,059	237,601
Net current liabilities	90,855	108,708	123,124	126,306
Net assets	95,942	97,055	108,855	115,830

The net assets of the Target Group increased from approximately RMB95,942,000 as at 31 December 2015 to approximately RMB97,055,000 as at 31 December 2016. The increase in net assets was primarily attributable to the fair value change from the investment properties during the year of 2016 of approximately RMB8,000,000 which was partially offset by operating loss incurred.

The net assets of the Target Group increased from approximately RMB97,055,000 as at 31 December 2016 to approximately RMB108,855,000 as at 31 December 2017. The increase in net assets was primarily attributable to the fair value change from the investment properties during the year of 2017 of approximately RMB15,000,000 which was partially offset by operating loss incurred.

The net assets of the Target Group increased from approximately RMB108,855,000 as at 31 December 2017 to approximately RMB115,830,000 as at 31 May 2018. The increase in net assets was primarily attributable to the fair value change from the investment properties during the five months ended 31 May 2018 of approximately RMB8,000,000.

For the three years ended 31 December 2015, 2016 and 2017 and the five months ended 31 May 2018, the Target Group financed its working capital primarily through internally generated funds and other borrowings.

Bank balances and cash

As at 31 December 2015, 2016 and 2017 and 31 May 2018, the Target Group had bank balances and cash of approximately RMB527,000, RMB705,000, RMB251,000 and RMB2,149,000 respectively.

The increase in bank balances and cash from 31 December 2015 to 31 December 2016 was primarily due to prepaid rental income and deposit received from tenants by the PRC Project Company. The bank balances and cash of the Target Group were mainly denominated in RMB.

Cash flow

The following table sets forth a summary of the cash flow of the Target Group extracted from the combined statements of cash flows of the Target Group for the years/period indicated below:

	Year ended 31 December			Five months ended
	2015	2016	2017	31 May 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	3,603	3,725	6,205	3,335
Net cash (used in) financing activities	(6,027)	(3,547)	(6,659)	(1,437)
Net (decrease)/increase in cash and cash equivalents	(2,424)	178	(454)	1,898
Cash and cash equivalents at the end of the year/period	527	705	251	2,149

As at 31 December 2015, 2016 and 2017 and 31 May 2018, the gearing ratio of the Target Group (calculated as a percentage of the total liabilities to total assets of the Target Group) was approximately 70.11%, 70.52%, 68.26% and 67.23% respectively.

EMPLOYEES

The Target Group remunerated its employees by reference to their qualification, experience, responsibilities, profitability of the Target Group and current market conditions. As required by the applicable PRC regulations, the PRC Project Company participated in various employee benefit plans organised by the municipal and provincial governments, including housing provident fund, pension, medical, maternity and unemployment benefit plans.

For the three years ended 31 December 2015, 2016 and 2017 and the five months ended 31 May 2018, the Target Group incurred staff costs of approximately RMB372,000, RMB743,000, RMB676,000 and RMB274,000 respectively. The significant increase in staff costs for the year ended 31 December 2016 was due to the higher discretionary bonus and high-salaried staff employed.

PLEDGE OF ASSETS

The investment property was pledged to a bank in the PRC and certain personal guarantees were procured to obtain banking facilities granted to the Target Group.

Bank deposits amounting to approximately RMB70,000, RMB47,000, RMB48,000 and RMB32,000 as at 31 December 2015, 2016 and 2017 and 31 May 2018 respectively had been pledged to secure bank borrowings falling due within one year and are therefore classified as current assets.

Save as disclosed above, the Target Group did not have any pledged assets as at the Latest Practicable Date.

MATERIAL INVESTMENTS, CAPITAL ASSETS, ACQUISITION AND DISPOSAL

During the three years ended 31 December 2015, 2016 and 2017 and the five months ended 31 May 2018, other than the investment in the PRC Project Company, the Target Group did not hold any significant investments, and did not have any material acquisitions and disposals of subsidiaries and associated companies.

The Target Group will continue to focus on the business of leasing of the Property, which is expected to be funded by cash flows generated internally from its operation activities. Other than the leasing business, the Target Group did not have any future plans for material investments or capital assets as at the Latest Practicable Date.

FOREIGN CURRENCY EXPOSURE

As the Target Group's monetary assets and liabilities are all denominated in RMB and the PRC Project Company conducts its business transactions only in RMB, the currency risk of the Target Group is remote and the Target Group does not have a foreign currency hedging policy.

However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

CONTINGENT LIABILITIES

The Target Group did not have material contingent liabilities as at 31 December 2015, 31 December 2016, 31 December 2017 and 31 May 2018.

The following is the text of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this circular received from Prudential Surveyors (Hong Kong) Limited, an independent valuer, in connection with its valuation of the property interests of the Property as at 4 July 2018.

Our Ref.: 2018CV00004

26 September 2018

VC Global Investments Limited
28/F, The Centrium,
No.60 Wyndham Street,
Hong Kong

Attention: Ms Shen Li

Dear Madam,

**Re: G/F, 2/F, 3/F & 4/F, No. 818 Sichuan North Road,
Hongkou District, Shanghai, China (“the Subject Property”)**

INSTRUCTION

In accordance with the instructions from VC Global Investments Limited (the “Company”) for us to carry out a valuation of the Subject Property, we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at 27 June 2018 (hereinafter referred to as the “Date of Valuation”) for acquisition 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 the title investigation we have made in the course of our valuation, as well as the limiting conditions.

BASIS OF VALUATION

Unless otherwise stated, our valuation has been prepared in accordance with “HKIS Valuation Standard 2017 Edition” published by The Hong Kong Institute of Surveyors (“HKIS”) and the “International Valuation Standards 2017” published by the International Valuation Standards Council (“IVSC”) entitle the Valuer to make reasonable assumptions. We have also complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, our valuation is undertaken as External Valuers as defined in the relevant Valuation Standards.

This estimate specifically excludes an estimated price inflated for deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

Our valuation of the property interest in the Properties is our opinion of the market value which we would define as intended to mean “*the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.*”

The market value is the best price reasonably obtained in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated for deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market values of the Properties are also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

VALUATION METHODOLOGY

We have carried out the valuation based on Direct Comparison Method. The method involves the selection of suitable comparables and the making of adjustments on comparable in a number of aspects such as time, building age, floor level, size, orientation, view, quality of development, facilities, accessibility environment etc (if applicable). Adjustments are made to reflect the differences in various aspects between comparables and the Subject Property. In our valuation, the total adjustments of comparables are calculated by the summation of all the adjustment factors.

VALUATION ASSUMPTIONS

In valuing the property interests, we have assumed that the Company has free and uninterrupted rights to use or to assign the property interests for the whole of the unexpired term granted.

Our valuation has also been made on the assumption that the Property is to be sold in the open market without the benefit of a deferred terms contract, leaseback, joint venture, or any similar arrangement that would serve to affect their values. No account has been taken of any option or right of pre-emption concerning or affecting the sale of the Properties and no forced sale situation in any manner is assumed in our valuation.

No allowance has been made in our valuation for any charges, mortgages or amount owing on the Property nor for any expenses or taxation that 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 that could affect their value.

It is assumed that all applicable zoning, land use regulations and other restrictions have been complied with unless a non-conformity has been stated, defined and considered in the valuation report.

TITLE INVESTIGATION

Due to the nature of the land registration system in the PRC, no investigation has been made for the legal title or any liabilities attached to the Subject Property. However, we have been provided by the Company with copies of documents relating to the titles of the property interests. We have not examined the original documents to verify the ownership and to ascertain the existence of any amendments that may not appear on the copies handed to us. All documents have been used for reference only.

NON-PUBLICATON

Neither the whole nor any part of this valuation report or any reference thereto may be included in any published document, circular or statement, nor published in any way whatsoever without the prior written approval of Prudential Surveyors (Hong Kong) Limited as to the form and context in which they may appear.

In accordance with our standard practice, we must state that this valuation report is for the exclusive use of the party to whom it is addressed and for the specific purpose stated above. No liability to any third party will be accepted for the whole or any part of its contents.

NO CONFLICT OF INTEREST

We hereby confirm that we have neither present nor prospective interests to the Client, the Properties and the value reported herein.

LIMITING CONDITIONS

We have inspected the exterior, and where possible, the interior of the Subject Property on 26 June 2018. However, no structural survey has been made nor have any tests been carried out on any of the services provided in the Subject Property. We are, therefore, not able to report that the Subject Property is free from rot, infestation or any other structural defects. Yet, in the course of our inspection, we did not note any serious defects.

Moreover, we have not carried out any site investigations to determine or otherwise the suitability of the ground conditions, the presence or otherwise of contamination and the provision of or otherwise suitability for services etc. for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred in the event of any redevelopment.

No detailed on-site measurements have been made during our inspection. Dimensions, measurements and areas included in the valuation certificate attached are based on information contained in the documents provided to us and are therefore approximations only.

Having reviewed all relevant documentation, we have relied to a considerable extent on the information provided by the Company and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, completion dates of buildings, particulars of occupancy, site and floor plans, site and floor areas and other relevant matters in the identification of the Subject Property in which the Company has valid interest. We have not seen original planning consents and have assumed that the Property has been erected and are being occupied and used in accordance with such consents.

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

Neither the whole nor any part of this valuation report nor any reference thereto may be included in any published document, circular or statement, nor published in any way whatsoever without the prior written approval of Prudential Surveyors (Hong Kong) Limited as to the form and context in which it may appear.

In accordance with our standard practice, we must state that this report is for the exclusive use of the party to whom it is addressed and for the specific purpose stated above. No liability to any third party will be accepted for the whole or any part of its contents.

PLANT AND MACHINERY

Our valuation normally includes all plant and machinery that form part of the building services installations. However, process plant, machinery and equipment which may have been installed wholly in connection with the occupiers' industrial and/or commercial processes, together with furniture and furnishings, tenants' fixtures and fittings are excluded in our valuation.

DECLARATION

We hereby certify, to the best of our knowledge and belief, that:

- We are external valuer, independent from the Company and the property owners, their subsidiaries and their jointly controlled entities (collectively, the "Group") and their respective directors and controlling shareholder and that we do not have any direct or indirect material interests in the securities or assets of the Group, its connected persons, or any associate of the Group and we have no bias with respect to the parties involved.
- We do not have previous, current or anticipated involvement with the Company in respect of the Subject Property in the past 24 months from the date of instruction or date of agreement of the engagement, whichever is earlier.

REMARKS

We hereby confirm that we have neither present nor prospective interests in the Company, the Property and the value reported herein.

Unless otherwise specified, all values are in Hong Kong Dollars. The exchange rate as at 27 June 2018 was HK\$1 = RMB¥0.836

We attach herewith our valuation report.

Yours faithfully,
For and on behalf of
PRUDENTIAL SURVEYORS (HONG KONG) LIMITED

Leo S D Cheung
BSc, MSc, MFin, EMBA
MRICS, MHKIS (GP/PFM), RPS (GP)
Director

Mr. Leo Cheung is a Registered Professional Surveyor (GP) with 19 years of experience in valuation of properties in HKSAR, Macau SAR, Mainland China and the Asia Pacific Region. Mr. Cheung is a Professional Member of The Royal Institution of Chartered Surveyors and a Member of The Hong Kong Institute of Surveyors.

VALUATION REPORT ON THE SUBJECT PROPERTY

Property	Description	Particular of Occupancy	Market Value in existing state as at 27 June 2018
G/F, 2/F, 3/F & 4/F, No. 818 Sichuan North Road, Hongkou District, Shanghai, China	<p>The Subject Property comprises the first 4 levels (G/F, 2/F, 3/F & 4/F) of a 6-storey commercial building completed in 1993.</p> <p>It is situated at the eastern side of Sichuan North Road near its junction with Tang Gu Road, Hongkou District. Sichuan North Road is one of the 3 major roads in Hongkou District which is well established with a mix of commercial and residential developments and retail shopping facilities enjoying high volume of pedestrian flow. The popular Citic Plaza comprising an office tower and a retail commercial complex is just across the street from the Subject Property.</p> <p>The location is highly accessible with convenient public transportation. The Metro Line 10 Sichuan North Road Station is within 10 minutes' walking distance from the Subject Property.</p> <p>As quoted from the Shanghai Certificate of Real Estate Ownership, the site area is approx. 1,374 sq.m. (14,790 sq.ft.) and the total gross floor area of the Subject Property is approx. 5,422.32 sq.m. (58,366 sq.ft.).</p> <p>The Land is held for a term of 40 years commencing from 26 December 2002 and expiring on 25 December 2042.</p>	<p>The Subject Property is currently fully leased and occupied by a bank, 5 restaurants and a service apartment operated under the trade name of Harbor Apartment.</p> <p>The total current annual rental income is RMB9,272,984.</p>	RMB350,000,000

Notes:

- Pursuant to the Shanghai Certificate of Real Estate Ownership No. Hu Fang Di Hong Zi (2009) Di 018752 Hao (沪房地虹字(2009)第018752号) dated 26 November 2009, ownership of the Subject Property known as Levels 1-4, No. 818 Sichuan North Road is held under the name of 上海玉洋贸易有限公司 (Shanghai Yuyang Trading Limited[#]). The Subject Property has a total gross floor area of 5,442.32 sq.m. and occupies Levels 1 – 4 of a 6-storey building with building type designated as shopping mall for commercial usage.
- Pursuant to the Business License No. 09000000201603070125 dated 7 March 2016, Shanghai Yuyang Trading Limited[#] is a wholly foreign owned legal entity with a registered capital of RMB50,500,000. The company was set up on 8 June 2009 and valid to operate from 8 June 2009 to 7 June 2029 with permitted business scope to include clothing, daily department store, hardware tools and electrical tools, office supplies, wholesaling of sports goods, and property management. The legal representative is Ding Lu (丁璐).

3. Pursuant to the Lease Contract between Shanghai Yuyang Trading Limited[#] as Party A and the Shanghai branch of Bank of Communications Limited (交通銀行股份有限公司上海市分行) as Party B dated 10 June 2011, the leased premises is for portion of G/F (floor area approx. 92.5 sq.m) and portion of 2/F (floor area approx. 326.33 sq.m.) with a total floor area of 418.83 sq.m.. The lease is for a term commencing from 1 September 2011 and expiring on 30 November 2021. The Lease Contract has a rent escalation clause. The relevant annual rent as at date of valuation is RMB2,748,984 exclusive of water, electricity, telephone and other similar charges payable (if any) in respect of the property. The rent will be increased to RMB2,886,433 per annum from 1 December 2019.

As an integral part to this Lease Contract, both parties have also entered into a Property Exchange Usage Agreement (房屋調換使用協議) dated 18 January 2012, for which both parties have agreed to exchange the free usage of Unit B on G/F of No.818 Sichuan North Road with No. 688 Sichuan North Road both of the same gross floor area of 189.45 sq.m. The period of this free exchange arrangement is from 1 September 2011 to 30 November 2021.

4. Pursuant to the Lease Contract between Shanghai Yuyang Trading Limited[#] as Party A and 上海合發房地產投資管理有限公司 (Shanghai He Fa Real Estate Investment Management Company Limited[#]) as Party B dated 25 December 2017, the leased premises is for a portion of G/F with a floor area of approx. 522 sq.m. and a lease term commencing from 1 January 2018 and expiring on 31 July 2025. The annual rent is RMB1,524,000 exclusive of water, electricity and other similar charges payable (if any) in respect of the property. The leased premises is currently occupied by 5 Chinese restaurants.
5. Pursuant to the Entrusted Management Agreement between Shanghai Yuyang Trading Limited[#] as Party A and Shanghai He Fa Real Estate Investment Management Company Limited[#] as Party B dated 21 June 2016, Party A has entrusted Party B to be responsible for the leasing, sale and day to day management of a portion of G/F (floor area approx. 396 sq.m.), portion of 2/F (floor area approx. 1,026 sq.m.), and whole of 3/F (floor area approx. 1,360 sq.m.) and 4/F (floor area approx. 1,360 sq.m.) of the Subject Property, with a total floor area of approx. 4,142 sq.m.. The entrusted management period is for 10 years commencing from 1 January 2017 at an annual base rent of RMB5,000,000 for the first 2 years, and then to be adjusted upwards at 4% per annum once every 2 years. The entrusted space is currently operated as a service apartment under the trade name of Harbour Apartment with a total of 120 rooms.
6. The status of the title and grant of major approvals in accordance with the information provided by the Company is as follows:

- (i) 上海市房地產權證 (Shanghai Certificates of Real Estate Ownership) Yes

Save for the Shanghai Certificates of Real Estate Ownership which shows that Shanghai Yuyang Trading Limited[#] has the vested legal title of the Subject Property and is a combined proof of ownership document stipulating both the right of use of land and building, there is no separate “long term land use right certificate, and no other certificate is required for the valuation of the Subject Property.

7. The Subject Property is subject to various incumbrances as follows:

Fix Asset Loans Agreement dated 19 March 2012 in favour of the Shanghai branch of Bank of Ningbo Co., Ltd. (“**Shanghai Ningbo**”) vide Memorial No. 0700GK20120492 for a consideration of RMB77,000,000.

Fix Asset Loans Agreement dated 27 March 2012 in favour of Shanghai Ningbo vide Memorial No.07001GK20120432 for a consideration of RMB53,000,000.

8. The classification of the Subject Property is held for investment.
9. We have been provided with a legal opinion on the property prepared by the Company’s PRC legal adviser (the “**PRC opinion**”), which contains, inter alia, the following information:

- (i) According to the Shanghai Certificates of Real Estate Ownership, Shanghai Yuyang Trading Limited[#] has obtained the property use rights of the Subject Property and is the legal property user of the Subject Property.
- (ii) The Subject Property is subject to two mortgages in favour of Shanghai Ningbo for a total consideration of RMB\$130,000,000 (RMB\$77,000,000 + RMB\$53,000,000).
- (iii) There is uncertainty as to whether the consideration has been fully paid. However, since the Shanghai Certificates of Real Estate Ownership is the conclusive evidence that Shanghai Yuyang Trading Limited[#] has the legal title of the Property despite the uncertainty as to whether the consideration is fully settled, we, as valuer consider that such uncertainty will not affect the valuation of the Subject Property.

10. We, Prudential Surveyors (Hong Kong) Limited, as an independent valuer has taken account of the content of the PRC opinion which is in line with our valuation assumptions that the Subject Property was free from encumbrances, restrictions, and outgoings of an onerous nature that could affect its value and no allowance were made for mortgages nor any expenses or taxation that may be incurred in effecting a sale.. In regard to our valuation assumption, the Subject Property and assumed free from encumbrances, restrictions, and outgoings of an onerous nature that could affect their value. No allowance were made in our valuation for mortgages nor any expenses or taxation that may be incurred in effecting a sale.

[#] In this report, translated English names of Chinese entities for which no official English translation exists are unofficial translations for identification purposes only, and in the event of any inconsistency between the Chinese names and their English translation, the Chinese names shall prevail.

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

The following is the text of a report prepared for the purpose of incorporation in this circular, received from the Company's reporting accountants, SHINEWING (HK) CPA Limited, Certified Public Accountants.



SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

The Board of Directors
Value Convergence Holdings Limited
28th Floor, The Centrium,
60 Wyndham Street
Central, Hong Kong

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Value Convergence Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of financial position as at 30 June 2018, and related notes as set out on pages IV-4 to IV-10 of the circular in connection with the acquisition of the entire equity interest in and the sale loan of the Bright Element Investments Limited (the “Acquisition”). The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described in Notes 1 to 5 to the unaudited pro forma financial information.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Acquisition on the Group's financial position as at 30 June 2018 as if the Acquisition had taken place at 30 June 2018. As part of this process, information about the Group's financial position has been extracted by the directors of the Company from the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2018, which has been included in the interim report for the six months ended 30 June 2018 published by the Company.

DIRECTORS' RESPONSIBILITY FOR THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 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” (“AG7”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

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

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirement 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.

The 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” 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 29(7) of Chapter 4 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 of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG7 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 a circular is solely to illustrate the impact of the Acquisition on unadjusted financial information of the Group as if the Acquisition had occurred at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition at 30 June 2018 would have been as presented.

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

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 unaudited 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 29 of Chapter 4 of the Listing Rules.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Kwan Chi Fung

Practising Certificate Number: P06614

Hong Kong

26 September 2018

B. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2018 (the “Unaudited Pro Forma Financial Information”) of Value Convergence Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”), together with Bright Element Investments Limited (the “Target Company”) and its subsidiaries ((collectively, the “Target Group”), together with the Group hereinafter collectively referred to as the “Enlarged Group”) in connection with the acquisition of the entire equity interest in and a sale loan of Bright Element Investments Limited (the “Acquisition”).

The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company (the “Directors”) in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and is solely for the purpose of illustrating the effect of the Acquisition on the Enlarged Group’s financial position as at 30 June 2018 as if the Acquisition had taken place on 30 June 2018.

The Unaudited Pro Forma Financial Information is prepared based on (i) the unaudited consolidated statement of financial position of the Group as at 30 June 2018 which has been extracted from the published interim report of the Company for the six months ended 30 June 2018; and (ii) the audited combined statement of financial position of the Target Group as at 31 May 2018 as extracted from accountants’ report on the Target Group set out in Appendix IIA to the Circular.

The Unaudited Pro Forma Financial Information is presented after making pro forma adjustments that are directly attributable to the Acquisition and factually supportable.

The Unaudited Pro Forma Financial Information has been prepared by the Directors based on a number of assumptions, estimates and uncertainties for illustrative purposes only. Because of the hypothetical nature of these assumptions, estimates and uncertainties, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as of 30 June 2018, where applicable, or any future dates.

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

**Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group as
at 30 June 2018**

	The Group as at 30 June 2018 <i>HK\$'000</i> <i>(Note 1)</i>	The Target Group as at 31 May 2018 <i>HK\$'000</i> <i>(Note 2)</i>	Pro forma adjustments		The Enlarged Group as at 30 June 2018 <i>HK\$'000</i>
			<i>HK\$'000</i> <i>(Note 3)</i>	<i>HK\$'000</i> <i>(Note 4)</i>	
NON-CURRENT ASSETS					
Investment properties	–	408,239	80,710 (v)	(80,710)	408,239
Trading rights	–	–			–
Other intangible assets	1,246	–			1,246
Property, plant and equipment	3,802	–			3,802
Statutory deposits	4,656	–			4,656
Financial asset at fair value through profit or loss	356,851	–			356,851
Financial assets at fair value through other comprehensive income	207,084	–			207,084
Deferred tax asset	–	–		20,178	20,178
	<u>573,639</u>	<u>408,239</u>			<u>1,002,056</u>
CURRENT ASSETS					
Inventories	–	–			–
Accounts receivable	144,380	3,214			147,594
Prepayments, deposits and other receivables	16,948	598	(245) (ii)		17,301
Financial assets at fair value through profit or loss	283,245	–			283,245
Tax recoverable	32	–			32
Pledged bank deposits	40,000	38			40,038
Bank balances and cash	158,832	2,521			161,353
	<u>643,437</u>	<u>6,371</u>			<u>649,563</u>

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

	The Group as at 30 June 2018 HK\$'000 (Note 1)	The Target Group as at 31 May 2018 HK\$'000 (Note 2)	Pro forma adjustments		The Enlarged Group as at 30 June 2018 HK\$'000
			<i>HK\$'000</i> (Note 3)	<i>HK\$'000</i> (Note 4)	
CURRENT LIABILITIES					
Accounts payable	16,527	6			16,533
Accrued liabilities and other payables	7,452	76,530	1,991 (ii)		85,973
Amount due to a related company	–	58,649	(58,649) (iv)		–
Taxation payable	953	–			953
Convertible bonds	–	–	195,366 (i)		195,366
Short-term bank borrowings	40,000	19,356			59,356
	<u>64,932</u>	<u>154,541</u>			<u>358,181</u>
NET CURRENT ASSETS (LIABILITIES)	<u>578,505</u>	<u>(148,170)</u>			<u>291,382</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>1,152,144</u>	<u>260,069</u>			<u>1,293,438</u>
NON-CURRENT LIABILITY					
Long-term bank borrowings	–	65,107			65,107
Convertible bonds	295,153	–			295,153
Deferred tax liabilities	16,863	59,083	(59,083) (iii)		16,863
	<u>312,016</u>	<u>124,190</u>			<u>377,123</u>
NET ASSETS	<u><u>840,128</u></u>	<u><u>135,879</u></u>			<u><u>916,315</u></u>

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

	The Group as at 30 June 2018 <i>HK\$'000</i> <i>(Note 1)</i>	The Target Group as at 31 May 2018 <i>HK\$'000</i> <i>(Note 2)</i>	Pro forma adjustments <i>HK\$'000</i> <i>(Note 3)</i>	<i>HK\$'000</i> <i>(Note 4)</i>	The Enlarged Group as at 30 June 2018 <i>HK\$'000</i>
SHARE CAPITAL AND RESERVES					
Share capital	1,023,267	5,370	(5,370)		1,023,267
Capital reserve	123,758	–			123,758
Convertible bonds reserve	214,343	–	136,719 (i)		351,062
Share option reserve	51,631	–			51,631
Other reserve	(767)	–			(767)
(Accumulated losses)/retained earnings	<u>(572,104)</u>	<u>130,509</u>	(130,509)	(60,532)	<u>(632,636)</u>
	<u>840,128</u>	<u>135,879</u>			<u>916,315</u>

Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. The unaudited consolidated statement of financial position of the Group as at 30 June 2018 is extracted, without adjustments, from the published interim report of the Company for the six months ended 30 June 2018.
2. The audited combined statement of financial position of the Target Group as at 31 May 2018 is extracted from the accountants' report on the Target Group as set out in Appendix IIA to the Circular after translated at the exchange rate of RMB1 to HK\$1.1731, which was the prevailing exchange rate on 30 June 2018. All values are rounded to the nearest thousand except when otherwise indicated.
3. The Target Group principally holds investment properties in Shanghai, the People's Republic of China and does not carry out any other active business operations. As a result, the Directors are of the opinion that the Acquisition is a purchase of assets which does not constitute a business combination as defined in Hong Kong Financial Reporting Standard 3 (Revised) "Business Combinations".

For the purpose of the preparation of the Unaudited Pro Forma Financial Information, the pro forma consideration for the Acquisition is first allocated to the financial assets and liabilities at their respective fair values. The remaining balance of the pro forma consideration is then allocated to the investment properties acquired. Such a transaction or event does not give rise to goodwill.

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

HK\$'000

Consideration for the Acquisition:	
Convertible Bonds (<i>Note (i)</i>)	332,085
Directly attributable costs (<i>Note (ii)</i>)	2,236
	334,321
	334,321

Identifiable net assets and liabilities of the Target Group as at 31 May 2018 to be acquired	135,879
Reversal of deferred tax liabilities (<i>Note (iii)</i>)	59,083
Sale loan in the Target Group (<i>Note (iv)</i>)	58,649
	253,611
	253,611

- (i) Pursuant to the acquisition agreement dated 29 June 2018 (the “Acquisition Agreement”), the consideration payable by the Group for the Acquisition is HK\$257,200,000 (the “Consideration”), in which HK\$257,200,000 shall be settled by issuing the convertible bonds with 2% coupon rate payable annually at a total principal amount of HK\$257,200,000 (the “Convertible Bonds”) to Mr. Ting Pang Wan Raymond, the sole shareholder of the Target Company (the “Vendor”), on the completion date, to convert into 205,760,000 conversion shares in the Company at the conversion price of HK\$1.25 per conversion share.

The fair value of the Convertible Bonds of HK\$332,085,000 was valued by an independent valuer, APAC Appraisal and Consulting Limited, as at 30 June 2018. The fair value of the Convertible Bonds as a whole is determined by using the Binomial Option Pricing Model. The fair value of the liability component of the Convertible Bonds is calculated using cash flows discounted at a rate based on an equivalent market interest rate of 12% per annum for equivalent non-convertible bonds using market comparable approach. The initial carrying amount of the equity component is determined by deducting fair value of the liability component from the fair value of the Convertible Bonds, which is included in the “Convertible bonds – equity conversion reserve” under reserve of the Company.

The Convertible Bonds comprise a liability component and an equity conversion component.

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

The Convertible Bonds are accounted for as compound financial instruments in accordance with HKAS 32 “Financial Instruments: Presentation”. The Group has to recognise separately the components of the compound financial instruments that (i) creates a financial liability of the Group and (ii) grants an option to the holder of the instrument to convert it into an equity instrument of the Company. Conversion option that will be settled by the exchange of a fixed amount of cash for a fixed number of the Company’s shares is classified as an equity instrument.

The Convertible Bonds recognised in the unaudited pro forma consolidated statement of financial position are as follows:

	<i>HK\$’000</i>
Fair value of liabilities component	195,366
Fair value of equity component	<u>136,719</u>
Fair value of the Convertible Bonds issued	<u><u>332,085</u></u>

The fair value of the Convertible Bonds (including the values of the liability component and equity component) will be reassessed as at the date of completion which may be different from that presented above.

- (ii) The pro forma adjustment represents estimated acquisition-related costs (including advisory, legal, accounting, valuation and other professional fees) of approximately HK\$2,236,000.
- (iii) The pro forma adjustment represents reversal of deferred tax liabilities recognised by the Target Group as at 31 May 2018 in respect of taxable temporary difference arose from the investment properties and the unused tax losses before the Acquisition. In accordance with HKAS 12.15(b), as these taxable temporary differences arose from the initial recognition of the investment properties in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting profit nor taxable profit.
- (iv) The pro forma adjustment represents a sale loan of all obligations, liabilities and debts owing by the Target Company to a related company owned by the Vendor on or at any time prior to the completion whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on completion which as at the date of the Acquisition Agreement, amounted to approximately HK\$58,649,000.

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

- (v) The investment properties are initially measured at cost and subsequently measured at fair value. An amount amounting approximately HK\$80,710,000 is adjusted to the carrying amount of the investment properties at the date of acquisition, being the difference of consideration (with directly attributable costs) and carrying amount of the adjusted net assets of the Target Group and the sale loan.

	<i>HK\$'000</i>
Fair value of the Convertible Bonds issued (<i>Note 3(i)</i>)	332,085
Estimated acquisition-related costs (<i>Note 3(ii)</i>)	2,236
Identifiable net assets of the Target Group (<i>Note 3</i>)	(135,879)
Reversal of deferred tax liabilities (<i>Note 3(iii)</i>)	(59,083)
Sale loan in the Target Group (<i>Note 3(iv)</i>)	(58,649)
	80,710
	80,710

4. The investment properties are stated at fair value in accordance with HKAS 40 “Investment Property”. The Directors assume that the fair value of the investment properties as at 30 June 2018 was approximately to that of 31 May 2018 which was assessed by a valuer independent to the Target Group and the Company, the amount of approximately HK\$80,710,000, being difference between the total acquisition cost and the fair value of the investment properties, would be recorded as decreased in fair value of investment properties and charged to profit and loss account, and adjust the corresponding deferred tax credit to profit and loss account and deferred tax asset amounting to approximately HK\$20,178,000.

The fair value of the investment properties will be reassessed at completion date which may be different from that presented above.

5. No adjustment has been made to the unaudited pro forma consolidated financial information of the Enlarge Group to reflect any trading results or other transactions of the Group and the Target Group entered subsequent to 30 June 2018.

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 Group. 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 is not misleading or deceptive; and there are no other matters the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Disclosure of interest by Directors and Chief Executives in the Company

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executives of the Company and their associates in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) 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 which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required to be entered in the register referred to therein pursuant to section 352 of the SFO; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Long Position in the Shares, Underlying Shares or Debentures of the Company

Name of Director	Capacity/Nature of interest	Number of Shares interested	Number of underlying shares	Aggregate interests	Approximate percentage of the Company's issued Shares	Notes
Mr. Fu Yiu Man	Beneficial owner	–	11,484,000	11,484,000	1.03%	2
Mr. Tin Ka Pak, Timmy	Beneficial owner	–	6,500,000	6,500,000	0.58%	2
Mr. Lin Hoi Kwong, Aristo	Beneficial owner	–	14,440,000	14,440,000	1.29%	2
Mr. Xie Jintai	Beneficial owner	–	5,000,000	5,000,000	0.45%	2
Mr. Wong Chun Kin, Quentin	Beneficial owner	500,000	400,000	900,000	0.08%	2
Mr. Siu Miu Man	Beneficial owner	–	200,000	200,000	0.02%	2
Mr. Wong Kam Choi, Kerry, MH	Beneficial owner	–	400,000	400,000	0.04%	2

Notes:

- As at the Latest Practicable Date, the Company's total issued ordinary shares was 1,119,874,675.
- The underlying shares represents the share options granted by the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required 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 which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required to be entered in the register referred to therein pursuant to section 352 of the SFO; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(b) Disclosure of interest by Substantial Shareholders in the Company

As at the Latest Practicable Date, so far as any Directors are aware, the interests or short positions owned by the following parties (other than the Directors or chief executives of the Company) in the Shares or underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

Long Position in the Shares, Underlying Shares or Debentures of the Company

Name of shareholder	Capacity/Nature of interest	Number of Shares interested	Number of underlying shares	Aggregate interests	Approximate percentage of the Company's issued Shares	Notes
Mr. Ting Pang Wan Raymond ("Mr. Ting")	Beneficial owner	400,000	–	131,127,077	11.71%	2
	Interest in controlled corporations	53,756,000	76,923,077			2
	Interest of spouse	48,000	–			2, 3
Ms. Luu Huyen Boi ("Ms. Luu")	Beneficial owner	48,000	–	131,127,077	11.71%	3
	Interest of spouse	54,156,000	76,923,077			3
CVP Financial Group Limited	Beneficial owner	–	76,923,077	76,923,077	6.87%	2
Mr. Chung Chi Shing, Eric ("Mr. Chung")	Beneficial owner	245,352,000	1,392,000	321,744,000	28.73%	4
	Interest in controlled corporations	75,000,000	–			
Power Global Group Limited	Beneficial owner	75,000,000	–	75,000,000	6.70%	4
Mr. Yip Sum Yin	Interest in controlled corporations	–	60,000,000	60,000,000	5.36%	5
Best Fortress Limited	Interest in controlled corporation	–	60,000,000	60,000,000	5.36%	5
Pacific Alliance Limited	Beneficial owner	–	60,000,000	60,000,000	5.36%	5

Name of shareholder	Capacity/Nature of interest	Number of Shares interested	Number of underlying shares	Aggregate interests	Approximate percentage of the Company's issued Shares	Notes
Mr. Wong Kin Ting	Interest in controlled corporation	79,000,000	–	79,000,000	7.05%	6
Grade Rich Investments Limited	Beneficial owner	79,000,000	–	79,000,000	7.05%	6

Notes:

- As at the Latest Practicable Date, the Company's total issued ordinary shares was 1,119,874,675.
- Mr. Ting is beneficially interested in 400,000 Shares, and is deemed to be interested in (i) 48,000 Shares owned by Ms. Luu, the spouse of Mr. Ting, (ii) the convertible bonds of the Company issued to CVP Financial Group Limited which entitles the holder(s) to convert into 76,923,077 Shares, (iii) 49,336,000 Shares owned by Kaiser Capital Holdings Limited, and (iv) 4,420,000 Shares owned by Highgrade Holding Limited, the entire issued share capital of CVP Financial Group Limited, Kaiser Capital Holdings Limited and Highgrade Holding Limited being legally and beneficially owned by Mr. Ting, under Part XV of the SFO.
- Ms. Luu is the spouse of Mr. Ting. Ms. Luu is beneficially interested in 48,000 Shares and is deemed to be interested in all the Shares and underlying shares of the Company in which Mr. Ting is interested in under Part XV of the SFO.
- Mr. Chung, a former executive Director who resigned on 2 March 2018, is beneficially interested in (i) 245,352,000 Shares, (ii) 1,392,000 share options granted by the Company, and is deemed to be interested in 75,000,000 Shares owned by Power Global Group Limited, the entire issued share capital of which is legally and beneficially owned by Mr. Chung, under Part XV of the SFO.
- The entire issued share capital of Pacific Alliance Limited is legally and beneficially owned by Best Fortress Limited, which, in turn, is owned as to 90% by Mr. Yip Sum Yin. Each of Best Fortress Limited and Mr. Yip Sum Yin is deemed to be interested in the convertible bond of the Company issued to Pacific Alliance Limited which entitles the holder(s) to convert into 60,000,000 Shares under Part XV of the SFO.
- Mr. Wong Kin Ting is deemed to be interested in 79,000,000 Shares owned by Grade Rich Investments Limited, the entire issued share capital of which is legally and beneficially owned by Mr. Wong Kin Ting, under Part XV of the SFO.

Save as disclosed above and as at the Latest Practicable Date, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or chief executives of the Company) in the Shares or underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract with any member of the Enlarged Group (excluding contracts expiring or determinable by the employer within one year without payment of any compensation (other than statutory compensation)).

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, controlling shareholders or their respective associates had any interests in businesses which competed or might compete with the businesses of the Enlarged Group or had any other conflict of interests with the Enlarged Group.

5. EXPERTS AND CONSENTS

The following is the qualifications of the experts who have given opinions or advice, which is contained in this circular:

Name	Qualifications
SHINEWING (HK) CPA Limited	Certified Public Accountants
Prudential Surveyors (Hong Kong) Limited	Valuer

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

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

As at the Latest Practicable Date, each of the above experts did not have any interest, either directly or indirectly, in any assets which had been since 31 December 2017 (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 Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

6. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years immediately preceding the date of this circular and are or may be material:

- (1) the placing agreement dated 10 July 2017 with VC Brokerage Limited (“**VC Brokerage**”) as the placing agent whereby the Company agreed to place, through VC Brokerage, on a best effort basis, up to an aggregate of 132,000,000 placing shares to not less than six places at HK\$0.93 per placing share;

- (2) the legally binding memorandum of understanding dated 22 September 2017 with an independent third party in relation to the proposed formation of a joint venture company to act as a sponsor to a limited partnership fund which will focus on infrastructure project;
- (3) the sale and purchase agreement dated 18 October 2017 entered into among the Company, Pacific Alliance Limited as vendor, a company owned as to 90% by Mr. Yip Sum Yin and as to 10% by Mr. Chung Chi Sing, Eric (“**Mr. Chung**”), and Mr. Yip Sum Yin and Mr. Chung as warrantors, in relation to the sale and purchase of the convertible bonds in the principal amount of HK\$153,585,000 issued by China Fortune Financial Group Limited on 30 March 2017, for an aggregate consideration of HK\$400,000,000;
- (4) the sale and purchase agreement dated 8 March 2018 entered into between CVP Financial Group Limited (遠見金融集團有限公司) as vendor and Apex Treasure International Limited (“**Apex**”), a company indirect wholly-owned by the Company, as purchaser in relation to the acquisition of 18 issued shares of Hackett Enterprises Limited (“**Hackett**”), representing 18% of the entire issued share capital in Hackett, for a consideration of HK\$160 million;
- (5) the placing and subscription agreement dated 26 June 2018 with Shenwan Hongyuan Securities (H.K.) Limited (the “**Placing Agent**”) and Mr. Chung whereby (i) Mr. Chung agreed to appoint the Placing Agent and the Placing Agent has agreed to act as agent of Mr. Chung and uses its best endeavour to procure not less than six places up to 60,000,000 shares of the Company at HK\$1.45 per placing share; and (ii) Mr. Chung has agreed to subscribe for up to 60,000,000 shares of the Company at HK\$1.45 per subscription share; and
- (6) this Agreement.

8. DIRECTORS’ INTERESTS IN CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been since 31 December 2017 (being the date to which the latest published audited financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

9. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Lai Yick Fung, who is an associate member of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Institute of Certified Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries.
- (b) The registered office of the Company is at 28th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong.

- (c) The share registrar and transfer office of the Company in Hong Kong is Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) This circular has been prepared in both English and Chinese. In the case of any discrepancies, the English text shall prevail over their respective Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours at the head office and principal place of business in Hong Kong of the Company at 29th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the articles of association of the Company;
- (b) the annual reports of the Company for the three years ended 31 December 2017;
- (c) the accountants' report on the Target Group from SHINEWING (HK) CPA Limited, the texts of which are set out in Appendix to this circular;
- (d) the valuation report of the valuer, the text of which is set out in Appendix III to this circular;
- (e) the report issued by SHINEWING (HK) CPA Limited on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;
- (f) the letter of consent referred to in the paragraph under the heading "Experts and consents" in this appendix;
- (g) copy of each of the material contracts referred in the paragraph under the heading "Material contracts" in this appendix;
- (h) copy of each circular issued pursuant to Chapter 14 and/or Chapter 14A of the Listing Rules which has been issued since the date of the latest published audited accounts; and
- (i) this circular.

NOTICE OF EGM



Value Convergence Holdings Limited

(Incorporated in Hong Kong with limited liability)

Website: <http://www.vcgroup.com.hk>

(Stock Code: 821)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of Value Convergence Holdings Limited (the “**Company**”) will be held at 29th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong on Monday, 15 October 2018 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following ordinary resolution:

ORDINARY RESOLUTION

“THAT:

- (a) the conditional sale and purchase agreement dated 29 June 2018 (the “**Agreement**”) entered into among VC Global Investments Limited as the purchaser (the “**Purchaser**”) and Mr. Ting Pang Wan Raymond as the vendor (the “**Vendor**”), in relation to the acquisition of the (i) one share in Bright Element Investments Limited (the “**Target Company**”); and (ii) all obligations, liabilities and debts owing by the Target Company to the Vendor on or at any time prior to the completion (the “**Completion**”) of the Agreement whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Completion at the total consideration of HK\$257,200,000, which shall be satisfied by the Purchaser by procuring the Company to issue the convertible bonds (the “**Convertible Bonds**”) in the principal amount of HK\$257,200,000 to the Vendor (or his nominee(s)), entitling the holder(s) thereof to convert the principal amount into 205,760,000 shares of the Company (the “**Conversion Shares**”) at the conversion price of HK\$1.25 per Conversion Share, (a copy of the Agreement has been produced to this meeting marked “A” and signed by the chairman of the meeting for the purpose of identification), and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (b) subject to the fulfillment or waiver of the conditions precedent set out in the Agreement, the issue of the Convertible Bonds in accordance with the terms and conditions of the Agreement be and is hereby approved;
- (c) the directors (the “**Directors**”) of the Company be and are hereby granted a specific mandate to allot and issue all the Conversion Shares upon full conversion of the Convertible Bonds in accordance with the terms and conditions of the Agreement; and

NOTICE OF EGM

- (d) any one director be and is hereby authorised to sign and execute such documents, including under seal where applicable, and do all such acts and things, as he considers necessary, desirable or expedient in connection with the implementation of or giving effect to the Agreement and the transactions contemplated thereunder.”

Yours faithfully,
For and on behalf of the Board
Value Convergence Holdings Limited
Fu Yiu Man
Chairman and executive director

Hong Kong, 26 September 2018

Registered office:

28th Floor, The Centrium
60 Wyndham Street
Central
Hong Kong

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, 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 Meeting 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. A form of proxy for use at the Meeting is enclosed. Whether or not you intend to attend the Meeting in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon.
3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the Company’s share registrar and transfer office, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible, and in any event not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
4. Completion and return of a proxy form shall not preclude a member from attending and voting in person at the Meeting or any adjournment thereof and in such event, the proxy form appointing a proxy shall be deemed to be revoked.
5. In the case of joint holders of shares, any one of such joint holders may vote at the Meeting, either in person 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 Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
6. If typhoon signal No. 8 or above, or a “black” rainstorm warning is in effect any time after 7:00 a.m. on the date of the Meeting, the Meeting will be postponed. The Company will publish an announcement on the website of the Company at <http://www.vcgroup.com.hk> and on the website of the Stock Exchange at <http://www.hkexnews.hk> to notify shareholders of the Company of the date, time and place of the rescheduled meeting.