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

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

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SHEN YOU HOLDINGS LIMITED

申酉控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8377)

**MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF
THE ENTIRE ISSUED SHARE CAPITAL OF AND
SALE LOANS DUE BY THE TARGET COMPANY
INVOLVING ISSUE OF CONSIDERATION SHARES
UNDER SPECIFIC MANDATE
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

Capitalised terms used on this cover page shall have the same meanings as defined in this circular.

A notice convening the EGM to be held at 7/F., Nexus Building, 41 Connaught Road Central, Central, Hong Kong on Tuesday, 2 February 2021 at 2:30 p.m. or any adjournment thereof is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is enclosed with this circular.

Whether or not the Shareholders are able to attend and vote at the EGM in person, they are advised to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event no less than 48 hours before the time appointed for holding the EGM (i.e. Sunday, 31 January 2021 at 2:30 p.m. (Hong Kong time)) or any adjournment thereof. Completion and return of the form of proxy shall not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof should they so wish and, in such event, the instrument appointing the proxy shall be deemed to be revoked.

PRECAUTIONARY MEASURES FOR THE EGM

Due to the on-going COVID-19 pandemic, to safeguard the health and safety of the Shareholders, the Company will implement the following precautionary measures at the EGM:

- compulsory body temperature checks
- compulsory wearing of a surgical face mask for each attendee
- submission of personal information form, which may be used for contact tracing, if required
- no distribution of corporate gift nor provision of refreshment

Any person who does not comply with these precautionary measures may be denied entry into the EGM venue. Shareholders are reminded that, in order to avoid attending the meeting in person, they may appoint the chairman of the EGM as their proxy to vote on any resolutions at the EGM in accordance with the voting preferences indicated on the enclosed proxy form.

This circular with a form of proxy will remain on the "Latest Company Announcements" page of the website of GEM at www.hkgem.com for at least 7 days from the date of its publication and on the website of the Company at www.shenyouholdings.com.

13 January 2021

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the meanings as set out below:

“Acquisition”	the acquisition of the Sale Shares and the Sale Loans by the Company pursuant to the terms and conditions of the Sale and Purchase Agreement
“Actual Profit”	has the meaning ascribed thereto in the paragraph headed “Profit guarantee” under the section “The Sale and Purchase Agreement” in this circular
“Announcement”	the announcement of the Company dated 18 August 2020 in relation to, among other things, the Acquisition
“associate”	has the meaning ascribed thereto under the GEM Listing Rules
“Auditors”	an independent firm of auditors practicing in Hong Kong whose appointment shall be approved by the Company
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday and any day on which a tropical cyclone warning no. 8 or above is hoisted or on which a “black” rainstorm warning is hoisted between 9:00 a.m. and 5:00 p.m.) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“Company”	Shen You Holdings Limited, a company incorporated in the Cayman Islands with limited liability, and the issued shares of which are listed on GEM (stock code: 8377)
“Completion”	completion of the Acquisition pursuant to the terms and conditions of the Sale and Purchase Agreement
“Completion Date”	the third (3rd) Business Day after the date of fulfillment (or waiver) of the conditions precedent under the Sale and Purchase Agreement or such other date as the parties shall agree in writing
“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Consideration”	an amount of HK\$14,500,000, being the purchase price for the Sale Shares and the Sale Loans

DEFINITIONS

“Consideration Shares”	an aggregate of 67,441,860 new Shares to be allotted and issued to the Vendors (and/or their respective nominee(s)), subject to the terms and conditions in relation to the profit guarantee under the Sale and Purchase Agreement (where applicable), at the Issue Price as Consideration
“controlling shareholder”	has the meaning ascribed thereto under the GEM Listing Rules
“Director(s)”	director(s) of the Company
“DT Capital”	DT Capital Limited, a company incorporated in the Cayman Islands with limited liability, and the issued shares of which are listed on Main Board of the Stock Exchange (stock code: 356)
“EGM”	the extraordinary general meeting of the Company to be convened and held at 7/F., Nexxus Building, 41 Connaught Road Central, Central, Hong Kong on Tuesday, 2 February 2021 at 2:30 p.m. for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares under the Specific Mandate)
“Enlarged Group”	the Group as enlarged by the Target Group upon Completion
“Escrow Agent”	an escrow agent to be jointly appointed by Vendor A and the Company
“Escrow Letter”	the escrow letter (in the agreed form) to be made between Vendor A, the Company and the Escrow Agent in relation to the holding of 15,860,466 Consideration Shares pursuant to the terms and conditions of the Sale and Purchase Agreement
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Committee”	has the meaning ascribed thereto under the GEM Listing Rules
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries (from time to time)

DEFINITIONS

“Guarantee Certificate”	a certificate to be issued by the Auditors certifying the amount of the audited consolidated profits before tax of the Target Company for the Guaranteed Period
“Guaranteed Period”	has the meaning ascribed thereto in the paragraph headed “Profit guarantee” under the section “The Sale and Purchase Agreement” in this circular
“Guaranteed Profit”	has the meaning ascribed thereto in the paragraph headed “Profit guarantee” under the section “The Sale and Purchase Agreement” in this circular
“Guaranteed Profit Compensation”	has the meaning ascribed thereto in the paragraph headed “Profit guarantee” under the section “The Sale and Purchase Agreement” in this circular
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owners, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are not connected persons of the Company and are third parties independent of the Company and its connected persons in accordance with the GEM Listing Rules
“Issue Price”	HK\$0.215 per Consideration Share
“Latest Practicable Date”	7 January 2021, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“LMP”	LMP International Limited, a company incorporated in Hong Kong with limited liability and a directly wholly-owned subsidiary of the Target Company
“MOU”	the memorandum of understanding dated 24 June 2020 and entered into by the Company and Vendor A for the possible acquisition of not less than 55% of the entire issued share capital of the Target Company

DEFINITIONS

“Mr. Leong”	Mr. Leong Chi Wai (梁治維), being (i) an executive director of DT Capital; (ii) a shareholder interested in approximately 15.10% of the entire issued share capital of UBA Investments; (iii) a director of each of the Target Company and LMP; and (iv) a shareholder interested in the entire issued share capital of Vendor D as at the Latest Practicable Date
“Mr. Leung”	Mr. Leung King Yue, Alex (梁景裕), being (i) the executive Director and a Shareholder interested in 10,000,000 Shares, representing approximately 4.17% of the entire issued share capital of the Company, and (ii) a shareholder interested in approximately 0.85% of the entire issued share capital of UBA Investments as at the Latest Practicable Date
“Mr. Wong”	Mr. Wong Kwok Wai, Albert (黃國偉), being the executive Director, chairman and chief executive officer of the Company
“Ms. Chan”	Ms. Chan Pui Kwan (陳佩君), being (i) a non-executive director and chairman of DT Capital; (ii) a shareholder interested in approximately 11.16% of the entire issued share capital of DT Capital; and (iii) a director of each of the Target Company and LMP as at the Latest Practicable Date
“Old Shares”	ordinary share(s) of HK\$0.01 each in the share capital of the Company before the Share Consolidation became effective
“PRC”	the People’s Republic of China which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 18 August 2020 (as amended and supplemented by an extension letter dated 17 November 2020) entered into amongst the Company and the Vendors in respect of the Acquisition

DEFINITIONS

“Sale Loan B”	100% of all obligations, liabilities and debts owing or incurred by the Target Company to Vendor B 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 Latest Practicable Date, amounted to a total sum of HK\$2,590,000
“Sale Loan C”	100% of all obligations, liabilities and debts owing or incurred by the Target Company to Vendor C 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 Latest Practicable Date, amounted to a total sum of HK\$2,590,000
“Sale Loan D”	100% of all obligations, liabilities and debts owing or incurred by the Target Company to Vendor D 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 Latest Practicable Date, amounted to a total sum of HK\$3,120,000
“Sale Loans”	collectively, the Sale Loan B, the Sale Loan C and the Sale Loan D, in an aggregate sum of HK\$8,300,000 as at the Latest Practicable Date
“Sale Shares”	300 issued shares, representing the entire issued share capital, of the Target Company
“Sale Shares A”	165 shares, representing 55% of the entire issued share capital of the Target Company, which are legally and beneficially owned by Vendor A, as at the Latest Practicable Date
“Sale Shares B”	50 shares, representing approximately 16.67% of the entire issued share capital of the Target Company, which are legally and beneficially owned by Vendor B, as at the Latest Practicable Date
“Sale Shares C”	50 shares, representing approximately 16.67% of the entire issued share capital of the Target Company, which are legally and beneficially owned by Vendor C, as at the Latest Practicable Date

DEFINITIONS

“Sale Shares D”	35 shares, representing approximately 11.66% of the entire issued share capital of the Target Company, which are legally and beneficially owned by Vendor D, as at the Latest Practicable Date
“Service Agreement”	a service agreement having a term of three years and to be entered into between LMP and Vendor A upon Completion
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Consolidation”	the consolidation of every five (5) issued and unissued Old Shares into one (1) Share in the share capital of the Company, which was duly approved by the Shareholders at an extraordinary general meeting of the Company convened on 21 August 2020 and became effective on 25 August 2020
“Shareholder(s)”	the holder(s) of the issued Share(s)
“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company
“Specific Mandate”	a specific mandate to allot, issue or otherwise deal in additional Shares to be sought from the Shareholders who are entitled to vote and not required to be abstained from voting under the GEM Listing Rules at the EGM to satisfy the allotment and issue of the Consideration Shares upon Completion
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental MOU”	the supplemental memorandum of understanding dated 17 July 2020 and entered into between the Company and Vendor A to amend certain terms of the MOU in view of the then proposed Share Consolidation
“Target Company”	Diamond Motto Limited, a company incorporated in the British Virgin Islands with limited liability, which is owned as to 55% by Vendor A, approximately 16.67% by Vendor B, approximately 16.67% by Vendor C and approximately 11.66% by Vendor D as at the Latest Practicable Date
“Target Group”	collectively, the Target Company and LMP

DEFINITIONS

“UBA Investments”	UBA Investments Limited, a company incorporated in the Cayman Islands with limited liability, and the issued shares of which are listed on Main Board of the Stock Exchange (stock code: 768)
“Vendor A”	Mr. Leung Tat Chi (梁達志), being a shareholder holding 165 issued shares, representing 55% of the entire issued share capital, of the Target Company
“Vendor B”	Loyal Grace Investments Limited, being a company incorporated in the British Virgin Islands with limited liability and a shareholder holding 50 issued shares, representing approximately 16.67% of the entire issued share capital, of the Target Company, and a direct wholly-owned subsidiary of UBA Investments
“Vendor C”	Key Summit Enterprises Limited, being a company incorporated in the British Virgin Islands with limited liability and a shareholder holding 50 issued shares of, representing approximately 16.67% equity interest in, the Target Company, and a direct wholly-owned subsidiary of DT Capital
“Vendor D”	Glory Radiance International Limited, being a company incorporated in the British Virgin Islands with limited liability and a shareholder holding 35 issued shares, representing approximately 11.66% of the entire issued share capital, of the Target Company, and is wholly and beneficially owned by Mr. Leong
“Vendors”	collectively, Vendor A, Vendor B, Vendor C and Vendor D
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“%”	per cent

LETTER FROM THE BOARD

SHEN YOU HOLDINGS LIMITED

申酉控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8377)

Executive Directors:

Mr. Wong Kwok Wai, Albert
(Chairman and Chief Executive Officer)
Mr. Chan Yiu Tung, Enoch
Mr. Leung King Yue, Alex

Registered office:

Windward 3, Regatta Office Park
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

Independent non-executive Directors:

Mr. Sung Alfred Lee Ming
Mr. Chan Tsun Choi, Arnold
Mr. Chow Chin Hang, Joel

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

Unit 1302, 13/F.
New East Ocean Centre
9 Science Museum Road
Tsim Sha Tsui East
Kowloon, Hong Kong

13 January 2021

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF
THE ENTIRE ISSUED SHARE CAPITAL OF AND
SALE LOANS DUE BY THE TARGET COMPANY
INVOLVING ISSUE OF CONSIDERATION SHARES
UNDER SPECIFIC MANDATE
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

References are made to (i) the announcements of the Company dated 24 June 2020 and 17 July 2020, in relation to, among other things, the MOU and the Supplemental MOU regarding the possible acquisition of not less than 55% of the entire issued share capital of the Target Company; (ii) the announcements of the Company dated 18 August 2020, 7 September 2020, 28 September 2020 and 17 November 2020 in relation to, among other things, the Acquisition; and (iii) the announcement of the Company dated 21 August 2020 in relation to, among other things, the effective date of the Share Consolidation being 25 August 2020. As at the Latest Practicable Date, the Share Consolidation has become effective.

LETTER FROM THE BOARD

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 Group and the Target Group; and (iii) unaudited pro forma financial information of the Enlarged Group, together with a notice convening the EGM.

THE ACQUISITION

On 18 August 2020, the Company and the Vendors entered into the Sale and Purchase Agreement, pursuant to which the Company has conditionally agreed to purchase, and (i) Vendor A has conditionally agreed to sell, the Sale Shares A, representing 55% of the entire issued share capital of the Target Company; (ii) Vendor B has conditionally agreed to sell, the Sale Shares B, representing approximately 16.67% of the entire issued share capital of the Target Company, and the Sale Loan B; (iii) Vendor C has conditionally agreed to sell, the Sale Shares C, representing approximately 16.67% of the entire issued share capital of the Target Company, and the Sale Loan C; and (iv) Vendor D has conditionally agreed to sell, the Sale Shares D, representing approximately 11.66% of the entire issued share capital of the Target Company, and the Sale Loan D, for an aggregate Consideration of HK\$14,500,000.

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are summarised as follows:

- Date:** 18 August 2020
- Parties:** (i) the Company, as the purchaser;
- (ii) Vendor A, as the vendor;
- (iii) Vendor B, as the vendor;
- (iv) Vendor C, as the vendor; and
- (v) Vendor D, as the vendor

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, (i) Vendor A is interested in 1,600,000 Shares, representing approximately 0.67% of the entire issued share capital of the Company; and (ii) Mr. Leung (being an executive Director and a Shareholder who is interested in 10,000,000 Shares, representing approximately 4.17% of the entire issued share capital of the Company) is also a former executive director of DT Capital (which in turn is interested in 100% equity interests in Vendor C) and a shareholder who is interested in approximately 0.85% equity interests of UBA Investments (which in turn is interested in 100% equity interests in Vendor B). Save for Vendor A and Mr. Leung, each of the Vendors and their respective ultimate beneficial owners (where applicable) is an Independent Third Party. Further information in relation to the Vendors is set out in the section headed "Information on the Vendors" in this circular.

LETTER FROM THE BOARD

Assets to be acquired

Pursuant to the terms and conditions of the Sale and Purchase Agreement, the Company has conditionally agreed to purchase, and (i) Vendor A has conditionally agreed to sell, the Sale Shares A, representing 55% of the entire issued share capital of the Target Company; (ii) Vendor B has conditionally agreed to sell, the Sale Shares B, representing approximately 16.67% of the entire issued share capital of the Target Company, and the Sale Loan B; (iii) Vendor C has conditionally agreed to sell, the Sale Shares C, representing approximately 16.67% of the entire issued share capital of the Target Company, and the Sale Loan C; and (iv) Vendor D has conditionally agreed to sell, the Sale Shares D, representing approximately 11.66% of the entire issued share capital of the Target Company, and the Sale Loan D.

Consideration

The Consideration is HK\$14,500,000, which shall be satisfied by the Company by way of allotment and issue of an aggregate of 67,441,860 Consideration Shares credited as fully paid, at the Issue Price, to the Vendors (and/or their respective nominee(s)) in the following manner:

- (i) as to HK\$3,410,000, by allotting and issuing 15,860,466 Consideration Shares to Vendor A and/or his nominee(s) upon Completion, and to be delivered to Vendor A and/or his nominee(s) in accordance with the terms and conditions of the Sale and Purchase Agreement and the Escrow Letter;
- (ii) as to HK\$3,623,333, by allotting and issuing 16,852,711 Consideration Shares to Vendor B and/or its nominee(s) upon Completion;
- (iii) as to HK\$3,623,333, by allotting and issuing 16,852,711 Consideration Shares to Vendor C and/or its nominee(s) upon Completion; and
- (iv) as to HK\$3,843,334, by allotting and issuing 17,875,972 Consideration Shares to Vendor D and/or its nominee(s) upon Completion.

The allocation of the Consideration Shares was determined after arm's length negotiations between the Company and the Vendors in proportion to the Consideration payable to each of Vendor A, Vendor B, Vendor C and Vendor D respectively with reference to (i) the Vendors' shareholding in the Target Company; and (ii) the respective amount of the Sale Loans agreed to be sold by each of Vendor B, Vendor C and Vendor D.

The breakdown of the Consideration Shares for the allocation of consideration regarding the Sale Shares and Sale Loans of Vendor B, Vendor C and Vendor D is as follows:

- (i) as to 4,806,200 Consideration Shares and 12,046,511 Consideration Shares shall be allotted and issued to Vendor B and/or its nominee(s) in respect of the Sale Shares B and the Sale Loan B, respectively, upon Completion;
- (ii) as to 4,806,200 Consideration Shares and 12,046,511 Consideration Shares shall be allotted and issued to Vendor C and/or its nominee(s) in respect of the Sale Shares C and the Sale Loan C, respectively, upon Completion; and
- (iii) as to 3,364,344 Consideration Shares and 14,511,628 Consideration Shares shall be allotted and issued to Vendor D and/or its nominee(s) in respect of the Sale Shares D and the Sale Loan D, respectively, upon Completion.

LETTER FROM THE BOARD

Basis for determination of the Consideration

The Consideration was determined after arm's length negotiations between the parties to the Sale and Purchase Agreement on normal commercial terms, after taking into account the following:

- (i) the unaudited net asset value of the Target Group of approximately HK\$3,165,000 as at 31 May 2020, for which the Board believes is in line with the industry norm of the business of trading of furnishing and provision of interior, design, fitting out and decoration services, given that not much machinery or equipment is required for its business operation;
- (ii) the profit guarantee provided by Vendor A in respect of the Guaranteed Profit of HK\$2,000,000 for the 12-month period commencing after the Completion Date;
- (iii) the settlement method of Consideration by way of allotment and issue of the Consideration Shares instead of immediate cash outlay by the Group including, in particular the premium of approximately 13.31% represented by the issue price of HK\$0.215 per Consideration Share over the average closing Share price for the last 30 consecutive trading days up to and including the date of the Sale and Purchase Agreement;
- (iv) the compensation mechanism in favour of the Group in cash by the compensation factor of 7.25 in the event that the Target Group fails to achieve the agreed Guaranteed Profit;
- (v) the Consideration Shares to be allotted and issued to Vendor A upon Completion shall only be delivered if (a) the profit guarantee under the Sale and Purchase Agreement is achieved, or (b) the Guaranteed Profit Compensation has been paid by Vendor A to the Company in the event that the Target Group fails to meet the Guaranteed Profit;
- (vi) the Sale Loans in an aggregate sum of HK\$8,300,000 as at the date of the Sale and Purchase Agreement;
- (vii) the existing market penetration and client base of the Target Group in its sector as well as its long operating track record;
- (viii) the potential financial prospect of the Target Group;
- (ix) the P/E Ratios (as defined below) of several Comparable Companies (as defined below); and
- (x) the other factors as set out in the section headed "Reasons for and benefits of the Acquisition" in this circular.

LETTER FROM THE BOARD

In order to assess the fairness and reasonableness of the Consideration, the Board had taken into account that the Consideration represents the price-to-earnings ratio (the “**P/E Ratio**”) of 7.25 times of the Guaranteed Profit under the profit guarantee provided by Vendor A (“**Profit Guarantee**”). Pursuant to the Profit Guarantee formula, if the Guaranteed Profit cannot be met, the Company will be compensated in cash with 7.25 times of the shortfall of future profit. Should the Target Company record a loss in its audited consolidated financial statements for the Guaranteed Period, the Actual Profit for such Guaranteed Period shall be deemed as zero and the maximum amount of compensation will be HK\$14,500,000, which is the full amount of the Consideration. Given, in the event that the Guaranteed Profit cannot be met, the Company is not only compensated with the shortfall on dollar-to-dollar basis but 7.25 times of the shortfall and the Consideration will be returned to the Company in full if there is a consolidated net loss for the Target Group for the Guaranteed Period, the Board is of the view that the terms of the Profit Guarantee are favourable to the Company and in the interests of the Company and the Shareholders as a whole. For further details of the Profit Guarantee, please refer to the paragraph headed “Profit Guarantee” under this section.

In assessing the fairness and reasonableness of the said P/E Ratio of 7.25 times, the Board had also taken into account the P/E Ratios of several companies listed on the Stock Exchange which are engaged in the interior design, fitting out and decoration business similar to that of the Target Group (the “**Comparable Companies**”). Based on the resources available and the selection criteria set out above, on a best effort and unbiased basis, to the best of the Directors’ knowledge, information and belief, the list of Comparable Companies below is full and exhaustive. Set out below is the summary of the P/E Ratios of the nine Comparable Companies:

Company name	Stock code	P/E Ratio (times) ^(Note 1)
Steve Leung Design Group Limited (“ Steve Leung Design ”) ^(Note 2)	2262	33.81
Jiyi Holdings Limited (“ Jiyi Holdings ”) ^(Note 3)	1495	34.50 ^(Note 4)
Hope Life International Holdings Limited (“ Hope Life ”) ^(Note 5)	1683	48.75
C Cheng Holdings Limited (“ C Cheng Holdings ”) ^(Note 6)	1486	N/A
K W Nelson Interior Design and Contracting Group Limited (“ K W Nelson ”) ^(Note 7)	8411	7.43
LKS Holding Group Limited (“ LKS Holding ”) ^(Note 8)	1867	102.01
Lai Group Holding Company Limited (“ Lai Group ”) ^(Note 9)	8455	N/A

LETTER FROM THE BOARD

Company name	Stock code	P/E Ratio (times) <i>(Note 1)</i>
AL Group Limited (“AL Group”) <i>(Note 10)</i>	8360	N/A
Sanbase Corporation Limited (“Sanbase Corporation”) <i>(Note 11)</i>	8501	3.31
Maximum		102.01
Minimum		3.31
Median		34.16
Mean		38.30

Notes:

1. The P/E Ratios of the Comparable Companies above are calculated based on their respective market capitalisation as at the date of the Sale and Purchase Agreement divided by the audited net profit attributable to owners as extracted from the latest annual reports of the Comparable Companies prior to the date of the Sale and Purchase Agreement. No P/E Ratio is calculated for those Comparable Companies which recorded a loss for the most recent financial year and such Comparable Companies are marked as “N/A”.
2. As disclosed in the annual report of Steve Leung Design for the year ended 31 December 2019, Steve Leung Design and its subsidiaries are principally engaged in the provision of interior design services, interior decorating and furnishing services and product design services.
3. As disclosed in the annual report of Jiyi Holdings for the year ended 31 December 2019, Jiyi Holdings and its subsidiaries are principally engaged in the sale and distribution of merchandise and the provision of interior design and building engineering services.
4. Conversion of Renminbi into Hong Kong dollars is calculated based on an exchange rate of RMB1.00 to HK\$1.1197.
5. As disclosed in the annual report of Hope Life for the year ended 31 December 2019, Hope Life and its subsidiaries are principally engaged in construction and ancillary services which include design, fitting-out, decoration, alteration and addition, construction and other related businesses, financial business and health business.
6. As disclosed in the annual report of C Cheng Holdings for the year ended 31 December 2019, C Cheng Holdings and its subsidiaries are principally engaged in the provision of comprehensive architectural services and building information modelling services.
7. As disclosed in the annual report of K W Nelson for the year ended 31 December 2019, K W Nelson and its subsidiaries are principally engaged in the provision of interior designs, project management services and fitting-out works in Hong Kong and Mainland China.
8. As disclosed in the annual report of LKS Holding for the year ended 31 March 2020, LKS Holding and its subsidiaries are principally engaged in (i) interior fitting-out and renovation services; and (ii) alteration and addition works for residential, industrial and commercial properties in Hong Kong.
9. As disclosed in the annual report of Lai Group for the year ended 31 March 2020, Lai Group and its subsidiaries are principally engaged in the provision of interior design and fit-out services in Hong Kong.

LETTER FROM THE BOARD

10. As disclosed in the annual report of AL Group for the year ended 31 December 2019, AL Group and its subsidiaries are principally engaged in the provision of interior design and fit out solutions as well as overall project management in Hong Kong.
11. As disclosed in the annual report of Sanbase Corporation for the year ended 31 March 2020, Sanbase Corporation and its subsidiaries are principally engaged in the provision of interior fit-out solutions in Hong Kong and the PRC.

As shown in the above table, the said P/E Ratio of 7.25 times is well below the mean and median of the P/E Ratios of the Comparable Companies.

The Sale Loans amounted to HK\$8,300,000 as at the Latest Practicable Date; and the Sale Loans shall be assigned to the Company (and/or its nominee) from Vendor B, Vendor C and Vendor D on a dollar-to-dollar basis. As such, the Consideration for the Sale Shares is HK\$6,200,000.

Despite that the Consideration of HK\$14,500,000 represents about 38.06 times of the audited consolidated net profit of the Target Company (excluding listing expenses) for the year ended 31 March 2019 of approximately HK\$381,000, the P/E Ratio of the Target Group implied by the Consideration for Sale Shares (the “**Implied P/E Ratio**”) of HK\$6,200,000 is only approximately 16.27 times based on the audited consolidated net profit of the Target Company (excluding listing expenses) for the year ended 31 March 2019 of approximately HK\$381,000, which is below the mean and median of the P/E Ratios of the Comparable Companies as set out above.

The Implied P/E Ratio of the Target Group is only 3.10 times based on the Guaranteed Profit of HK\$2,000,000, which is significantly below the mean and median, and slightly below the minimum, of the P/E Ratios of the Comparable Companies as set out above.

In light of the above analysis, the Board is of the view that the Consideration for the Sale Shares and the Sale Loans is fair and reasonable.

Consideration Shares

Subject to the provisions as set out in the paragraph headed “Profit guarantee” below, the Company shall allot and issue an aggregate of 67,441,860 Consideration Shares to the Vendors (and/or their respective nominee(s)) at the Issue Price to satisfy the Consideration upon Completion.

The Issue Price of HK\$0.215 per Consideration Share represents:

- (i) a premium of approximately 2.38% over the closing price of HK\$0.210 per Share as quoted on the Stock Exchange on the date of the Sale and Purchase Agreement;
- (ii) a discount of approximately 7.33% to the average of the closing price of HK\$0.232 per Share as quoted on the Stock Exchange for the five trading days immediately prior to the date of the Sale and Purchase Agreement; and

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- (iii) a premium of approximately 7.50% to the closing price of HK\$0.200 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The 67,441,860 Consideration Shares represent (i) approximately 28.10% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 21.94% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming no other change in the number of issued Shares since the Latest Practicable Date and up to the Completion Date). The allotment and issue of the Consideration Shares will not result in a change of control of the Company.

The Consideration Shares are to be issued by the Company under the Specific Mandate to be sought from the Shareholders at the EGM. The Consideration Shares, when allotted and issued, will rank *pari passu* in all respects with all the Shares then in issue.

The Issue Price was arrived at after arm's length negotiation among the parties to the Sale and Purchase Agreement after taking into account the prevailing market price of the Shares. The Directors consider that the Issue Price is fair and reasonable.

An application will be made to the Stock Exchange by the Company for the listing of, and permission to deal in, the Consideration Shares.

For further details, please refer to the section headed "Effect on shareholding structure of the Company" below in this circular.

Lock-up undertaking

Subject to the provisions as set out in paragraph headed "Profit guarantee" below, Vendor A undertakes and warrants to the Company that during the twelve-month period commencing from the Completion Date, he will not and shall procure his nominee(s) (where applicable) not to sell, transfer, dispose of or enter into any agreement have similar effect or otherwise create any options, rights, interests or encumbrances in respect of any of the 15,860,466 Consideration Shares without prior written approval from the Company.

Conditions precedent

Completion is subject to the following conditions having been fulfilled or waived (as the case may be):

- (i) the Company being reasonably satisfied with the results of the due diligence review to be conducted pursuant to the terms and conditions of the Sale and Purchase Agreement;
- (ii) all necessary consents, licences and approvals required to be obtained on the part of the Vendors, the Target Company and LMP (if applicable) in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder having been obtained and remain in full force and effect;

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- (iii) all necessary consents, licences and approvals required to be obtained on the part of the Company in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder having been obtained and remain in full force and effect;
- (iv) the passing by the Shareholders, at the EGM to be convened and held in accordance with the requirements of the GEM Listing Rules, of such resolutions to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares) having been obtained;
- (v) the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consideration Shares; and
- (vi) the warranties provided by the Vendors remaining true and accurate and not misleading in all material respects.

The Company may at its absolute discretion at any time waive in writing any of the conditions precedent as set out in (i) and (vi) above and such waiver may be made subject to such terms and conditions as are determined by the Company. All other conditions precedent are incapable of being waived by any parties to the Sale and Purchase Agreement.

As at the Latest Practicable Date, save for conditions (i) and (ii), none of the conditions above has been fulfilled. As disclosed in the announcement of the Company dated 17 November 2020, if the above conditions have not been satisfied (or as the case may be, waived) at or before 12:00 noon on 17 January 2021, or such other date as the Company and the Vendors may agree, the Sale and Purchase Agreement shall cease and terminate, and thereafter none of the parties to the Sale and Purchase Agreement shall have any obligations and liabilities thereunder save for any antecedent breaches of the terms thereof.

Profit guarantee

Pursuant to the Sale and Purchase Agreement, Vendor A irrevocably and unconditionally warrants and guarantees to the Company that the audited consolidated profits after tax of the Target Company calculated in accordance with the HKFRS as shown in its audited consolidated financial statements for the 12-month period commencing after the Completion Date (the “**Guaranteed Period**”) issued by the Auditors shall not be less than HK\$2,000,000 (the “**Guaranteed Profit**”). The amount of the Guaranteed Profit was determined after arm’s length negotiations with reference to, among other things, (i) the historical financial performance of the Target Group, (ii) the prospects and development potential of the Target Group and (iii) the current economic environment.

As security for the performance of the obligations of Vendor A in respect of the profit guarantee, Vendor A and the Company shall jointly appoint the Escrow Agent to act as the escrow agent and to hold the share certificates in relation to the 15,860,466 Consideration Shares on and subject to the terms and conditions under the Escrow Letter.

If the actual audited consolidated profits after tax of the Target Company calculated in accordance with HKFRS for the Guaranteed Period (the “**Actual Profit**”) as shown in the Guarantee Certificate is not less than the Guaranteed Profit, Vendor A and the Company shall

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jointly procure the Escrow Agent to release the share certificates for the 15,860,466 Consideration Shares which are held in escrow by the Escrow Agent to Vendor A and/or his nominee(s) within three (3) Business Days from the date of receipt by the Escrow Agent of the Guarantee Certificate from the Auditors.

If the Actual Profit as shown in the Guarantee Certificate is less than the Guaranteed Profit, then Vendor A undertakes to pay to the Company an amount (A) (the “**Guaranteed Profit Compensation**”) calculated as follows:

$$A = (\text{Guaranteed Profit} - \text{Actual Profit}) \times 7.25 \text{ (Note)}$$

Note: For further details of the ratio of 7.25 times in the Guaranteed Profit Compensation calculation, please refer to the paragraph headed “Basis for determination of the Consideration” under this section.

In such event, Vendor A shall be obliged to pay the Company and/or its nominee(s) within seven (7) Business Days upon the receipt of the Guarantee Certificate an amount equivalent to the Guaranteed Profit Compensation in cash. Upon receipt the Guaranteed Profit Compensation by the Company and/or its nominee(s) from Vendor A within the said period, Vendor A and the Company shall jointly procure the Escrow Agent to release the share certificates for the 15,860,466 Consideration Shares which are held in escrow by the Escrow Agent to Vendor A and/or his nominee(s) within three (3) Business Days from the date of receipt by the Escrow Agent from the Company evidence of receipt of such Guaranteed Profit Compensation by the Company and/or its nominee(s).

However, in the event that Vendor A fails to pay the Guaranteed Profit Compensation in cash to the Company and/or its nominee(s) within seven (7) Business Days upon the receipt of the Guarantee Certificate, (i) the Company shall have the absolute right to unilaterally instruct the Escrow Agent to release any or all of the share certificates in relation to 15,860,466 Consideration Shares to a licensed securities dealer authorised to carry on Type 1 (dealing in securities) regulated activity under the SFO as may be nominated by the Company; and (ii) Vendor A and the Company shall jointly procure such securities dealer to dispose of such number of Consideration Shares appropriately sufficient to pay the Guaranteed Profit Compensation at the then best price reasonably obtainable by such securities dealer and thereafter, pay the net proceeds from such sale to the Company and/or its nominee(s) promptly after completion of such sale. Vendor A hereby undertakes to the Company that he shall, contemporaneously upon the payment of such net proceeds to the Company and/or its nominee(s) by such securities dealer, pay to the Company any shortfall by subtracting such net proceeds from the amount (A). For the avoidance of doubt, should there be proceeds after deducting the amount (A) from the amount of the net proceeds generated from the sale of such Consideration Shares, the balance of the such Consideration Shares shall be released by the Escrow Agent to Vendor A within ten (10) Business Days after upon receipt of the net proceeds generated from the sale of such Consideration Shares.

For the avoidance of doubt, should the Target Company record a loss in its audited consolidated financial statements for the Guaranteed Period, the Actual Profit for such Guaranteed Period shall be deemed as zero.

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Completion

Completion shall take place on the third Business Day after the fulfillment (or waiver) of all the conditions precedent of the Sale and Purchase Agreement, or such other date as the Company and the Vendors may agree. If there is any delay in Completion, the Company will comply with the relevant requirements under Rule 19.36 of the GEM Listing Rules. If Completion does not take place within three months after the fulfillment (or if applicable, waiver) of all the conditions precedent of the Sale and Purchase Agreement, the Company may consider to obtain Shareholders' approval again in the event that the market situation changes.

Upon Completion, the Company will be interested in the entire issued share capital of the Target Company. As such, the Target Company will become a wholly-owned subsidiary of the Company and the financial information of the Target Group will be consolidated into the consolidated financial statements of the Group.

Service Agreement

Upon Completion, LMP and Vendor A shall enter into the Service Agreement, pursuant to which Vendor A shall serve as a director of LMP for a term of three years from the Completion Date.

The Board believes that Vendor A's continued involvement in the management of LMP would ensure the smooth operation of the Target Group following Completion.

EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming there being no other changes in the share capital of the Company from the Latest Practicable Date and up to Completion, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon Completion.

Shareholders	As at the Latest Practicable Date		Immediately upon Completion	
	<i>Number of Shares</i>	<i>Approx. %</i>	<i>Number of Shares</i>	<i>Approx. %</i>
Three Gates Investment Limited ("Three Gates") ^(Note 1)	120,000,000	50.00	120,000,000	39.03
Mr. Leung ^(Note 2)	10,000,000	4.17	10,000,000	3.25
Vendor A	1,600,000	0.67	17,460,466 ^(Note 3)	5.68
Vendor B	—	—	16,852,711	5.48
Vendor C	—	—	16,852,711	5.48
Vendor D	—	—	17,875,972	5.82
Other public Shareholders	<u>108,400,000</u>	<u>45.16</u>	<u>108,400,000</u>	<u>35.26</u>
Total	<u><u>240,000,000</u></u>	<u><u>100.00</u></u>	<u><u>307,441,860</u></u>	<u><u>100.00</u></u>

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Notes:

1. Three Gates, a company incorporated in the British Virgin Islands, is wholly and beneficially owned by Mr. Wong, who is the executive Director, Chairman, Chief Executive Officer and controlling shareholder of the Company. 80,000,000 Shares held by Three Gates have been charged in favour of Gold-Face Finance Limited (“**Gold-Face**”) as security for a loan granted in favour of Mr. Wong. Gold-Face is direct wholly-owned by Upbest Credit and Mortgage Limited, which is in turn owned as to 50% by Good Foundation Company Limited (“**Good Foundation**”) and 50% by Upbest Strategic Company Limited (“**Upbest Strategic**”). Each of Good Foundation and Upbest Strategic is a direct wholly-owned subsidiary of Upbest Financial Holdings Limited, which is in turn wholly-owned by Upbest Group Limited.
2. Mr. Leung is an executive Director.
3. As security for the performance of the obligations of Vendor A in respect of the profit guarantee, Vendor A and the Company shall jointly appoint the Escrow Agent to act as the escrow agent and to hold the share certificates in relation to the 15,860,466 Consideration Shares on and subject to the terms and conditions under the Escrow Letter. For details of the arrangement, please refer to the paragraph headed “Profit guarantee” above in this circular.
4. Certain percentage figures in the above table are subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

As shown in the table above, the shareholding interest of the existing public Shareholders will decrease from approximately 45.16% to approximately 35.26% immediately after the allotment and issue of the Consideration Shares upon Completion, representing a dilution by approximately 9.9%. Although the shareholding interest of the existing public Shareholders will be diluted, having taking into account, among others, (i) the benefits which are expected to be brought forth by the Acquisition; and (ii) the fairness and reasonableness of the Consideration and the Issue Price, the Directors are of the opinion that the dilution effect on the shareholding interest of the existing public Shareholders are acceptable.

INFORMATION ON THE VENDORS

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, (i) as at the Latest Practicable Date, Vendor A is interested in 1,600,000 Shares, representing approximately 0.67% of the entire issued share capital of the Company. Save as disclosed, Vendor A does not hold any other Share or other securities in the Company; (ii) Vendor B is a direct wholly-owned subsidiary of UBA Investments, which is principally engaged in investment in listed and unlisted securities; (iii) Vendor C is a direct wholly-owned subsidiary of DT Capital, which is principally engaged in investment in listed and unlisted securities; and (iv) Vendor D is an investment holding company and is directly wholly-owned by Mr. Leong.

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, (i) Mr. Leung, being the executive Director and a Shareholder who is interested in 10,000,000 Shares, representing approximately 4.17% of the entire issued share capital of the Company, is also a former executive director of DT Capital (which in turn is interested in 100% equity interests in Vendor C), and is interested in 10,800,000 issued shares, representing approximately 0.85% of the entire issued share capital of UBA Investments (which in turn is interested in 100% equity interests in Vendor B); (ii) Mr. Leong, being an executive director of DT Capital, is also interested in 192,000,000

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issued shares, representing approximately 15.10% of the entire issued share capital, of UBA Investments, and is a director of each of the Target Company and LMP; (iii) Ms. Chan, being a non-executive director and chairman of DT Capital, is also interested in 254,500,000 issued shares, representing approximately 11.16% of the entire issued share capital, of DT Capital, and is a director of each of the Target Company and LMP; and (iv) DT Capital is interested in 10,308,000 shares, representing approximately 0.81% of the issued share capital, of UBA Investments.

Save as disclosed above, to the best of the Directors' knowledge, information and belief, after making all reasonable enquiries, there is no other relationship (shareholding, financial, business or otherwise) among the Vendors.

As disclosed in the announcement of the Company dated 4 June 2020, Mr. Leung, who is currently the executive Director, was interested in 50,000,000 rights shares under the then proposed rights issue on the basis of one (1) rights share for every two (2) ordinary shares of the Company in issue.

As disclosed in the annual report of Upbest Group Limited ("**Upbest Group**") for the year ended 31 March 2020, Upbest Securities Company Limited ("**Upbest Securities**"), being the underwriter to the rights issue (the "**Rights Issue**") as disclosed in the announcement of the Company dated 9 April 2020, is a wholly-owned subsidiary of Upbest Group. As confirmed by the Vendors, (i) each of DT Capital and Mr. Leong owns an insignificant of equity interest in Upbest Group; and (ii) each of Vendor A, DT Capital and several of its subsidiaries, UBA Investments and several of its subsidiaries, and Mr. Leong and his wholly-owned company maintains a securities trading account with Upbest Securities, as at the Latest Practicable Date.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save as disclosed above, there is no other relationship (shareholding, financial, business or otherwise) among the Vendors and the counterparties of the Rights Issues.

The Company was acquainted with Vendor A through Mr. Leung subsequent to his appointment as an executive Director in early June 2020. Mr. Leung was acquainted with Vendor A and the Target Group through the investment in the Target Group by DT Capital in or around June 2016 during his directorship as an executive director of DT Capital. After entering into of the MOU on 24 June 2020, Vendor A approached Vendor B, Vendor C and Vendor D shortly after in or around late June 2020 for the potential Acquisition, and subsequently introduced Vendor B, Vendor C and Vendor D to the Company in or around early July 2020 to discuss and negotiate the terms of the potential Acquisition.

None of Vendor A or the substantial shareholders of the remaining Vendors will become a controller or an associate of a controller of the Company. As at the Latest Practicable Date, there is no plan to change in the Board composition upon Completion.

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INFORMATION ON THE TARGET GROUP

The Target Company is an investment holding company incorporated in the British Virgin Islands with limited liability. As at the Latest Practicable Date, the Target Company is owned as to 55% by Vendor A, approximately 16.67% by Vendor B, approximately 16.67% by Vendor C and approximately 11.66% by Vendor D, respectively.

LMP is a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of the Target Company. It is principally engaged in the trading of furnishing and the provision of interior design, fitting out and decoration services.

Business of the Target Group

The Target Group provides design and fitting out services which cover the whole spectrum of work and services required in every fitting out project, from design, planning, implementation and execution to completion. It may provide services in one phase of the project work only such as design or fitting out contracting services or it may participate more to the extent that it may be engaged to conduct a project from the very beginning of design stage up to completion.

The core and source of revenue of the business is the provision of design and fitting out contracting services to customers. The scope of work of each project depends on the terms of engagement of the services. In more simple project engagement such as interior design or design and consultancy jobs, the Target Group can provide the service from its own internal resources without the need to engage external service providers such as subcontractors or material suppliers. A brief description of the main services provided by the Target Group is as follows:

“Design” and “Design and Consultancy”

In this kind of engagement, the Target Group is only required to help customers to form concepts and idea of the interior design, decoration and furnishing layout and produce interior design plans and drawings on the basis of the customers’ ideas and preferences. The preliminary plans and drawings will then undergo revisions and improvement in consultation with customers. In “Design only” jobs, duties and obligations of the Target Group are discharged upon finalization and confirmation of the design plans and drawings. The customers themselves will take charge of employing contractors to carry out the fitting out work and procure materials.

In some cases, the Target Group are engaged not only as the designer but also as the consultant cum project manager of the project, which is responsible for supervising the works carried out by the contractors to ensure that the finished fitting out work matches the design plans and drawings the Target Group prepared for the customers.

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“Design and Build/Fitting Out” projects

In the majority of the projects undertaken, the Target Group was engaged to carry out the “design and build” work. In this case, the Target Group acts as the designer, project manager and co-ordinator for the project overseeing the implementation and execution of the project plans, procurement of materials, monitoring and supervising the project execution until completion and following up with rectification work during the defect liability period. In these projects, the Target Group engages subcontractors of various skills and expertise to carry out the individual parts of the on-site fitting out work.

The sources of revenue in this sector of the business include design fee and the main fitting out contract fee. The costs of such service consist of subcontracting fees and payment to suppliers for materials.

Fitting out/Project management projects

In these projects, the customers engage their own designers and other professionals to prepare the design plans and drawing. The Target Group is engaged as the main contractor and provides the fitting out and project management services. It then engages subcontractors of various skills and expertise to execute the fitting out work in accordance with the customers’ design plans and drawings. The Target Group also sources materials for customers from its material suppliers for use in the on-site work. The revenue derives from the contract sum paid to the Target Group as the main contractor and the costs of service are payments for subcontractors’ fees and materials.

Supply of Furniture

In addition to providing design and fitting out service, the Target Group also provides the service of sourcing suitable furniture and furnishing and decorative items for customers. Some customers rely on the professional advice to source the suitable and appropriate furniture and furnishing and decorative items for harmonizing them with the overall design scheme. The Target Group quotes and receives fixed agreed sum from customers on items of furniture and furnishing and decorative items. Costs of service are payments to suppliers of the furniture and other related products for decoration.

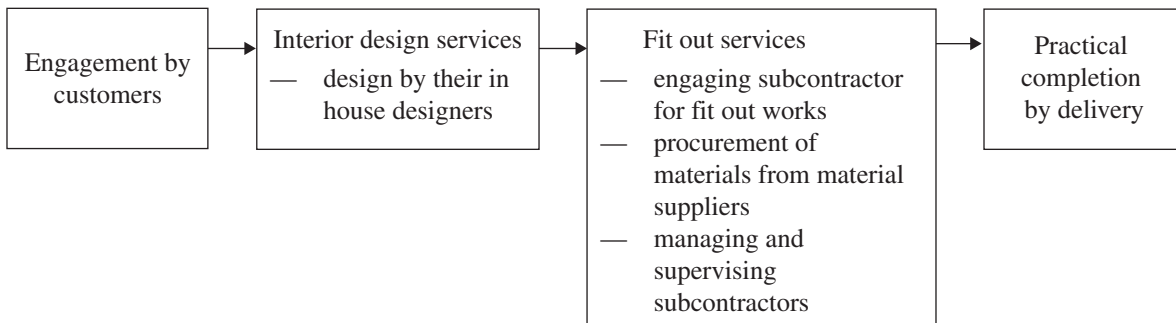
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The following table sets forth the details of the revenue by nature of services of the Target Group for the three years ended 31 March 2018, 2019 and 2020 and the six months ended 30 September 2019 and 2020:

	For the year ended 31 March			For the six months ended 30 September	
	2018	2019	2020	2019	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Design and design and consultancy	16,669	4,385	1,178	298	60
Design and build/fitting out projects and fitting out/ project management projects	42,912	34,083	27,772	16,924	2,826
Supply of furniture	370	21	47	12	—
Total:	59,951	38,489	28,997	17,234	2,886

Operational flow

The following diagram briefly illustrates the principal role of the Target Group as the provider of interior designer and fit out services and the relationship with their customers, sub-contractors and material suppliers.



Pricing

The business of the Target Group is project-based so that the pricing decision varies from project to project depending on various factors such as type and complexity of the project and scope of work (design only, design and consultancy, design and build/fitting out and build/fitting only), current market price, terms of the tender, availability of subcontractors and supply of materials and the costs for their subcontractors' suppliers' services and past relationship with the customers. However the basic principle is the cost plus pricing model, which means the Target Group tops up a certain percentage above the estimated amount of the costs of service for a certain project with a range of approximately 10% to 40% depending on the size and complexity of job specifications of each project. The decision as to the tender

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price or quotation is a business one which may be affected by the then current market situation and available internal resources. The Target Group has always tried to submit a tender or quotation at a price that is competitive without affecting profitability.

Existing contracts on hand

As at the Latest Practicable Date, the Target Group had seven existing contracts on hand, details of which are set forth in the table below.

	Customer	Nature of contract	Contract sum (HK\$)	Timeframe	Expected completion date	Expected revenue recognition date
1	Customer A (Note 1)	Design and build/fitting out projects (commercial)	40,000	20 workings days	Project was put on hold by customer as at the Latest Practicable Date due to COVID-19	—
2	Customer B (Note 2)	Design and build/fitting out projects (commercial)	3,095,560	15 May 2020 to 30 January 2021	30 January 2021	30 January 2021
3	Customer C (Note 3)	Design and build/fitting out projects (commercial)	140,000	8 August 2020 to 17 January 2021	17 January 2021	17 January 2021
4	Customer D (Note 4)	Design and build/fitting out projects (commercial)	526,645	1 October 2020 to 15 January 2021	15 January 2021	15 January 2021
5	Customer E (Note 5)	Design and build/fitting out projects (commercial)	2,030,750	16 October 2020 to 28 March 2021	28 March 2021	28 March 2021
6	Customer F (Note 6)	Design and design and consultancy (commercial)	500,000	4–6 months	The site is situated in Vietnam, project was put on hold as at the Latest Practicable Date due to COVID-19	—
7	Customer G (Note 7)	Design and build/fitting out projects (commercial)	7,375,360	16 October 2020 to 26 January 2021	26 January 2021	26 January 2021

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Notes:

1. Customer A is a company incorporated in Hong Kong with limited liability. It is principally engaged in the trading of medical protective equipment.
2. Customer B is a company incorporated in Hong Kong with limited liability. It is principally engaged in the construction and engineering business.
3. Customer C is a company incorporated in Hong Kong with limited liability. It is principally engaged in construction management.
4. Customer D is a company incorporated in Hong Kong with limited liability. It is principally engaged in catering business.
5. Customer E is a company incorporated in Hong Kong with limited liability. It is principally engaged in the construction and engineering business.
6. Customer F is a company incorporated in Hong Kong with limited liability. It is principally engaged in investment business.
7. Customer G is a company incorporated in Hong Kong with limited liability. It is principally engaged in project management.

Contracts under negotiation

As at the Latest Practicable Date, the Target Group had two contracts under negotiation, details of which are set forth in the table below.

Potential customer	Nature of contract	Contract sum (HK\$)	Timeframe	Expected commencement date	Expected completion date	Expected revenue recognition date
1 Customer I (Note 1)	Design and build/ fitting out projects (commercial)	2,975,310	6 months	1 February 2021	31 July 2021	Part of revenue to be recognised in the year ended 31 March 2021 and the remaining will be recognised in the year ended 31 March 2022
2 Customer J (Note 2)	Design and build/ fitting out projects (commercial)	600,000	4 months	1 February 2021	31 May 2021	Part of revenue to be recognised in the year ended 31 March 2021 and the remaining will be recognised in the year ended 31 March 2022

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Notes:

1. Customer I is a company incorporated in Hong Kong with limited liability. It is principally engaged in catering business.
2. Customer J is a company incorporated in Hong Kong with limited liability. It is principally engaged in foot massage and reflexologist business.

Customers and suppliers

The Target Group has undertaken and provided design and fitting out services to customers from commercial, domestic and public/institution sectors. These include owners and tenants of domestic and commercial premises, property developers, local and international corporation, shops and retail venues, cafes and restaurants, entertainment venues, public corporations and government departments.

The following table sets out the typical projects by market sectors and type of premises undertook by the Target Group:

Market sectors	Type of premises
Commercial	(a) Offices
	(b) Retail outlets
	(c) Food and beverage outlets
	(d) Showrooms
	(e) Service apartments
Residential	(a) Houses
	(b) Apartments
Public, community and institutional sectors	(a) Government bodies
	(b) Educational institutions

The customers award contract for design and/or fitting out services to the Target Group by way of invitation to tender or quotation. In line with the industry practice, it is engaged by contract for services with customers on a project-by-project basis and does not enter into any long term services contracts with customers.

The suppliers are mainly subcontractors who provide subcontracting services of fitting out work and material suppliers. The Target Group provides the interior design and project management services with internal resources. The execution of fitting out work requires subcontractors with diverse technical expertise, specialising in different skill sets and sometimes professionally licensed to practice in the particular trade: electricians, metal workers, plumbers, carpenters and other skilled craftsmen and technicians. The Target Group

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sources materials for on-site fitting out work from material suppliers. Materials are selected in consultation with customers and at times specifically chosen by customers. The Target Group keeps a pool of subcontractors and material suppliers, most of whom have built up working relationship with the Target Group for some years and are reliable and trustworthy business partners.

Management expertise

The management team of the Target Group is led by Vendor A, who has over 20 years of experience in the interior design and fitting out industry. Vendor A and the management team of the Target Group have accumulated extensive experience, knowledge and expertise of executing interior design and/or fit out projects and managing different aspects and work phases of such projects with diversified nature and varying degree of complexity. Over the years, the Target Group has built a wide clientele base of diverse backgrounds from private, commercial to public sectors and an impressive portfolio of projects clientele. Their in-depth industry expertise and commitment to the high-quality work plays a pivotal role in the smooth and efficient delivery of quality project, which in turn will enable the Target Group to expand its clientele base and capture future growth.

Upon Completion, the management team of the Target Group will manage the business operations of the Target Group under the supervision of Mr. Leung. For further details of the terms of the Service Agreement to be entered into between LMP and Vendor A upon Completion, please refer to the paragraph headed “Service Agreement” under the section “The Sale and Purchase Agreement” in this circular.

Qualifications, licenses and permits

The Target Group is not required to hold any industry-specific permit, licence, approval, certificate or qualification that are material for carrying out its business operations in Hong Kong as at the Latest Practicable Date.

Competitive strengths

The Target Group has the following competitive strengths which have contributed and will continue to contribute to its continuing growth and success: (i) a long and established successful business track record in the market and industry; (ii) a firm basis of stable and trustful customers of diverse backgrounds and from different industries and economic sectors in Hong Kong; (iii) strong and stable relationship with their suppliers including subcontractors and material suppliers; (iv) its capabilities to provide customers with an integrated “design and build/fitting out” services; (v) its strong and experienced management team led by its founder and CEO, with over 20 years of experience in the design and fitting out industry in Hong Kong with diversified professional knowledge and expertise in design and different aspects of fitting out work.

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Business plan

The Target Group aims to maintain sustainable growth in the market of interior design and fitting out business and strengthen its competitiveness in the Hong Kong and the Greater Bay Area market. Specifically with the following goals: (i) expanding contracting business in interior design and fitting out industry in Hong Kong; (ii) strengthening financial capabilities to undertake more projects; (iii) strengthening sale and marketing efforts to seize business opportunities in private residential, commercial and public sectors; and (iv) further strengthening in-house team's technical and professional capabilities to meet new business challenges.

Financial information of the Target Group

Set out below is the financial information of the Target Group based on the audited consolidated financial statements of the Target Company for the two years ended 31 March 2019 and 2020:

	For the year ended 31 March 2020	For the year ended 31 March 2019
	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited) <i>(Note)</i>
Revenue	28,997	38,489
Loss before taxation	(4,815)	(5,852)
Loss after taxation	(4,815)	(5,853)

Note: Listing expenses of approximately HK\$6,234,000 were incurred by the Target Group for the year ended 31 March 2019 in contemplation for an intended listing on the Stock Exchange. Such listing expenses were of one-off nature and were not incurred in the ordinary course of business of the Target Group. The audited consolidated profit before taxation and profit after taxation, excluding such listing expenses, for the year ended 31 March 2019 were approximately HK\$381,000. As confirmed by the Vendors, the listing plan of the Target Group on the Stock Exchange has been shelved since late 2019 due to the prolonged social and political events in Hong Kong, which caused temporary adverse impact on the business performance of the Target Group.

The total assets, total liabilities and net liabilities of the Target Group as at 30 September 2020 according to the unaudited consolidated financial statements of the Target Company were approximately HK\$20,713,000, approximately HK\$21,251,000 and approximately HK\$538,000, respectively.

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As confirmed by Vendor B and Vendor C, the Target Group was recorded and reflected in the books of UBA Investments and DT Capital as follows:

- (i) the Target Group was recorded in the books of UBA Investments under financial assets at fair value through profit and loss with a fair value of approximately HK\$2,873,000 in relation to the investment cost and under amounts due from investee companies with approximately HK\$2,065,000 in relation to the sale loan based on the unaudited accounts of UBA Investments as of 30 September 2020; and
- (ii) the Target Group was recorded in the books of DT Capital under financial assets at fair value through profit and loss of approximately HK\$9,318,000 and under amount due from investee company of approximately HK\$2,120,000 based on the unaudited interim results as of 30 June 2020.

Please refer to Appendix II to this circular for further financial information of the Target Group.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the manufacturing and selling of sewing threads. As at the Latest Practicable Date, save for the Acquisition, the Company has no intention, plan, understanding, negotiation, arrangement, and/or agreement (concluded or otherwise) to (i) downsize or cease or scale-down any of the existing businesses or assets of the Group; (ii) inject any new business or material assets to the Group; or (iii) change the existing business of the Group in the manufacturing and selling of sewing threads.

As disclosed in the Announcement, the Board considers that the Acquisition allows the Group to tap into the business of the trading of furnishing as well as the provision of interior design, fitting out and decoration services and it is beneficial for the Group to seek suitable investment opportunities from time to time to diversify its existing business portfolio and to broaden the Group's source of income.

The Board would review the existing businesses of the Group from time to time with a view to improving the business operation and financial position of the Group. The Board considers that it is beneficial for the Group to seek suitable investment opportunities to diversify its existing business into a new line of business with growth potential and to broaden its source of income.

Having regard to micro-economic factors, the Directors consider that there is a growing popularity of interior design, fitting-out and decoration in commercial, residential and public sectors in Hong Kong and the Greater Bay Area to seek individuality and style. In addition, the interior design, fitting out and decoration industry does not require much machinery or equipment, and the supply of designers and workers in the industry is sufficient and easily accessible. The Directors also consider that on top of functionality of furnishing, lifestyle design of the products plays a major part in the selection process nowadays.

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The Board is also of the view that amidst the global trade tension, it would be in the interest of the Group to explore additional sources of revenue to prepare for any macro disruption to its current business due to geopolitical tension. The Board understands that the losses for the two years ended 31 March 2019 and 2020 and net liabilities as at 30 September 2020 recorded by the Target Group were mainly due to (i) the one-off listing expenses of approximately HK\$6,234,000 incurred by the Target Group for the year ended 31 March 2019 in contemplation for an intended listing on the Stock Exchange, which were not incurred in the ordinary course of business of the Target Group; and (ii) the Target Group is under a temporary set-back primarily as a result of the social and political events in Hong Kong since June 2019 and the outbreak of COVID-19 since January 2020. However, given that the Target Group will become wholly-owned subsidiaries of the Company (being a listed company on the Stock Exchange) upon Completion, the Board believes that this would improve the Target Group's ability to access additional means of financing (e.g. bank guarantees when bidding for projects) and also its ability to attract top-graded design professionals. The Target Group is therefore expected to finance its own operations through its internal resources and the possible additional bank financing upon Completion. The massive potential offered by the Greater Bay Area is also an area in which the Target Group can explore with the said additional resources. From a macro point of view, with the imminent economic recovery post-epidemic, the Board expects significant fiscal stimulus measures from the Hong Kong Government. With the Target Group's track record in public projects, the Board is confident that it will benefit from such fiscal stimulus.

As confirmed by the Vendors, for the period commencing from 1 April 2020 to the Latest Practicable Date, the Target Group has engaged in the following:

- (i) entered into a total of 17 contracts with customers in the residential, commercial and institutional sectors with an aggregate contract sum of approximately HK\$14,906,000;
- (ii) submitted 58 tenders and quotations to potential customers in the commercial and residential sectors in Hong Kong and Macau, of which (a) one tender and twenty five quotations were awarded and accepted with an aggregate tender and quotation sum of approximately HK\$538,000 and HK\$14,368,000 respectively, which are reflected in sub-paragraph (i) above; and (b) 32 tender and quotation results with an aggregate tender and quotation sum of approximately HK\$51,975,000 are yet to be released; and
- (iii) in the process of negotiations with various potential customers in commercial, residential and institutional sectors in respect of 10 projects, which include the construction and fitting out of village houses and marine clubhouses, with an expected contract sum which ranges from approximately HK\$1,000,000 to approximately HK\$35,000,000 each, and an expected maximum contract sum of approximately HK\$134,800,000 in aggregate.

In light of the above, the Directors are confident in the prospects of the business of interior design, fitting out and decoration services and trading of furnishing. The Directors also believe that the Group could leverage on the well-established track record of the Target Group

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of over 10 years and the expertise of the management team of the Target Group to further enhance the value of the Group and maximise the returns to the Shareholders. Hence, the Directors are confident in the prospect and development potential of the Target Group and the Board considers that the Group is expected to be benefited from diversifying its revenue stream through the Acquisition.

Furthermore, Mr. Leung, who is currently the executive Director, acquired relevant experience on managing and operating the business of the Target Group during his directorship in DT Capital as an executive director. He was first familiarised with the business of the Target Group through his involvement in the evaluation of the Target Group and the approval of DT Capital's investment in the Target Group in June 2016. Since June 2016, despite that Mr. Leung has not been a member of the board of directors of the Target Group, Mr. Leung has worked closely with Ms. Chan and Mr. Leong, and has provided his views and recommendations, on matters concerning the business operation of the Target Group from time to time. As disclosed in this circular, (i) Ms. Chan is a non-executive director and chairman of DT Capital; (ii) Mr. Leong is an executive director of DT Capital; and (iii) both Ms. Chan and Mr. Leong are directors of each of the Target Company and LMP. Based on the above, the Board considers that Mr. Leung has the relevant experience in running the business of the Target Group. The Group also intends to recruit additional personnel with relevant experience and expertise after Completion if necessary, taking into account, among other things, the business development of the Target Group as well as the financial condition and future expansion plan of the Group.

The Board did not consider other companies engaged in the same business as the Target Group, having considered (i) Mr. Leung's knowledge and experience accumulated in the operation and business of the Target Group since 2016; and (ii) the association of the Target Group with Vendor B and Vendor C, being listed companies, which has given the Board added confidence to the background and operations of the Target Group.

In addition, the Consideration is satisfied by way of allotment and issue of the Consideration Shares and therefore does not create any cashflow burden on the Group.

Taking into account the above, the Directors (including the independent non-executive Directors) consider that the terms of the Acquisition (including the Consideration and the Issue Price) are fair and reasonable and the entering into of the Sale and Purchase Agreement is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION

After Completion, the Target Group will become wholly-owned subsidiaries of the Company and their results will be consolidated into the consolidated financial statements of the Group. According to the unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2020, the unaudited total assets and total liabilities of the Group as at 30 June 2020 were HK\$66.5 million and HK\$15.4 million, respectively.

The Unaudited Pro Forma Financial Information is set out in Appendix III to this circular for illustrative purposes. The Unaudited Pro Forma Financial Information was prepared based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as if the

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Acquisition had been completed on 30 June 2020. According to the Unaudited Pro Forma Financial Information, the financial effects of the Acquisition on the Group is summarised as follows:

Effect on earnings

For the six months ended 30 June 2020, the unaudited consolidated revenue and net loss of the Group was approximately HK\$17.5 million and HK\$5.3 million respectively. According to the financial information of the Target Group as set out in Appendix II to this circular, the unaudited consolidated revenue and net loss of the Target Group for the year ended 31 March 2020 was approximately HK\$29.1 million and HK\$4.6 million respectively. Given the Profit Guarantee up to the year ending 31 March 2021, it is expected the Acquisition will have positive impact to the revenue and earnings of the Group upon Completion.

Effect on assets and liabilities

Based on the unaudited consolidated financial statements of the Group as at 30 June 2020, the net asset value of the Group amounted to approximately HK\$51.1 million. Based on the unaudited pro forma consolidated financial position of the Enlarged Group as if the Acquisition had been completed on 30 June 2020 as set out in Appendix III to this circular, the total asset of the Group would increase by approximately HK\$33.0 million to approximately HK\$99.5 million. Total liabilities of the Group would also increase by approximately HK\$19.5 million to approximately HK\$34.9 million. Accordingly, the unaudited net asset value of the Group will increase by approximately HK\$13.5 million to approximately HK\$64.6 million.

Upon Completion, the Board anticipates that the allocation of goodwill to be recognised from the Acquisition would be approximately HK\$9.1 million. Accordingly, the Directors have not performed any impairment assessment of the goodwill as at the Latest Practicable Date and have not noted any goodwill impairment indicator. The Board anticipates that there will be no impairment on the goodwill recognised in the first set of the Group's financial statements after Completion. The Board will adopt the consistent accounting policies and principal assumptions to assess the goodwill in the future.

GEM LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratio(s) (as defined under the GEM Listing Rules) in respect of the Acquisition is more than 25% but less than 100%, the Acquisition constitutes a major transaction on the part of the Company, and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 19 of the GEM Listing Rules.

The Consideration Shares will be allotted and issued pursuant to the Specific Mandate. The EGM will be convened and held for the Shareholders to consider and, if thought fit, approve the grant of the Specific Mandate for the allotment and issue of the Consideration Shares.

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EGM

The EGM will be convened and held at 7/F., Nexxus Building, 41 Connaught Road Central, Central, Hong Kong on Tuesday, 2 February 2021 at 2:30 p.m. at which ordinary resolution(s) will be proposed to the Shareholders to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares under the Specific Mandate). A notice convening the EGM is set out on pages EGM-1 to EGM-3 of this circular.

The voting in respect of the Acquisition at the EGM will be conducted by way of poll. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, (i) Vendor A is interested in 1,600,000 Shares, representing approximately 0.67% of the entire issued share capital of the Company; and (ii) Mr. Leung (being an executive Director and a Shareholder who is interested in 10,000,000 Shares, representing approximately 4.17% of the entire issued share capital of the Company) is also a former executive director of DT Capital (which in turn is interested in 100% equity interests in Vendor C) and a shareholder who is interested in approximately 0.85% equity interests of UBA Investments (which in turn is interested in 100% equity interests in Vendor B). As such, each of Vendor A and Mr. Leung is considered to have a material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Acquisition and the issue of the Consideration Shares), and will abstain from voting on the relevant resolutions at the EGM. Save for Vendor A and Mr. Leung, no Shareholder or any of their associates has any material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares under the Specific Mandate). As such, save for Vendor A and Mr. Leung, no Shareholder will be required to abstain from voting on the relevant resolutions at the EGM.

Save for Mr. Leung, none of the Directors has material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Acquisition and the issue of the Consideration Shares). As such, Mr. Leung had abstained from voting at the Board meeting for approving the Sale and Purchase Agreement.

Whether or not you intend to attend the EGM, you are requested to complete and return the form of proxy accompanying this circular in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event no less than 48 hours before the time appointed for holding the EGM (i.e. Sunday, 31 January 2021 at 2:30 p.m. (Hong Kong time)) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof in person if you so wish, and in such event, the form of proxy shall be deemed to be revoked.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 28 January 2021 to Tuesday, 2 February 2021 (both days inclusive) during which period no transfer of Shares will be registered. In order to be qualified to attend and vote at the EGM, all properly completed transfer forms accompanied by the relevant Share certificates must be lodged with

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the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 27 January 2021.

RECOMMENDATION

The Board considers that the terms and conditions of the Sale and Purchase Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole. As such, the Directors recommend the Shareholders to vote in favour of the resolution(s) approving, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares under the Specific Mandate) to be proposed at the EGM.

ADDITIONAL INFORMATION

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

Completion is subject to the fulfillment of the conditions precedent set out in the Sale and Purchase Agreement and therefore the Acquisition may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

Yours faithfully,
For and on behalf of the Board
Shen You Holdings Limited
Wong Kwok Wai, Albert
Chairman, Chief Executive Officer and Executive Director

1. FINANCIAL SUMMARY

The financial information of the Group for each of the three financial years ended 31 December 2017, 2018 and 2019, the three months ended 31 March 2020, the six months ended 30 June 2020 and the nine months ended 30 September 2020 are set out in the following documents which have been published on both the GEM website at www.hkgem.com and the Company's website at www.shenyouholdings.com:

- the annual report of the Company for the year ended 31 December 2017 published on 29 March 2018 (pages 36 to 93) (hyperlink: <https://www1.hkexnews.hk/listedco/listconews/gem/2018/0329/gln20180329107.pdf>);
- the annual report of the Company for the year ended 31 December 2018 published on 29 March 2019 (pages 61 to 182) (hyperlink: <https://www1.hkexnews.hk/listedco/listconews/gem/2019/0329/gln20190329023.pdf>);
- the annual report of the Company for the year ended 31 December 2019 published on 1 April 2020 (pages 62 to 182) (hyperlink: <https://www1.hkexnews.hk/listedco/listconews/gem/2020/0401/2020040103485.pdf>);
- the first quarterly report of the Company for the three months ended 31 March 2020 published on 14 May 2020 (pages 3 to 18) (hyperlink: <https://www1.hkexnews.hk/listedco/listconews/gem/2020/0514/2020051402227.pdf>);
- the interim report of the Company for the six months ended 30 June 2020 published on 14 August 2020 (pages 3 to 30) (hyperlink: <https://www1.hkexnews.hk/listedco/listconews/gem/2020/0814/2020081402311.pdf>); and
- the third quarterly report of the Company for the nine months ended 30 September 2020 published on 10 November 2020 (pages 3 to 18) (hyperlink: <https://www1.hkexnews.hk/listedco/listconews/gem/2020/1110/2020111001690.pdf>).

2. STATEMENT OF INDEBTEDNESS

At the close of business on 30 November 2020, being the latest practicable date prior to the printing of this circular and for the purpose of ascertaining the information contained in this statement of indebtedness, the Enlarged Group had outstanding indebtedness as follows:

Bank borrowings and bank overdraft

Bank borrowings of approximately HK\$3.316 million and bank overdraft of approximately HK\$3.771 million were guaranteed by a director of the Target Company, and were secured by the Target Group's building, investment properties, and the charge of deposit(s) made by a director of the Target Company as determined by the bank from time to time.

Lease liabilities

As at the close of business on 30 November 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group, as a lessee, had outstanding unpaid contractual lease liabilities of approximately HK\$4.793 million in relation to the remaining lease terms of a right-of-use asset, which is unsecured and unguaranteed.

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, as at the close of the business on 30 November 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to printing of this circular, the Enlarged Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, bank overdrafts, loans or liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debenture or other loan capital, mortgages, charges, lease liabilities or acceptance credits or finance lease or hire purchase commitments, or contingent liabilities or guarantees.

3. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into consideration the financial resources available to the Enlarged Group including the internally generated funds, the present bank and other facilities, the Enlarged Group will have sufficient working capital for at least twelve (12) months from the date of publication of this circular.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group as at 31 December 2019, being the date to which the latest published audited accounts of the Group were made up, save as disclosed in the first quarterly report of the Company for the three months ended 31 March 2020, the interim report of the Company for the six months ended 30 June 2020 and the third quarterly report of the Company for the nine months ended 30 September 2020.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As disclosed in the annual report of the Company for the year ended 31 December 2019, for the year ended 31 December 2019, the Group's revenue decreased by approximately 8.9% as compared with that for the year ended 31 December 2018. The gross profit margin decreased to approximately 19.3% for the year ended 31 December 2019 from approximately 20.6% for the preceding year. The decrease was mainly attributable to the decrease in sales in the PRC market, which accounted for approximately 56.1% of the total revenue for the year ended 31 December 2019.

On 15 December 2017, the Shares were successfully listed on GEM (the “**Listing**”) by way of share offer (the “**Share Offer**”). After deducting all the relevant commission and expenses in relation to the Listing, net proceeds amounting to approximately HK\$40.7 million have been raised from the Listing. As at 31 December 2019, the unutilised net proceeds from the Share Offer amounted to approximately HK\$29.1 million.

While the Group’s business has experienced some difficulty as a result of the unfavourable market conditions immediately after the Listing, the Board and the senior management of the Company are confident of the Group’s steady performance given its competitive strengths, which include: (i) the long-term business relationships with its customers and suppliers; (ii) adoption of the stringent quality control mechanisms in the course of sewing threads production; (iii) the strategic location of the Guangzhou production facilities for its business development; and (iv) an experienced management team with extensive industry experience.

The future plans and use of proceeds schedule disclosed in the prospectus of the Company (the “**Prospectus**”) were formulated based on the best estimation of the market conditions after the Listing. The discrepancy between the planned use of the net proceeds and the actual use mainly arose as a result of the actual market conditions affecting the Group after the Listing. The continuing trade conflict between the U.S. and the PRC, the PRC’s gradual economic slowdown and the recent outbreak of coronavirus (COVID-19) epidemic have presented the Group with uncertainties and multiple challenges, rendering the need for the Group to be prudent in implementing its future plans as set out in the Prospectus. The Directors believed that a strict adherence to the implementation plan will increase the production capacity of the Group, while the additional machinery may lead to a provision for impairment for such machinery to be made in the future.

Meeting the demands of its customers as to high quality and differentiated products is one of the Group’s priorities in order to maintain long-term business relationships with its customers. Further, the Directors believe that there are considerable business opportunities in the sewing threads industry in the long term. To satisfy its customers’ potential needs and to capture the business opportunities in the sewing threads industry, the Group will continue to implement the expansion plans set out in the section headed “Future Plans and Use of Proceeds” in the Prospectus in a prudent and conservative manner in light of the market conditions at the time.

The Directors will continue to carefully monitor and assess the situation and, if the expansion plans no longer suit the operation and the future development of the Group, the Directors may evaluate and modify them so as to ensure that the Group’s business strategies are in the best interests of the Company and the Shareholders as a whole.

The following is the text of a report set out on pages II-1 to II-62, received from the Company's reporting accountant, Asian Alliance (HK) CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION OF DIAMOND MOTTO LIMITED AND ITS SUBSIDIARY TO THE BOARD OF DIRECTORS OF SHEN YOU HOLDINGS LIMITED

Introduction

We report on the historical financial information of Diamond Motto Limited (the “**Target Company**”) and its subsidiary (together, the “**Target Group**”) set out on pages II-4 to II-62, which comprises the consolidated statements of financial position of the Target Group as at 31 March 2018, 2019 and 2020 and 30 September 2020, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Group for each of the three years ended 31 March 2018, 2019 and 2020 and the six months ended 30 September 2020 (the “**Relevant Periods**”) and a summary of significant accounting policies and other explanatory information (together, the “**Historical Financial Information**”). The Historical Financial Information set out on pages II-4 to II-62 forms an integral part of this report, which has been prepared for inclusion in the circular of Shen You Holdings Limited (the “**Company**”) dated 13 January 2021 (the “**Circular**”) in connection with the acquisition of the entire issued share capital of the Target Company and the sales loans due by the Target Group.

Directors' responsibility for the Historical Financial Information

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

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

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants' Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified

Public Accountants (the “**HKICPA**”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant’s 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 accountant considers internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the 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 purposes of the accountant’s report, a true and fair view of the Target Group’s financial position as at 31 March 2018, 2019 and 2020 and 30 September 2020, and of the Target Group’s financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Material uncertainty related to going concern

We draw attention to Note 2.1 to the Historical Financial Information, which indicates that the Target Group incurred a loss of approximately HK\$2,019,000 for the six months ended 30 September 2020 and, as of that date, the Target Group’s current liabilities exceeded its current assets by approximately HK\$9,967,000 and the Target Group had net liabilities of approximately HK\$538,000. These conditions, along with other matters as set forth in Note 2.1, indicate the existence of a material uncertainty which 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

We have reviewed the stub period comparative financial information of the Target Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 September 2019 and other explanatory information (the “**Stub Period Comparative Financial Information**”). The directors of the Target Company are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial

Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant’s report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

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

Adjustments

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

Dividends

We refer to Note 12 to the Historical Financial Information which states that the Target Company declared and paid interim dividends of approximately HK\$10,000,000 and HK\$10,000,000, respectively to its shareholders during the years ended 31 March 2018 and 2019, respectively. During the year ended 31 March 2020 and the six months ended 30 September 2020, no dividend was declared or paid by the Target Company.

Asian Alliance (HK) CPA Limited
Certified Public Accountants (Practising)
Lam Chik Tong
Practising Certificate Number: P05612
8/F Catic Plaza
8 Causeway Road
Causeway Bay
Hong Kong

13 January 2021

HISTORICAL FINANCIAL INFORMATION

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

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by The Hong Kong Institute of Certified Public Accountants (“HKICPA”) and were audited by Asian Alliance (HK) CPA Limited in accordance with Hong Kong Standards of Auditing issued by the HKICPA (“Underlying Financial Statements”).

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 March			Six months ended 30 September	
		2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000 (unaudited)	2020 HK\$'000
Revenue	4	59,951	38,489	28,997	17,234	2,886
Direct costs		<u>(28,312)</u>	<u>(32,567)</u>	<u>(25,268)</u>	<u>(14,861)</u>	<u>(2,337)</u>
Gross profit		31,639	5,922	3,729	2,373	549
Other income, gains and losses, net	5	1	478	(76)	64	748
Impairment losses under expected credit loss model, net of reversal	9	142	(421)	(945)	67	(63)
General and administrative expenses		<u>(4,117)</u>	<u>(11,751)</u>	<u>(7,082)</u>	<u>(3,482)</u>	<u>(3,013)</u>
Operating profit (loss)		27,665	(5,772)	(4,374)	(978)	(1,779)
Finance costs	6	<u>(51)</u>	<u>(80)</u>	<u>(441)</u>	<u>(205)</u>	<u>(240)</u>
Profit (loss) before tax		27,614	(5,852)	(4,815)	(1,183)	(2,019)
Income tax expense	7	<u>(4,489)</u>	<u>(1)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit (loss) and other comprehensive income (expense) for the year/period attributable to the equity holders	8	<u><u>23,125</u></u>	<u><u>(5,853)</u></u>	<u><u>(4,815)</u></u>	<u><u>(1,183)</u></u>	<u><u>(2,019)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 March			As at
	Notes	2018	2019	2020	30 September
		HK\$'000	HK\$'000	HK\$'000	2020
					HK\$'000
NON-CURRENT ASSETS					
Property, plant and equipment	13	—	4,163	4,032	4,799
Investment properties	14	—	4,500	4,300	4,300
Right-of-use assets	15	—	—	252	574
Deposits for purchase of properties	16	800	—	—	—
		<u>800</u>	<u>8,663</u>	<u>8,584</u>	<u>9,673</u>
CURRENT ASSETS					
Contract assets	17	1,275	4,241	1,211	890
Trade receivables	16	26,042	11,306	5,557	5,279
Prepayments, other receivables and other assets	16	485	1,942	1,469	1,449
Tax recoverable		—	1,658	8	8
Amount due from a director	18	133	1,050	3,249	3,342
Bank balances and cash	19	6,036	60	1,960	72
		<u>33,971</u>	<u>20,257</u>	<u>13,454</u>	<u>11,040</u>
CURRENT LIABILITIES					
Contract liabilities	20	4,509	89	507	1,125
Trade payables	21	2,751	4,710	1,589	1,788
Other payables and accruals	21	736	1,950	1,163	1,267
Lease liabilities	22	—	—	256	359
Bank borrowings	23	1,365	6,679	3,806	3,561
Bank overdraft	23	—	896	4,936	4,607
Amount due to a director	18	—	3,120	3,120	3,120
Amounts due to shareholders	18	—	5,180	5,180	5,180
Tax payable		3,261	—	—	—
		<u>12,622</u>	<u>22,624</u>	<u>20,557</u>	<u>21,007</u>
NET CURRENT ASSETS (LIABILITIES)		<u>21,349</u>	<u>(2,367)</u>	<u>(7,103)</u>	<u>(9,967)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>22,149</u>	<u>6,296</u>	<u>1,481</u>	<u>(294)</u>
NON-CURRENT LIABILITIES					
Lease liabilities	22	—	—	—	244
NET ASSETS (LIABILITIES)		<u>22,149</u>	<u>6,296</u>	<u>1,481</u>	<u>(538)</u>
CAPITAL AND RESERVES					
Share capital	24	2	2	2	2
Reserves		<u>22,147</u>	<u>6,294</u>	<u>1,479</u>	<u>(540)</u>
TOTAL EQUITY (DEFICIT)		<u>22,149</u>	<u>6,296</u>	<u>1,481</u>	<u>(538)</u>

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Target Company				
	Share capital	Share premium	Merger reserve	Retained earnings (accumulated losses)	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Note)</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2017	2	3,065	(3,065)	9,022	9,024
Profit and other comprehensive income for the year	—	—	—	23,125	23,125
Dividend paid (<i>Note 12</i>)	—	—	—	(10,000)	(10,000)
At 31 March 2018	2	3,065	(3,065)	22,147	22,149
Loss and other comprehensive expense for the year	—	—	—	(5,853)	(5,853)
Dividend paid (<i>Note 12</i>)	—	—	—	(10,000)	(10,000)
At 31 March 2019	2	3,065	(3,065)	6,294	6,296
Loss and other comprehensive expense for the year	—	—	—	(4,815)	(4,815)
At 31 March 2020	2	3,065	(3,065)	1,479	1,481
Loss and other comprehensive expense for the period	—	—	—	(2,019)	(2,019)
At 30 September 2020	<u>2</u>	<u>3,065</u>	<u>(3,065)</u>	<u>(540)</u>	<u>(538)</u>
At 1 April 2019	<u>2</u>	<u>3,065</u>	<u>(3,065)</u>	<u>6,294</u>	<u>6,296</u>
Loss and other comprehensive expense for the period	—	—	—	(1,183)	(1,183)
At 30 September 2019 (unaudited)	<u>2</u>	<u>3,065</u>	<u>(3,065)</u>	<u>5,111</u>	<u>5,113</u>

Note: Merger reserve was arising on the application of merger accounting method in relation to the combination with an entity under common control.

APPENDIX II	FINANCIAL INFORMATION OF THE TARGET GROUP
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CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 March			Six months ended 30 September	
	2018	2019	2020	2019	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
OPERATING ACTIVITIES					
Profit (loss) before tax	27,614	(5,852)	(4,815)	(1,183)	(2,019)
Adjustments for:					
Bank interest income	(1)	(1)	—	—	(1)
Interest expenses	51	80	441	205	240
Depreciation of property, plant and equipment	—	103	166	81	252
Depreciation of right-of-use assets	—	—	722	339	277
Loss (gain) on fair value changes of investment properties	—	(407)	200	—	—
Impairment loss, net of reversal					
— trade and other receivables	107	356	724	(141)	55
— amount due from a director	(249)	65	221	74	8
Gain on de-recognition of right-of-use assets and lease liabilities	—	—	—	—	(2)
Operating cash flows before movements in working capital	27,522	(5,656)	(2,341)	(625)	(1,190)
(Increase) decrease in trade receivables, prepayment, other receivables and other assets	(13,643)	12,923	5,498	1,639	243
Increase in amount due from a director	(764)	(982)	(2,420)	(1,125)	(101)
Decrease (increase) in contract assets	470	(2,966)	3,030	2,691	321
(Decrease) increase in trade payables, other payables and accruals	(577)	3,173	(3,908)	(3,947)	303
Increase (decrease) in contract liabilities	1,587	(4,420)	418	1,611	618
Cash generated from operations	14,595	2,072	277	244	194
Income tax (paid) refund	(2,585)	(4,920)	1,650	(696)	—
NET CASH FROM (USED IN) OPERATING ACTIVITIES	12,010	(2,848)	1,927	(452)	194

	Year ended 31 March			Six months ended 30 September	
	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	—	(3,866)	(35)	—	(1,019)
Purchase of investment properties	—	(3,693)	—	—	—
Deposits paid for purchase of properties	(800)	—	—	—	—
Interest received	1	1	—	—	1
NET CASH USED IN INVESTING ACTIVITIES	<u>(799)</u>	<u>(7,558)</u>	<u>(35)</u>	<u>—</u>	<u>(1,018)</u>
FINANCING ACTIVITIES					
Advance from a director	—	3,120	—	—	—
Advance from shareholders	—	5,180	—	—	—
Drawdown from bank borrowings	—	7,020	—	—	—
Repayment of bank borrowings	(1,227)	(1,706)	(2,873)	(1,445)	(245)
Drawdown from bank overdraft, net	—	896	4,040	2,580	—
Repayment of bank overdraft, net	—	—	—	—	(329)
Interest paid	(51)	(80)	(416)	(191)	(228)
Dividend paid	(5,470)	(10,000)	—	—	—
Repayment of lease liabilities	—	—	(743)	(348)	(262)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	<u>(6,748)</u>	<u>4,430</u>	<u>8</u>	<u>596</u>	<u>(1,064)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,463	(5,976)	1,900	144	(1,888)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/ PERIOD	<u>1,573</u>	<u>6,036</u>	<u>60</u>	<u>60</u>	<u>1,960</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/ PERIOD	<u>6,036</u>	<u>60</u>	<u>1,960</u>	<u>204</u>	<u>72</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS					
Bank balances and cash	<u>6,036</u>	<u>60</u>	<u>1,960</u>	<u>204</u>	<u>72</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Diamond Motto Limited (the “**Target Company**”) was incorporated in the British Virgin Islands on 8 February 2016 with limited liability. The Target Company’s registered office is located at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The Target Company’s principal place of business is located at Room 1509, 15/F., Kwong Sang Hong Centre, 151–153 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

The principal activity of the Target Company is investment holding. The principal activities of its subsidiary (together with the Target Company collectively referred to as the “**Target Group**”) are trading of furnishings and provision of interior design services, interior decorating and furnishing services and decoration services.

As at the end of the Relevant Periods and date of this report, the Target Company had a direct wholly-owned subsidiary, the particulars of which are set out below:

Name of subsidiary	Place and date of incorporate	Issued and fully paid capital	% of equity interest attributable to the Target Company	Principal activities
LMP International Limited (“ LMP ”) (Note)	Hong Kong/ 29 February 2008	HK\$1	100% (direct)	Trading of furnishings and provision of interior design, fitting out and decoration services

Note: The statutory financial statements of LMP for the years ended 31 March 2018, 2019 and 2020 were prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). LMP’s statutory financial statements for the year ended 31 March 2018 was audited by PricewaterhouseCoopers, and for the years ended 31 March 2019 and 2020 were audited by Elite Partner CPA Limited. They are both certified public accountants registered in Hong Kong.

2.1 BASIS OF PREPARATION

The Historical Financial Information has been prepared based on the accounting policies set out in Note 2.3 which conform with the HKFRSs issued by the HKICPA.

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

Going Concern Basis

The Target Group incurred a loss of approximately HK\$2,019,000 for the six months ended 30 September 2020 and, as of that date, the Target Group’s current liabilities exceeded its current assets by approximately HK\$9,967,000 and the Target Group had net liabilities of approximately HK\$538,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Target Group’s ability to continue as a going concern. Therefore, the Target Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Historical Financial Information has been prepared on a going concern basis, the validity of which depends upon the financial support of the shareholders of the Target Company, at a level sufficient to finance the working capital requirements of the Target Group. The shareholders have agreed to provide adequate funds for the Target Group to meet its liabilities as they fall due. In addition, the Target Group has obtained the undertaking from the shareholders and a director not to demand for repayment of debts due from the Target Group until the Target Group is in a financial position to do so. The directors of the Target Company, (the “**Directors**”) are therefore of the opinion that it is appropriate to prepare the Historical Financial Information on a going concern basis. Should the Target Group be unable to continue as a going concern,

adjustments would have to be made to the Historical Financial Information to adjust the value of the Target Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in the Historical Financial Information.

2.2 ADOPTION OF NEW AND AMENDMENTS TO HKFRSs

For the purpose of preparing the Historical Financial Information for the Relevant Periods, the Target Group has consistently applied the accounting policies which conform with HKFRSs issued by the HKICPA, which are effective for the financial year beginning on 1 April 2019 throughout the Relevant Periods, except that the Target Group applied HKFRS 16 *Leases*, from 1 April 2019.

HKFRS 16 *Leases*

The Target Group has applied HKFRS 16 for the first time in the year ended 31 March 2020. HKFRS 16 superseded Hong Kong Accounting Standard (“HKAS”) 17 *Leases* (“HKAS 17”), and the related interpretations.

Definition of a lease

The Target Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Target Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 April 2019, the Target Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Target Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 April 2019.

As at 1 April 2019, the Target Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii). Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Target Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in Hong Kong were determined on a portfolio basis.

When recognising the lease liabilities for leases previously classified as operating leases, the Target Group has applied incremental borrowing rates of the relevant Target Group entities at the date of initial application. The weighted average incremental borrowing rate applied by the relevant Target Group entities is 3.85%.

APPENDIX II	FINANCIAL INFORMATION OF THE TARGET GROUP
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As a lessee

	At 1 April 2019 <i>HK\$'000</i>
Operating lease commitments disclosed as at 31 March 2019	1,131
Lease liabilities discounted at relevant incremental borrowing rates	1,109
Less: Practical expedient — leases with lease term ending within 12 months from the date of initial application	(135)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 April 2019	974
Analysed as	
Current	718
Non-current	256
	974

The carrying amount of right-of-use assets for own use as at 1 April 2019 comprises the following:

	Right-of-use assets <i>HK\$'000</i>
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	974

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 April 2019. Line items that were not affected by the changes have not been included.

	Carrying amount previously reported at 31 March 2019 <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	Carrying amount under HKFRS 16 at 1 April 2019 <i>HK\$'000</i>
Non-current assets			
Right-of-use assets	—	974	974
Current liabilities			
Lease liabilities	—	718	718
Non-current liabilities			
Lease liabilities	—	256	256

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 March 2020, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 April 2019 as disclosed above.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Target Group is not required to make any adjustment on transition for leases in which the Target Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

New and amendments to HKFRSs in issue but not yet effective

As at the date of this report, the Target Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments ¹
Amendments to HKFRS 3	Reference to the Conceptual Framework ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendment to HKFRS 16	Covid-19 — Related Rent Concessions ²
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use ³
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ³
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2 ⁵
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 ³

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

² Effective for annual periods beginning on or after 1 June 2020.

³ Effective for annual periods beginning on or after 1 January 2022.

⁴ Effective for annual periods beginning on or after a date to be determined.

⁵ Effective for annual periods beginning on or after 1 January 2021.

The Directors anticipate that the application of all new and amendments to HKFRSs will have no material impact in the foreseeable future.

2.3 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) and by the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared on the historical cost basis, except for investment properties that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Target Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 April 2019) or HKAS 17 (before application of HKFRS 16), 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.

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Target Company and the entity controlled by the Target Company. Control is achieved when the Target Company:

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

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

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

When necessary, adjustments are made to the financial statements of subsidiary to bring its accounting policies in line with the Target Group's accounting policies.

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

Merger accounting for business combination involving businesses under common control

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

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

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

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the beginning of the previous reporting period or when they first came under common control, whichever is shorter.

Revenue from contracts with customers

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 the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

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

- the customer simultaneously receives and consumes the benefits provided by the Target Group's performance as the Target Group performs;
- the Target Group's performance creates or 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.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Target Group's right to consideration in exchange for goods or services that the Target Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Target Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

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

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

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Target Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Target Group's performance in transferring control of goods or services.

Service revenue from interior design services, interior decorating and furnishing services is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation using input method as 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.

Trading income is recognised at a point in time when the customers obtains control of the distinct good or service.

Leases

Definition of a lease (upon application of HKFRS 16)

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

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Target Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Target Group as a lessee (upon application of HKFRS 16)

Allocation of consideration to components of a contract

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

The Target Group also applied practical expedient not to separate non lease components from lease component, and instead account for the lease component and any associate non-lease components as a single lease component.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Target Group reasonably expects that the effects on the Historical Financial Information would not differ materially from individual leases within the portfolio.

Right-of-use assets

The cost of right-of-use asset includes:

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

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

Right-of-use assets in which the Target Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Target Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Target Group under residual value guarantees;
- the exercise price of a purchase option if the Target Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Target Group exercising an option to terminate the lease.

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

The Target Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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

The Target Group as a lessee (prior to 1 April 2019)

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.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

The Target Group as a lessor

Classification and measurement of leases

Leases for which the Target Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term.

Interest and rental income which are derived from the Target Group's ordinary course of business are presented as revenue.

Refundable rental deposits

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Target Group's operations are translated into the presentation currency of the Target Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of "Translation reserve".

Borrowing costs

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

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 related to income 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. Such grants are presented under "other income, gain and losses, net".

Retirement benefit costs and termination benefits

Payments to the Hong Kong Mandatory Provident Fund Scheme (the "MPF Scheme") are charged as expenses when employees have rendered services entitling them to the contribution.

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.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit (loss) before tax" because of income or expense that are taxable or deductible in other years and 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 substantively enacted by the end of the reporting period.

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries 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 and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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 reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Target Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption.

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

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, plant and equipment

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

Ownership interests in leasehold land and building

When the Target Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as “right-of-use assets” (upon application of HKFRS 16) or “prepaid lease payments” (before application of HKFRS 16) in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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

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

Investment properties

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

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

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

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

Impairment on property, plant and equipment and right-of-use assets

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

The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Target Group estimates the recoverable amount of the cash-generating unit (“CGU”) to which the asset belongs.

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

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

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

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

Provisions

Provisions are recognised when the Target Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Target Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provisions for the costs to restore leased assets to their original condition, as required by the terms and conditions of the lease, are recognised at the date of inception of the lease at the directors' best estimate of the expenditure that would be required to restore the assets. Estimates are regularly reviewed and adjusted as appropriate for new circumstances.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

Interest income which are derived from the Target Group's ordinary course of business are presented as revenue.

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

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

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

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“**FVTOCI**”):

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

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Target Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

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

Amortised cost and interest income

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

Impairment of financial assets and other item subject to impairment assessment under HKFRS 9

The Target Group performs impairment assessment under expected credit loss (“**ECL**”) model on financial assets (including trade and other receivables, amount due from a director and bank balances) and other item (contract assets) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“**12m ECL**”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. 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.

The Target Group always recognises lifetime ECL for trade receivables and contract assets.

For all other instruments, 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 in which case, 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.

(i) 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.

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

(ii) Definition of default

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

Irrespective of the above, the Target Group considers that default has occurred when a financial asset 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.

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Target Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost of effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Target Group in accordance with the contract and the cash flows that the Target Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 (since 1 April 2019) or HKAS 17 (prior to 1 April 2019).

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

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

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

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

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

The Target Group recognises an impairment gain or loss in profit or loss for all financial instruments through a loss allowance account.

Derecognition of financial assets

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. If the Target Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Target Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

All financial liabilities, including trade and other payables, bank overdraft, bank borrowing, lease liabilities, amounts due to a director/shareholders, are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in Note 2.3 to the Historical Financial Information, the Directors are 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 associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going 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 followings are the critical judgements, apart from those involving estimations (see below), that the Directors have made in the process of applying the Target Group's accounting policies and that have the most significant effect on the amounts recognised in the Historical Financial Information.

Going concern and liquidity

As explained in Note 2.1 to the Historical Financial Information, the financial position of the Target Group indicates the existence of a material uncertainty which may cast significant doubt on the Target Group's ability to continue as a going concern. The assessment of the going concern assumptions involves making judgement by the management, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The management considers that the Target Group has ability to continue as a going concern and the major conditions that may cast significant doubt about the going concern assumptions are set out in Note 2.1 to the Historical Financial Information.

Deferred taxation on investment properties

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

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 reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year/period.

(a) Revenue recognition on service contracts from interior design services, interior decorating and furnishing services and product design services

As detailed in Notes 2.3 and 4 to the Historical Financial Information, the Target Group recognised revenue on service contracts from interior design services, interior decorating and furnishing services by reference to the progress towards complete satisfaction of the relevant performance obligation using input method, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. The management regularly discusses with the project team in order to review and revise the estimates of the total contract costs based on estimated manhours and stage of completion of the work performed to date with reference to the performance and status of corresponding

service contract work. Accordingly, revenue recognition on service contracts involves a significant degree of management estimates and judgement, with estimates being made to assess the total contract costs and contract costs incurred for work performed to date.

The management reviews and revises the estimates of total contract costs for the design services and contract costs incurred for work performed to date as the contract progresses, the actual outcome of the contract in terms of its total costs may be higher or lower than the estimates and this will affect the revenue and profit recognised.

(b) Provision of ECL for trade receivables and contract assets

The Target Group has considered all the possible default events over the expected life of the trade receivables and contract assets and assessed individually for debtors with significant balances and/or collectively using a provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors, ageing, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is reasonable and supportable available without undue costs or effort. In addition, trade receivables and contract assets that are credit impaired are assessed for ECL individually. The loss allowance amount of the credit impaired trade receivables and contract assets is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses.

The provision of ECL is sensitive to changes in estimates. The information about the Target Group's assessment of ECL and the details of the Target Group's trade receivables and contract assets are disclosed in Notes 16, 17 and 26(b) to the Historical Financial Information respectively.

(c) Fair values of investment properties

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

In relying on the valuation report, the Directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions. Whilst the Target Group considers valuations of the Target Group's investment properties are the best estimates, the ongoing Covid-19 pandemic has resulted in greater market volatility depending on how the Covid-19 pandemic may progress and evolve, which have led to higher degree of uncertainties in respect of the valuations in the current period. Changes to these assumptions, including the potential risk of any market violation, policy, geopolitical and social changes or other unexpected incidents as a result of change in macroeconomic environment, changes in policy direction and/or mortgage requirements, or other unexpected incidents would result in changes in the fair values of the Target Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss and other comprehensive income.

The Directors have performed internal assessment on the risks of change in macroeconomic environment through performing sensitivity analysis in relation to the Target Group's investment properties.

The information about the carrying amount of the Target Group's investment properties are disclosed in Note 14 to the Historical Financial Information.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

4. REVENUE AND SEGMENT INFORMATION

Revenue represents service revenue from provision of interior design services, interior decorating and furnishing services and trading of furnishings.

(i) **Disaggregation of revenue from contracts with customers:**

Types of goods or service	Year ended 31 March			Six months ended 30 September	
	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
				(unaudited)	
Interior decorating and furnishing services	42,912	34,083	27,772	16,924	2,826
Interior design services	16,669	4,385	1,178	298	60
Sales of furnishings	370	21	47	12	—
Total	59,951	38,489	28,997	17,234	2,886
Timing of revenue recognition:					
At point in time	370	21	47	12	—
Over time	59,581	38,468	28,950	17,222	2,886
Total	59,951	38,489	28,997	17,234	2,886

(ii) **Performance obligations for contracts with customers**

Interior design services, interior decorating and furnishing services (revenue recognised over time)

Interior design services, interior decorating and furnishing services are recognised as a performance obligation satisfied over time as 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. Revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation using input method.

The Target Group's service contracts include payment schedules which require stage payments over the design period once certain specified milestones are reached. The Target Group requires certain customers to provide upfront deposits range from 10% to 30% of total contract sum, when the Target Group receives a deposit before design service commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the specific contract exceeds the amount of the deposit.

A contract asset, net of contract liability related to the same contract, is recognised over the period in which the design services are performed representing the Target Group's right to consideration for the services performed because the rights are conditioned on the Target Group's future performance in achieving specified milestones. The contract assets are transferred to trade receivables when the rights become unconditional upon meeting the billing milestones.

Trading of furnishings (revenue recognised at a point in time)

For trading of furnishings, revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the specific location and confirmed by the customers. There is no credit period given on billing for trading of furnishings.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

The expected timing of recognising revenue on transaction price related to the performance obligations (unsatisfied or partially unsatisfied) as at 31 March 2018, 31 March 2019, 31 March 2020 and 30 September 2020 is within one year. The Target Group elected to apply the practical expedient by recognising revenue in the amount to which the Target Group has right to invoice. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Information reported to the Directors, being the chief operating decision maker, for the purposes of resource allocation and assessment focuses on revenue analysis by service/products. No other discrete financial information is provided other than the Target Group's results and financial position as a whole. Accordingly, only entity-wide disclosures, major customers and geographic information are presented.

Geographical information

The Target Group's operations are in Hong Kong. All revenue of the Target Group and non-current assets of the Target Group are generated from and located in Hong Kong.

Information about major customers

Revenue from customers of the corresponding years/periods contributing over 10% of the Target Group's total revenue are as follows:

	Year ended 31 March			Six months ended 30 September	
	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000
				(Unaudited)	
Customer A	N/A ¹	N/A ¹	5,501	N/A ¹	N/A ¹
Customer B	N/A ¹	18,990	4,895	3,640	N/A ¹
Customer C	N/A ¹	N/A ¹	3,651	N/A ¹	N/A ¹
Customer D	N/A ¹	N/A ¹	3,467	N/A ¹	533
Customer E	N/A ¹	N/A ¹	3,276	3,247	N/A ¹
Customer F	N/A ¹	N/A ¹	3,070	3,024	N/A ¹
Customer G	N/A ¹	5,165	N/A ¹	N/A ¹	N/A ¹
Customer H	14,893	N/A ¹	N/A ¹	N/A ¹	N/A ¹
Customer I	7,900	N/A ¹	N/A ¹	N/A ¹	N/A ¹
Customer J	6,968	N/A ¹	N/A ¹	N/A ¹	N/A ¹
Customer K	N/A ¹	N/A ¹	N/A ¹	N/A ¹	625
Customer L	N/A ¹	N/A ¹	N/A ¹	N/A ¹	616

¹ The corresponding revenue did not contribute over 10% of the Target Group's total revenue.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

5. OTHER INCOME, GAINS AND LOSSES, NET

	Year ended 31 March			Six months ended 30 September	
	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i>
Interest income	1	1	—	—	1
Gain (loss) on fair value changes of investment properties	—	407	(200)	—	—
Lease payment that are fixed	—	70	120	60	60
Gain on derecognition of right-of-use assets and lease liabilities	—	—	—	—	2
Government grants (<i>Note</i>)	—	—	—	—	428
Others	—	—	4	4	257
	<u>1</u>	<u>478</u>	<u>(76)</u>	<u>64</u>	<u>748</u>

Note: During the six months ended 30 September 2020, the Target Group recognised government grants of HK\$428,000 in respect of Covid-19-related subsidies, which relates to Employment Support Scheme provided by the Hong Kong government.

6. FINANCE COSTS

	Year ended 31 March			Six months ended 30 September	
	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i>
Interests on:					
Bank borrowings	51	71	203	114	65
Bank overdraft	—	9	213	77	163
Lease liabilities	—	—	25	14	12
	<u>51</u>	<u>80</u>	<u>441</u>	<u>205</u>	<u>240</u>

7. INCOME TAX EXPENSE

	Year ended 31 March			Six months ended 30 September	
	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i>
Current tax:					
— Hong Kong Profits Tax					
— Current year	4,489	—	—	—	—
— Under-provision in prior years	—	1	—	—	—
	<u>4,489</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>

For the year ended 31 March 2018, the Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profits.

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For the years ended 31 March 2019 and 2020 and the six months ended 30 September 2019 and 2020, no provision for the Hong Kong Profits Tax has been provided in the consolidated financial statements as the Target Group did not generated any assessable profits arising in Hong Kong.

The income tax expense for the years/periods can be reconciled to the profit (loss) before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 March			Six months ended 30 September	
	2018	2019	2020	2019	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)	
Profit (loss) before tax	<u>27,614</u>	<u>(5,852)</u>	<u>(4,815)</u>	<u>(1,183)</u>	<u>(2,019)</u>
Tax at the domestic income tax rate	4,556	(966)	(794)	(196)	(332)
Tax effect of expenses not deductible for tax purpose	9	1,060	232	64	60
Tax effect of income not taxable for tax purpose	(23)	(68)	(116)	(72)	(113)
Tax effect of temporary differences not recognised	(23)	(10)	(6)	14	38
Tax effect of tax loss not recognised	—	—	684	190	347
Tax effect on tax concession	(30)	(16)	—	—	—
Under-provision in respect of prior years	<u>—</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>
Income tax expense for the year/ period	<u><u>4,489</u></u>	<u><u>1</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

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8. PROFIT (LOSS) FOR THE YEAR/PERIOD

	Year ended 31 March			Six months ended 30 September	
	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i>
Profit (loss) for the year/period has been arrived at after charging:					
Cost of fitting-out and decorations	26,018	30,004	23,361	13,890	1,779
Employee benefits expenses (including directors' emoluments): (Note 10)					
— salaries and allowances	3,880	5,498	5,812	3,044	2,485
— retirement benefit scheme contributions	<u>165</u>	<u>203</u>	<u>132</u>	<u>71</u>	<u>42</u>
	<u>4,045</u>	<u>5,701</u>	<u>5,944</u>	<u>3,115</u>	<u>2,527</u>
Auditor's remuneration					
— Audit service	260	138	115	48	—
— Other service	<u>45</u>	<u>49</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>305</u>	<u>187</u>	<u>115</u>	<u>48</u>	<u>—</u>
Depreciation of property, plant and equipment	—	103	166	81	252
Depreciation of right-of-use assets	—	—	722	339	277
Rental expenses relating to operating leases	<u>585</u>	<u>743</u>	<u>—</u>	<u>—</u>	<u>—</u>

Note: During the years ended 31 March 2018, 2019 and 2020 and the six months ended 30 September 2019 and 30 September 2020, employee benefits expenses of approximately HK\$2,096,000, HK\$2,359,000, HK\$1,549,000, HK\$865,000 and HK\$655,000 were recognised as direct costs respectively.

9. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	Year ended 31 March			Six months ended 30 September	
	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i> (unaudited)	2020 <i>HK\$'000</i>
Impairment losses recognised (reversed) on:					
Trade receivables	107	356	724	(141)	55
Amount due from a director	<u>(249)</u>	<u>65</u>	<u>221</u>	<u>74</u>	<u>8</u>
Total	<u>(142)</u>	<u>421</u>	<u>945</u>	<u>(67)</u>	<u>63</u>

Details of impairment assessment are set out in Note 26(b) to the Historical Financial Information.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

10. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Director's emoluments

The remuneration of the Directors for the Relevant Periods is set out below:

	Fees <i>HK\$'000</i>	Salaries and allowances <i>HK\$'000</i>	Retirement benefit scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the year ended 31 March 2018				
<i>Name of directors:</i>				
Leung Tat Chi	—	728	18	746
Cheng Wai Lun, Andrew (<i>Note</i>)	—	—	—	—
Chan Pui Kwan	—	—	—	—
Leong Chi Wai	—	—	—	—
	<u>—</u>	<u>728</u>	<u>18</u>	<u>746</u>
For the year ended 31 March 2019				
<i>Name of directors:</i>				
Leung Tat Chi	—	448	18	466
Cheng Wai Lun, Andrew (<i>Note</i>)	—	—	—	—
Chan Pui Kwan	—	—	—	—
Leong Chi Wai	—	—	—	—
	<u>—</u>	<u>448</u>	<u>18</u>	<u>466</u>
For the year ended 31 March 2020				
<i>Name of directors:</i>				
Leung Tat Chi	—	1,308	18	1,326
Chan Pui Kwan	—	—	—	—
Leong Chi Wai	—	—	—	—
	<u>—</u>	<u>1,308</u>	<u>18</u>	<u>1,326</u>
For the six months ended 30 September 2019 (unaudited)				
<i>Name of directors:</i>				
Leung Tat Chi	—	609	9	618
Chan Pui Kwan	—	—	—	—
Leong Chi Wai	—	—	—	—
	<u>—</u>	<u>609</u>	<u>9</u>	<u>618</u>

	Fees <i>HK\$'000</i>	Salaries and allowances <i>HK\$'000</i>	Retirement benefit scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the six months ended 30 September 2020				
<i>Name of directors:</i>				
Leung Tat Chi	—	789	9	798
Chan Pui Kwan	—	—	—	—
Leong Chi Wai	—	—	—	—
	<u>—</u>	<u>789</u>	<u>9</u>	<u>798</u>

Note: Cheng Wai Lun, Andrew was resigned as director on 29 March 2019.

The directors' emoluments shown above were for their services in connection with the management of the affairs of the Target Group during the Relevant Periods.

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

(b) Five highest paid individuals

The five highest paid individuals of the Target Group for the years ended 31 March 2018, 2019 and 2020 and the six months ended 30 September 2019 and 2020 included one, one, one, one and one director of the Target Company, details of whose remuneration are set out in Note 10(a) to the Historical Financial Information. Details of the remuneration of the remaining four, four, four, four and four highest paid employees who are not a director of the Target Company are as follows:

	Year ended 31 March			Six months ended 30 September	
	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Salaries and allowances	1,450	2,481	2,272	1,191	1,022
Retirement benefits scheme contributions	<u>63</u>	<u>71</u>	<u>66</u>	<u>36</u>	<u>32</u>
Total	<u>1,513</u>	<u>2,552</u>	<u>2,338</u>	<u>1,227</u>	<u>1,054</u>

The number of the highest paid employees who are not the directors of the Target Company whose remuneration fell within the following bands is as follows:

	Year ended 31 March			Six months ended 30 September	
	2018	2019	2020	2019 (unaudited)	2020
Nil–HK\$500,000	4	2	2	4	3
HK\$500,001–HK\$1,000,000	<u>—</u>	<u>2</u>	<u>2</u>	<u>—</u>	<u>1</u>

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11. EARNINGS (LOSS) PER SHARE

No earnings (loss) per share information is presented for the purpose of this report as its inclusion is not considered meaningful.

12. DIVIDENDS

During the years ended 31 March 2018 and 31 March 2019, the Target Company declared and paid interim dividends of HK\$10,000,000 and HK\$10,000,000, respectively, to its shareholders. During the year ended 31 March 2020 and the six months ended 30 September 2020, no dividend was declared or paid by the Target Company.

13. PROPERTY, PLANT AND EQUIPMENT

	Building <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2017 and 31 March 2018			
Cost	—	375	375
Accumulated depreciation	—	(375)	(375)
Net carrying values	—	—	—
Year ended 31 March 2019			
Opening net carrying amount	—	—	—
Additions	4,193	73	4,266
Depreciation	(96)	(7)	(103)
Closing net carrying values	4,097	66	4,163
At 31 March 2019			
Cost	4,193	448	4,641
Accumulated depreciation	(96)	(382)	(478)
Net carrying values	4,097	66	4,163
Year ended 31 March 2020			
Opening net carrying amount	4,097	66	4,163
Additions	—	35	35
Depreciation	(145)	(21)	(166)
Closing net carrying values	3,952	80	4,032
At 31 March 2020			
Cost	4,193	483	4,676
Accumulated depreciation	(241)	(403)	(644)
Net carrying values	3,952	80	4,032

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	Building <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months period ended 30 September 2020			
Opening net carrying amount	3,952	80	4,032
Additions	—	1,019	1,019
Depreciation	(72)	(180)	(252)
	3,880	919	4,799
At 30 September 2020			
Cost	4,193	1,502	5,695
Accumulated depreciation	(313)	(583)	(896)
	3,880	919	4,799

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives at the following rates per annum:

Building	Over the term of lease
Furniture and equipment	20%

The Target Group's building with carrying amount of HK\$Nil, HK\$4,097,000, HK\$3,952,000 and HK\$3,880,000 as at 31 March 2018, 2019 and 2020 and 30 September 2020 respectively has been pledged to secure bank borrowings (*Note 23*).

14. INVESTMENT PROPERTIES

Fair value	<i>HK\$'000</i>
At 1 April 2017 and 31 March 2018	—
Additions	4,093
Increase in fair value recognised in profit or loss	407
At 31 March 2019	4,500
Decrease in fair value recognised in profit or loss	(200)
At 31 March 2020 and 30 September 2020	4,300

The Target Group leases out its premise under operating lease with rentals payable monthly. The leases typically run for an initial period of 2 years. Majority of the lease contracts contain market review clauses in the event the lessee exercises the option to extend.

The Target Group is not exposed to foreign currency risk as a result of the lease arrangements, as the lease is denominated in the respective functional currency of Target Group. The lease contract does not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

The fair value of the investment properties as at 31 March 2019, 31 March 2020 and 30 September 2020 has been arrived at on the basis of a valuation carried out on the respective dates by Messrs LCH (Asia-Pacific) Surveyors Limited, independent qualified professional valuers not connected to the Target Group.

At the end of each reporting period, the management will (i) verify all major inputs to the independent valuation report; (ii) assess property valuation movement when compared to prior year valuation report; and (iii) holds discussion with the independent professional qualified valuers.

There has been no change from the valuation technique used as at 31 March 2019, 31 March 2020 and 30 September 2020. Fair value measurements of all the investment properties at the end of the reporting period were categorised into level 3. In estimating the fair value of the properties, the highest and best use of the investment properties is their current use. The following table gives information about how the fair values of the investment properties as at 31 March 2019, 31 March 2020 and 30 September 2020 are determined (in particular, the valuation techniques and inputs used):

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable input	Range	Relationship of unobservable inputs to fair value
Investment properties located in Hong Kong	Market comparison approach	(Discount) premium on characteristic of the property, taking into account recent sale price of comparable properties, time factor and discount or premium on quality of properties.	31 March 2019: (6.3%) to 1.7% 31 March 2020: (8.6%) to 0.2% 30 September 2020: (7.5%) to 0.4%	The higher the adjusted transaction price, the higher the fair value

There was no transfer into and out of level 3 during the years ended 31 March 2019, 31 March 2020 and the six months ended 30 September 2020.

The investment properties are situated in Hong Kong under medium-term lease.

The investment properties with carrying amount of HK\$4,500,000, HK\$4,300,000 and HK\$4,300,000 as at 31 March 2019, 31 March 2020 and 30 September 2020 respectively have been pledged to secure bank borrowings (*Note 23*).

15. RIGHT-OF-USE ASSETS

	Office premise HK\$'000
As at 1 April 2019	
Carrying amount	<u>974</u>
As at 31 March 2020	
Carrying amount	<u>252</u>
As at 30 September 2020	
Carrying amount	<u>574</u>
For the year ended 31 March 2020	
Depreciation charges	<u>722</u>
For the six months ended 30 September 2020	
Depreciation charges	<u>277</u>

	Year ended 31 March 2020 HK\$'000	Six months ended 30 September 2020 HK\$'000
Total cash outflow for leases	743	262
Additions to right-of-use assets	—	712

During the Relevant Periods, the Target Group leases various offices for its operations. Lease contracts are entered into for fixed term of a range from two years to twenty-five months. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Target Group applies the definition of a contract and determines the period for which the contract is enforceable.

During the six months ended 30 September 2020, a tenancy agreement of office premise has been early terminated and resulted in a gain of approximately HK\$2,000 upon the derecognition of right-of-use assets and lease liabilities.

16. TRADE AND OTHER RECEIVABLES

	As at 31 March		As at 30 September	
	2018	2019	2020	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current portion				
Trade receivables	26,195	11,815	6,790	6,567
Less: Allowance for credit losses	<u>(153)</u>	<u>(509)</u>	<u>(1,233)</u>	<u>(1,288)</u>
Trade receivables, net	<u>26,042</u>	<u>11,306</u>	<u>5,557</u>	<u>5,279</u>
Other receivables:				
Deposits	163	216	158	110
Other receivables	79	123	48	86
Prepayment	<u>243</u>	<u>1,603</u>	<u>1,263</u>	<u>1,253</u>
Prepayment, other receivables and other assets	<u>485</u>	<u>1,942</u>	<u>1,469</u>	<u>1,449</u>
Total trade and other receivables	<u>26,527</u>	<u>13,248</u>	<u>7,026</u>	<u>6,728</u>
Non-current portion				
Other receivables:				
Deposits for purchases of properties	<u>800</u>	<u>—</u>	<u>—</u>	<u>—</u>

As at 1 April 2017, trade receivables from contracts with customers amounted to HK\$12,587,000.

The Target Group normally allows credit periods of 7 days to its customers.

As of 31 March 2018, 31 March 2019, 31 March 2020 and 30 September 2020, trade receivables of approximately HK\$24,454,000, HK\$11,735,000, HK\$6,387,000 and HK\$5,906,000 respectively were past due as at the reporting date. Out of the past due balances, approximately HK\$4,931,000, HK\$6,490,000, HK\$3,437,000 and HK\$5,467,000 respectively have been past due more than 90 days and is not considered as in default since the amounts are still considered as recoverable based on historical experience and forward-looking estimates. The Target Group does not hold any collateral over these balances.

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The ageing analysis of these trade receivables based on invoice date is as follows:

	As at 31 March			As at
	2018	2019	2020	30 September 2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0–30 days	14,546	4,544	547	1,070
31–90 days	5,718	781	2,790	—
91–180 days	4,250	90	1,012	962
181–365 days	1,681	3,100	—	3,309
Over 1 year	—	3,300	2,441	1,226
	<u>26,195</u>	<u>11,815</u>	<u>6,790</u>	<u>6,567</u>

Details of impairment assessment of trade and other receivables are set out in Note 26(b) to the Historical Financial Information.

17. CONTRACT ASSETS

	As at 31 March			As at
	2018	2019	2020	30 September 2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contract assets	<u>1,275</u>	<u>4,241</u>	<u>1,211</u>	<u>890</u>

	As at 31 March			As at
	2018	2019	2020	30 September 2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Retention receivables (Note (a))	60	—	90	23
Unbilled revenue (Note (b))	<u>1,215</u>	<u>4,241</u>	<u>1,121</u>	<u>867</u>
	<u>1,275</u>	<u>4,241</u>	<u>1,211</u>	<u>890</u>

As at 1 April 2017, contract assets amounted to approximately HK\$1,745,000.

Notes:

- (a) Retention receivables included in contract assets represent the Target Group's right to receive consideration for work performed and conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts. The contract assets are transferred to the trade receivables when the rights become unconditional, which is typically at the expiry date of the period for the provision of assurance by the Target Group on the service quality of the works performed by the Target Group.
- (b) Unbilled revenue included in contract assets represents the Target Group's right to receive consideration for works completed but not yet billed because the rights are conditional upon the satisfaction by the customers on the works completed by the Target Group. The contract assets are transferred to trade receivables when the rights become unconditional, which is typically at the time when the Target Group obtains the certification of the completed works from the customers or when the Target Group entitled to issue invoices for the completed work to the customers.

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The Target Group classifies these contract assets as current because the Target Group expects to realise them in its normal operating cycle. Details of impairment assessment of contract assets are set out in Note 26(b) to the Historical Financial Information.

18. AMOUNTS DUE FROM (TO) A DIRECTOR/SHAREHOLDERS

Particulars of amount due from a director is as follows:

	As at 31 March			As at
	2018	2019	2020	30 September 2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Leung Tat Chi	142	1,124	3,544	3,645
Less: Allowance for credit losses	<u>(9)</u>	<u>(74)</u>	<u>(295)</u>	<u>(303)</u>
	<u>133</u>	<u>1,050</u>	<u>3,249</u>	<u>3,342</u>

The maximum outstanding balances of amount due from a director during the Relevant Periods were as follows:

	As at 31 March			As at
	2018	2019	2020	30 September 2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Leung Tat Chi	<u>3,908</u>	<u>1,124</u>	<u>3,544</u>	<u>3,645</u>

Particulars of amount due to a director is as follows:

	Year ended 31 March			As at
	2018	2019	2020	30 September 2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Leong Chi Wai	<u>—</u>	<u>(3,120)</u>	<u>(3,120)</u>	<u>(3,120)</u>
Total	<u>—</u>	<u>(3,120)</u>	<u>(3,120)</u>	<u>(3,120)</u>

Particulars of amounts due to shareholders are as follows:

	Year ended 31 March			As at
	2018	2019	2020	30 September 2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
UBA Investment Limited	—	(2,590)	(2,590)	(2,590)
DT Capital Limited	<u>—</u>	<u>(2,590)</u>	<u>(2,590)</u>	<u>(2,590)</u>
Total	<u>—</u>	<u>(5,180)</u>	<u>(5,180)</u>	<u>(5,180)</u>

The amounts due from (to) director/shareholders are unsecured, interest-free and repayable on demand.

Details of impairment assessment of amount due from a director are set out in Note 26(b) to the Historical Financial Information.

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19. BANK BALANCES AND CASH

	As at 31 March			As at
	2018	2019	2020	30 September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2020</i> <i>HK\$'000</i>
Cash at bank	6,034	58	1,958	70
Cash on hand	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
	<u>6,036</u>	<u>60</u>	<u>1,960</u>	<u>72</u>

Bank balances carry interest at floating rates based on daily bank deposit rates.

Details of impairment assessment of bank balance are set out in Note 26(b) to the Historical Financial Information.

20. CONTRACT LIABILITIES

	As at 31 March			As at
	2018	2019	2020	30 September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2020</i> <i>HK\$'000</i>
Interior decorating and furnishing services	4,509	89	507	862
Sales of furnishings	<u>—</u>	<u>—</u>	<u>—</u>	<u>263</u>
	<u>4,509</u>	<u>89</u>	<u>507</u>	<u>1,125</u>

As at 1 April 2017, contract liabilities amounted to approximately HK\$2,921,000.

Contract liabilities represented advance receipts from its contracts with customers for which the Target Group had not yet fulfilled its performance obligations and have not been recognised as revenue.

Revenue recognised that was included in the contract liabilities balance at the beginning of the year/period:

	As at 31 March			As at
	2018	2019	2020	30 September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2020</i> <i>HK\$'000</i>
Interior decorating and furnishing services	<u>2,921</u>	<u>4,509</u>	<u>89</u>	<u>507</u>

When the Target Group receives a deposit before the production activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit. The Target Group typically receives a 30% deposit on acceptance of the orders before construction work commences.

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21. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	As at 31 March		As at 30 September	
	2018	2019	2020	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	2,751	4,710	1,589	1,788
Other payables and accruals				
Other payables	181	13	25	213
Deposit received	—	13	10	10
Accrued expenses	555	1,924	1,128	1,044
	<u>736</u>	<u>1,950</u>	<u>1,163</u>	<u>1,267</u>
	<u>3,487</u>	<u>6,660</u>	<u>2,752</u>	<u>3,055</u>

The credit period on trade payables are generally 30 days.

The following is an aged analysis of trade payables presented based on the invoice date.

	As at 31 March		As at 30 September	
	2018	2019	2020	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0–30 days	1,474	3,888	243	25
31–90 days	237	115	2	205
91–180 days	378	213	889	278
181–365 days	471	80	3	788
Over 1 year	191	414	452	492
	<u>2,751</u>	<u>4,710</u>	<u>1,589</u>	<u>1,788</u>

22. LEASE LIABILITIES

	As at 31 March 2020	As at 30 September 2020
	HK\$'000	HK\$'000
Lease liabilities payable:		
Within one year	256	359
Within a period of more than one year but not more than two years	<u>—</u>	<u>244</u>
	256	603
Less: Amount due for settlement with 12 months shown under current liabilities	<u>(256)</u>	<u>(359)</u>
Amount due for settlement after 12 months shown under non-current liabilities	<u>—</u>	<u>244</u>

For the year ended 31 March 2020 and the six months ended 30 September 2020, the weighted average incremental borrowing rates applied to lease liabilities is 3.85%.

As detailed in Note 15 to the Historical Financial Information, the tenancy agreement of the office premises has been early terminated during the six months ended 30 September 2020.

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23. BANK BORROWINGS AND BANK OVERDRAFT

	As at 31 March			As at
	2018	2019	2020	30 September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2020</i> <i>HK\$'000</i>
Bank borrowings, secured	1,365	6,679	3,806	3,561
Bank overdraft, secured	—	896	4,936	4,607
	<u>1,365</u>	<u>7,575</u>	<u>8,742</u>	<u>8,168</u>

The bank borrowings and bank overdraft are at floating interest rates that are market dependent and the carrying amounts approximate the fair values. The range of interest rates for the year/period ended 31 March 2018, 2019 and 2020 and 30 September 2020 are as follows:

	Year ended 31 March			Six month's ended	
	2018	2019	2020	30 September	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank borrowings, secured	P-1% to P-2.25%	P-1% to P-2.25%	P-1% to P-2.25%	P-1% to P-2.25%	P-1% to P-2.25%
Bank overdraft, secured (Note)	<u>N/A</u>	<u>P+1.75%</u>	<u>P+1.75%</u>	<u>P+1.75%</u>	<u>P+1.75%</u>

Note: "P" denotes Hong Kong Dollar Prime rate of Bank of China (Hong Kong) Limited.

The carrying amounts of bank borrowings and bank overdraft that contain a repayment on demand clause are classified as current liabilities. The following is a schedule of repayments of the bank borrowings in respect of the outstanding borrowings, based on the scheduled repayment terms set out in the loan agreement, as at the end of the Relevant Periods:

	As at 31 March			As at
	2018	2019	2020	30 September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2020</i> <i>HK\$'000</i>
Within 1 year	1,258	2,873	1,481	2,508
Between 1 to 2 years	107	2,753	1,369	196
Between 2 to 5 years	—	603	612	620
Over 5 years	—	450	344	237
	<u>1,365</u>	<u>6,679</u>	<u>3,806</u>	<u>3,561</u>

As at 31 March 2018, 2019 and 2020 and 30 September 2020, the bank borrowings and bank overdraft are denominated in HK\$ and secured by:

- (a) Unlimited personal guarantees provided by a director of the Target Company;
- (b) The Target Group's building and investment properties; and
- (c) Charge of deposit(s) made by a director of the Target Company as determined by the bank from time to time.

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24. SHARE CAPITAL

Ordinary shares

	Par value per share US\$	Number of ordinary shares	Nominal value US\$
Authorised:			
At 1 April 2017, 31 March 2018, 31 March 2019, 31 March 2020 and 30 September 2020	<u>1</u>	<u>50,000</u>	<u>50,000</u>
Issued and fully paid:			
At 1 April 2017, 31 March 2018, 31 March 2019, 31 March 2020 and 30 September 2020	<u>1</u>	<u>300</u>	<u>300</u>
			<u>HK\$2,340</u>

25. CAPITAL RISK MANAGEMENT

The Target Group manages its capital to ensure that entities within the Target Group will be able to continue as a going concern while maximising the returns to shareholders through the optimisation of the debt and equity balance. The Target Group's overall strategy remains unchanged from prior years.

The Target Group sets the amount of capital in proportion to its overall financing structure. The Target Group manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividend paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debts.

The gearing ratio of the Target Group is as follows:

	As at 31 March			As at
	2018	2019	2020	30 September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank borrowings (<i>Note 23</i>)	1,365	6,679	3,806	3,561
Bank overdraft (<i>Note 23</i>)	—	896	4,936	4,607
Less: cash and bank balance	<u>(6,036)</u>	<u>(60)</u>	<u>(1,960)</u>	<u>(72)</u>
Net (cash) debt	(4,671)	7,515	6,782	8,096
Total equity (deficit)	<u>22,149</u>	<u>6,296</u>	<u>1,481</u>	<u>(538)</u>
Gearing ratio (Net debt to total equity (deficit))	<u>N/A</u>	<u>119.4%</u>	<u>457.9%</u>	<u>N/A</u>

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26. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	As at 31 March			As at
	2018	2019	2020	30 September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets				
At amortised cost:				
Trade receivables	26,042	11,306	5,557	5,279
Other receivables and deposits	242	339	206	196
Amount due from a director	133	1,050	3,249	3,342
Bank balances and cash	6,036	60	1,960	72
	32,453	12,755	10,972	8,889
Financial liabilities				
At amortised cost:				
Trade payables	2,751	4,710	1,589	1,788
Other payables and accrued expenses	736	1,950	1,163	1,267
Bank borrowings	1,365	6,679	3,806	3,561
Bank overdraft	—	896	4,936	4,607
Lease liabilities	—	—	256	603
Amount due to a director	—	3,120	3,120	3,120
Amount due to shareholders	—	5,180	5,180	5,180
	4,852	22,535	20,050	20,126

b. Financial risk management objectives and policies

The Target Group's major financial instruments include trade receivables, other receivables, deposits, amounts due from (to) a director/shareholders, bank balances, trade payables, other payables and accrued expenses, bank borrowings, bank overdraft and lease liabilities.

Details of the financial instruments are disclosed in respective notes to the Historical Financial Information. The risks associated with these financial instruments include market risk (currency risk and 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

(i) Currency risk

The Target Group has foreign currency bank balance which expose the Target Group to foreign currency risk. Since the foreign currency bank balance is immaterial, the management of the Target Group is of the opinion that the currency risk is not significant.

The Target Group currently does not have a foreign exchange hedging policy. However, the management of the Target Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

(ii) Interest rate risk

The Target Group is exposed to fair value interest rate risk in relation to fixed rate lease liabilities as set out in Note 22. The Target Group is also exposed to cash flow interest rate risk in relation to its variable-rate bank balances, bank borrowings and bank overdraft as detailed in Notes 19 and 23.

The Target Group currently does not have an interest rate hedging policy. However, the Directors monitor interest rate exposure and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. At 31 March 2018, 2019 and 2020 and 30 September 2020, a 100 basis points increase or decrease in variable rate borrowings 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. Bank balances are excluded from sensitivity analysis as the Directors consider that the exposure of cash flow interest rate risk arising from variable rate bank balance is insignificant.

At 31 March 2018, bank borrowings are estimated that a general increase/decrease of 100 points in interest rates, with all other variables held constant, would decrease/increase the Target Group's profit after tax and retained earnings by approximately HK\$11,000.

At 31 March 2019 and 2020, bank borrowings and bank overdraft are estimated that a general increase/decrease of 100 points in interest rates, with all other variables held constant, would increase/decrease the Target Group's loss after tax and decrease/increase retained earnings by approximately HK\$76,000 and HK\$87,000, respectively.

At 30 September 2020, bank borrowings and bank overdraft are estimated that a general increase/decrease of 100 points in interest rates, with all other variables held constant, would increase/decrease the Target Group's loss after tax and accumulated losses by approximately HK\$82,000.

The 100 basis points increase/decrease represents management's assessment of a reasonably possible change in interest rate over the period until the next annual report date.

Credit risk and impairment assessment

Credit risk refers to the risk that the Target Group's counterparties default on their contractual obligation resulting in financial losses to the Target Group. The Target Group's credit risk exposures are primarily attributable to trade receivables, contract assets, other receivables and deposits, amount due from a director and bank balances. The Target Group does not hold any collateral or other credit enhancements to cover its credit risk associated with its financial assets.

Trade receivables and contract assets arising from contract with customers

Before accepting any new customer, the Target Group would assess the potential customer's credit quality. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In order to minimise the credit risk, the management of the Target Group has delegated a team responsible for the determination of credit limits and credit approval. In addition, the Target Group performs impairment assessment under ECL model on trade receivables and contract assets individually or based on shared credit risk characteristics by reference to the aging of outstanding balances. In this regard, the Directors consider that the Target Group's credit risk is significantly reduced.

As at 31 March 2018, 2019 and 2020 and 30 September 2020, the Target Group has concentration of credit risk as 70%, 88%, 93% and 85% respectively of the total trade receivables was due from the Target Group's top five customers, and 26%, 43%, 46% and 48% respectively of total trade receivables was due from the Target Group's largest customer.

Other receivables and deposits

Other receivables and deposits mainly represented the rental deposits and receivables from related parties. The Directors make periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The Directors believe that there are no significant increase in credit risk of these amounts since initial recognition and the Target Group provided impairment based on 12m ECL. For the years ended 31 March 2018, 2019 and 2020 and the six months ended 30 September 2020, the Target Group assessed the ECL for other receivables and deposits were insignificant and thus no loss allowance was recognised.

Amount due from a director

The management assesses the credit quality of the director based on his background information, financial position, past experience and relevant factors. The management believe that there are no significant increase in credit risk of these amounts since initial recognition and the Target Group provided impairment based on 12m ECL.

Bank balances

The credit risk on bank on bank balances are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Target Group's internal credit risk grading assessment comprises the following categorise:

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

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The table below details the credit risk exposures of the Target Group's financial assets and contract assets, which are subject to ECL assessment.

31 March 2018						
Financial assets at amortised costs	<i>Notes</i>	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount	
					<i>HK\$'000</i>	
Contract assets	<i>17</i>	N/A	<i>(Note 4)</i>	12m ECL	1,275	
Trade receivables	<i>16</i>	N/A	<i>(Note 1)</i>	Lifetime ECL (provision matrix)	26,195	
Other receivables and deposits	<i>16</i>	N/A	<i>(Note 3)</i>	12m ECL	242	
Amount due from a director	<i>18</i>	N/A	<i>(Note 2)</i>	12m ECL	142	
Bank balances	<i>19</i>	BBB + to AA	N/A	12m ECL	6,034	
31 March 2019					Gross carrying amount	
Financial assets at amortised costs	<i>Notes</i>	External credit rating	Internal credit rating	12m or lifetime ECL	<i>HK\$'000</i>	<i>HK\$'000</i>
Contract assets	<i>17</i>	N/A	<i>(Note 4)</i>	12m ECL	—	4,241
Trade receivables	<i>16</i>	N/A	<i>(Note 1)</i>	Lifetime ECL (provision matrix)	11,730	
			<i>(Note 1)</i>	Lifetime ECL Credit-impaired	85	11,815
Other receivables and deposits	<i>16</i>	N/A	<i>(Note 3)</i>	12m ECL	—	339
Amount due from a director	<i>18</i>	N/A	<i>(Note 2)</i>	12m ECL	—	1,124
Bank balances	<i>19</i>	BBB + to AA	N/A	12m ECL	—	58

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31 March 2020						
Financial assets at amortised costs	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount	
					HK\$'000	HK\$'000
Contract assets	17	N/A	(Note 4)	12m ECL	—	1,211
Trade receivables	16	N/A	(Note 1)	Lifetime ECL (provision matrix)	5,775	
			(Note 1)	Lifetime ECL Credit-impaired	1,015	6,790
Other receivables and deposits	16	N/A	(Note 3)	12m ECL	—	206
Amount due from a director	18	N/A	(Note 2)	12m ECL	—	3,544
Bank balances	19	BBB + to AA	N/A	12m ECL	—	1,958
30 September 2020						
Financial assets at amortised costs	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount	
					HK\$'000	HK\$'000
Contract assets	17	N/A	(Note 4)	12m ECL	—	890
Trade receivables	16	N/A	(Note 1)	Lifetime ECL (provision matrix)	5,552	
			(Note 1)	Lifetime ECL Credit-impaired	1,015	6,567
Other receivables and deposits	16	N/A	(Note 3)	12m ECL	—	196
Amount due from a director	18	N/A	(Note 2)	12m ECL	—	3,645
Bank balances	19	BBB + to AA	N/A	12m ECL	—	70

Notes:

- (1) For trade receivables, the Target Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

As part of the Target Group's credit risk management, the Target Group uses debtors' aging to assess the impairment for its customers in relation to its interior designs and decoration business. Their customers consist of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix within lifetime ECL (not credit-impaired).

As at 31 March 2018

	Current HK\$'000	Day past due					Total HK\$'000
		1- 30 days HK\$'000	31- 90 days HK\$'000	91- 180 days HK\$'000	181- 365 days HK\$'000	Over 365 days HK\$'000	
Total gross carrying amount	1,741	15,508	4,015	3,250	1,681	—	26,195
Estimated loss rate	0.03%	0.03%	0.03%	1.87%	5.12%	8.14%	
Expected credit loss	1	5	1	60	86	—	153

As at 31 March 2019

	Current HK\$'000	Day past due					Total HK\$'000
		1- 30 days HK\$'000	31- 90 days HK\$'000	91- 180 days HK\$'000	181- 365 days HK\$'000	Over 365 days HK\$'000	
Total gross carrying amount	80	5,134	111	90	3,100	3,215	11,730
Estimated loss rate	0.03%	0.03%	0.03%	1.87%	5.12%	8.14%	
Expected credit loss	—	1	—	2	159	262	424

As at 31 March 2020

	Current HK\$'000	Day past due					Total HK\$'000
		1- 30 days HK\$'000	31- 90 days HK\$'000	91- 180 days HK\$'000	181- 365 days HK\$'000	Over 365 days HK\$'000	
Total gross carrying amount	403	1,436	1,514	996	—	1,426	5,775
Estimated loss rate	1.45%	1.45%	1.45%	3.29%	6.54%	9.56%	
Expected credit loss	6	21	22	33	—	136	218

As at 30 September 2020

	Current HK\$'000	Day past due					Total HK\$'000
		1- 30 days HK\$'000	31- 90 days HK\$'000	91- 180 days HK\$'000	181- 365 days HK\$'000	Over 365 days HK\$'000	
Total gross carrying amount	661	409	30	1,252	2,989	211	5,552
Estimated loss rate	1.45%	1.45%	1.45%	3.29%	6.45%	9.56%	
Expected credit loss	10	6	—	41	196	20	273

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

During the years ended 31 March 2019 and 2020 the Target Group provided approximately HK\$81,000 and HK\$854,000 respectively specific impairment allowance for trade receivables, based on the management's opinion that a specific debtor is in severe financial difficulty and this indicates the asset is credit impaired.

- (2) For amount due from a director, the Target Group has applied the general approach in HKFRS 9 to measure the loss allowance at 12m ECL. The following table provides information about the exposure to credit risk for amount due from a director which is assessed based on the TransUnion's rating.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

Trade receivables	Lifetime ECL (not credit- impaired) HK\$'000	Lifetime ECL (credit- impaired) HK\$'000	Total HK\$'000
As at 1 April 2017	46	—	46
Changes due to financial instruments recognised as at 1 April 2017:			
— Impairment losses reversed	(46)	—	(46)
New financial assets originated or purchased	<u>153</u>	<u>—</u>	<u>153</u>
As at 31 March 2018	153	—	153
Changes due to financial instruments recognised as at 1 April 2018:			
— Transfer to credit-impaired	(4)	4	—
— Impairment losses recognised	—	81	81
— Impairment losses reversed	(94)	—	(94)
New financial assets originated or purchased	<u>369</u>	<u>—</u>	<u>369</u>
As at 31 March 2019	424	85	509
Changes due to financial instruments recognised as at 1 April 2019:			
— Transfer to credit-impaired	(76)	76	—
— Impairment losses recognised	—	854	854
— Impairment losses reversed	(338)	—	(338)
New financial assets originated or purchased	<u>208</u>	<u>—</u>	<u>208</u>
As at 31 March 2020	218	1,015	1,233
Changes due to financial instruments recognised as at 1 April 2020:			
— Impairment losses reversed	(145)	—	(145)
New financial assets originated or purchased	<u>200</u>	<u>—</u>	<u>200</u>
As at 30 September 2020	<u><u>273</u></u>	<u><u>1,015</u></u>	<u><u>1,288</u></u>

Changes in loss allowances for trade receivables during the Relevant Period are mainly due to:

	Year ended 31 March 2018	
	Increase in life time ECL (not credit-impaired)	Increase in life time ECL credit- impaired
	<i>HK\$'000</i>	<i>HK\$'000</i>
New financial assets originated or purchased	153	—
	<u>153</u>	<u>—</u>
	Year ended 31 March 2019	
	Increase in life time ECL (not credit-impaired)	Increase in life time ECL credit- impaired
	<i>HK\$'000</i>	<i>HK\$'000</i>
New financial assets originated or purchased	369	—
	<u>369</u>	<u>—</u>
	Year ended 31 March 2020	
	Increase/ (decrease) in life time ECL (not credit-impaired)	Increase in life time ECL credit- impaired
	<i>HK\$'000</i>	<i>HK\$'000</i>
No realistic prospect of recovery	—	854
Settlement in full of trade debtors	(338)	—
New financial assets originated or purchased	208	—
	<u>208</u>	<u>—</u>
	Period ended 30 September 2020	
	Increase/ (decrease) in life time ECL (not credit-impaired)	Increase in life time ECL credit- impaired
	<i>HK\$'000</i>	<i>HK\$'000</i>
Settlement in full of trade debtors	(145)	—
New financial assets originated or purchased	200	—
	<u>200</u>	<u>—</u>

The following table shows reconciliation of loss allowances that has been recognised for amount due from a director.

Amount due from a director

	12m ECL (not credit-impaired) <i>HK\$'000</i>
As at 1 April 2017	258
Changes due to financial instruments recognised as at 1 April 2017:	
— Impairment loss reversed	(249)
As at 31 March 2018	9
Changes due to financial instruments recognised as at 1 April 2018:	
— Impairment loss reversed	(9)
New financial assets originated or purchased	74
As at 31 March 2019	74
Changes due to financial instruments recognised as at 1 April 2019:	
— Impairment loss recognised	19
New financial assets originated or purchased	202
As at 31 March 2020	295
New financial assets originated or purchased	8
As at 30 September 2020	<u>303</u>

- (3) For the purposes of internal credit risk management, the Target Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	As at 31 March			As at 30 September 2020
	2018	2019	2020	2020
	Not past due/ no fixed repayment terms	Not past due/ no fixed repayment terms	Not past due/ no fixed repayment terms	Not past due/ no fixed repayment terms
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other receivables	79	123	48	86
Deposits	<u>163</u>	<u>216</u>	<u>158</u>	<u>110</u>

- (4) For contract assets, the management makes periodic individual assessment on the recoverability of contract assets based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The management believes that there are no significant increase in credit risk of these amounts since initial recognition and the Target Group provided impairment based on 12m ECL. For the year/period ended 31 March 2018, 2019 and 2020 and 30 September 2020, the Target Group assessed the ECL for contract assets is insignificant and thus no loss allowance is recognised.

Liquidity risk

In the management of the liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows.

The Target Group is exposed to liquidity risk as the Target Group had continuously incurring operating losses. The liquidity of the Target Group primarily depends on the future funding being available and the ability of the Target Group to meet its financial obligations as they fall due.

The following table details the Target Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time bank regardless of the probability of the bank choosing to exercise their rights. The maturity dates for other financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows.

Liquidity tables

	Weighted average interest rate %	On demand or less than 1 year HK\$'000	1–2 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
As at 31 March 2018					
Bank borrowing	2.57%	1,365	—	1,365	1,365
Trade and other payables	N/A	3,487	—	3,487	3,487
		<u>4,852</u>	<u>—</u>	<u>4,852</u>	<u>4,852</u>
As at 31 March 2019					
Bank overdraft	6.88%	896	—	896	896
Bank borrowing	3.85%	6,679	—	6,679	6,679
Trade and other payables	N/A	6,660	—	6,660	6,660
Amount due to a director	N/A	3,120	—	3,120	3,120
Amount due to shareholders	N/A	5,180	—	5,180	5,180
		<u>22,535</u>	<u>—</u>	<u>22,535</u>	<u>22,535</u>
As at 31 March 2020					
Bank overdraft	6.75%	4,936	—	4,936	4,936
Bank borrowing	3.59%	3,806	—	3,806	3,806
Trade and other payables	N/A	2,752	—	2,752	2,752
Lease liabilities	3.85%	278	—	278	256
Amount due to a director	N/A	3,120	—	3,120	3,120
Amount due to shareholders	N/A	5,180	—	5,180	5,180
		<u>20,072</u>	<u>—</u>	<u>20,072</u>	<u>20,050</u>
As at 30 September 2020					
Bank overdraft	6.75%	4,607	—	4,607	4,607
Bank borrowing	3.59%	3,561	—	3,561	3,561
Trade and other payables	N/A	3,055	—	3,055	3,055
Lease liabilities	3.85%	394	248	642	603
Amount due to a director	N/A	3,120	—	3,120	3,120
Amount due to shareholders	N/A	5,180	—	5,180	5,180
		<u>19,917</u>	<u>248</u>	<u>20,165</u>	<u>20,126</u>

The table below summarises the maturity analysis of bank borrowings with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the “on demand” time bank in the maturity analysis contained in the above table.

Taking into account the Target Group’s financial position, the Directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The Directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements which is shown as follows:

	Within 1 year	Between 1 and 2 years	Between 2 to 5 years	Over 5 Years	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 30 September 2020	2,591	222	666	241	3,720
As at 31 March 2020	1,601	1,410	666	352	4,029
As at 31 March 2019	3,078	2,840	669	465	7,052
As at 31 March 2018	<u>1,278</u>	<u>107</u>	<u>—</u>	<u>—</u>	<u>1,385</u>

The amounts above are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

As at 31 March 2018, 31 March 2019, 31 March 2020 and 30 September 2020, the Target Group had unused bank overdraft facility of approximately HK\$1,500,000, HK\$4,104,000, HK\$64,000 and HK\$393,000 respectively. The bank overdraft facilities may be drawn at any time.

c. Fair values measurements of the financial instruments

The carrying amounts of the Target Group’s financial assets and liabilities recorded at amortised cost approximate their respective fair values due to their short maturities.

APPENDIX II	FINANCIAL INFORMATION OF THE TARGET GROUP
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27. COMMITMENTS

Operating lease commitment — as lessee

At 31 March 2018 and 2019, the Target Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 March	
	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	261	773
In the second year	54	286
In the third to fifth years	126	72
	441	1,131

Operating lease payments represent rentals payable by the Target Group for its office premises and printers. Leases are negotiated for an initial period of 2 to 5 years. The above lease commitments only include commitments for basic rental and none of the lease includes any contingent rental.

Operating lease commitment — as lessor

All of the investment properties held by the Target Group are for rental purpose. Undiscounted lease payments receivable on leases are as follows:

	As at 31 March			As at
	2018	2019	2020	30 September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2020
				<i>HK\$'000</i>
Within one year	—	120	50	—
In the second year	—	50	—	—
	—	170	50	—

Capital commitments

Capital expenditure contracted for at the end of the Relevant Periods but not provided in the consolidated financial statements is as follows:

	As at 31 March			As at
	2018	2019	2020	30 September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2020
				<i>HK\$'000</i>
Property, plant and equipment	3,600	—	—	—
Investment properties	3,600	—	—	—
	7,200	—	—	—

28. 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 flow were, or future cashflows will be classified in the Target Group's consolidated statement of cash flows from financing activities.

	Amount due to a director <i>HK\$'000</i> <i>(Note 18)</i>	Amount due to shareholders <i>HK\$'000</i> <i>(Note 18)</i>	Lease liabilities <i>HK\$'000</i> <i>(Note 22)</i>	Bank borrowings <i>HK\$'000</i> <i>(Note 23)</i>	Bank overdraft <i>HK\$'000</i> <i>(Note 23)</i>	Total <i>HK\$'000</i>
At 1 April 2017	—	—	—	2,592	—	2,592
<i>Change from cash flows:</i>						
Dividend paid to shareholders	—	(5,470)	—	—	—	(5,470)
Interest paid	—	—	—	(51)	—	(51)
Repayment of bank borrowings	—	—	—	(1,227)	—	(1,227)
	—	(5,470)	—	(1,278)	—	(6,748)
<i>Non-cash changes:</i>						
Dividend declared	—	10,000	—	—	—	10,000
Interest expenses	—	—	—	51	—	51
Net-off with amount due from a director	—	(4,530)	—	—	—	(4,530)
	—	5,470	—	51	—	5,521
At 31 March 2018	—	—	—	1,365	—	1,365
<i>Change from cash flows:</i>						
Drawdown on bank borrowing	—	—	—	7,020	—	7,020
Repayment of bank borrowings	—	—	—	(1,706)	—	(1,706)
Drawdown on bank overdraft, net	—	—	—	—	896	896
Interest paid	—	—	—	(71)	(9)	(80)
Advance from a director	3,120	—	—	—	—	3,120
Advance from shareholders	—	5,180	—	—	—	5,180
Advance to a director	—	—	—	—	—	—
Dividend paid to shareholders	—	(10,000)	—	—	—	(10,000)
	3,120	(4,820)	—	5,243	887	4,430
<i>Non-cash changes:</i>						
Dividend declared	—	10,000	—	—	—	10,000
Interest expenses	—	—	—	71	9	80
	—	10,000	—	71	9	10,080
At 31 March 2019	3,120	5,180	—	6,679	896	15,875
Adjustment upon application of HKFRS 16	—	—	974	—	—	974

	Amount due to a director <i>HK\$'000</i> <i>(Note 18)</i>	Amount due to shareholders <i>HK\$'000</i> <i>(Note 18)</i>	Lease liabilities <i>HK\$'000</i> <i>(Note 22)</i>	Bank borrowings <i>HK\$'000</i> <i>(Note 23)</i>	Bank overdraft <i>HK\$'000</i> <i>(Note 23)</i>	Total <i>HK\$'000</i>
At 1 April 2019 (as restated)	3,120	5,180	974	6,679	896	16,849
<i>Change from cash flows:</i>						
Repayment of bank borrowings	—	—	—	(2,873)	—	(2,873)
Drawdown on bank overdraft, net	—	—	—	—	4,040	4,040
Interest paid	—	—	—	(203)	(213)	(416)
Payment of lease liabilities	—	—	(743)	—	—	(743)
	—	—	(743)	(3,076)	3,827	8
<i>Non-cash changes:</i>						
Interest expenses	—	—	25	203	213	441
At 31 March 2020	3,120	5,180	256	3,806	4,936	17,298
<i>Change from cash flows:</i>						
Repayment of bank borrowings	—	—	—	(245)	—	(245)
Repayment of bank overdraft, net	—	—	—	—	(329)	(329)
Interest paid	—	—	—	(65)	(163)	(228)
Payment of lease liabilities	—	—	(262)	—	—	(262)
	—	—	(262)	(310)	(492)	(1,064)
<i>Non-cash changes:</i>						
Addition of lease liabilities	—	—	713	—	—	713
Interest expenses	—	—	12	65	163	240
De-recognition of lease liabilities	—	—	(116)	—	—	(116)
	—	—	609	65	163	837
At 30 September 2020	3,120	5,180	603	3,561	4,607	17,071

29. RETIREMENT BENEFITS SCHEMES

The Target Group maintains a retirement scheme for its employees. The Target Group's Hong Kong employees are covered by the Mandatory Provident Fund, which is managed by an independent trustee. The Target Group and its Hong Kong employees each make monthly contributions to the scheme at 5% of the employees' income with the maximum contribution by each of the Target Group and the employees limited to HK\$1,500.

During the year/period ended 31 March 2018, 2019 and 2020 and 30 September 2020, the aggregate contributions made by the Target Group to the retirement schemes were approximately HK\$165,000, HK\$203,000, HK\$132,000 and HK\$42,000 respectively.

As at 31 March 2018, 31 March 2019, 31 March 2020 and 30 September 2020, contributions of HK\$Nil, HK\$Nil, HK\$20,000 and HK\$23,000 respectively due in respect of the years ended 31 March 2018, 2019 and 2020 and the six months ended 30 September 2020 had not been paid over to the plans. The amounts were paid subsequent to the end of the reporting periods.

30. EVENT AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in the Historical Financial Information, the Target Group had the following event after the reporting period.

The outbreak of novel coronavirus (“COVID-19”) continues to spread throughout the world. The COVID-19 has certain impact on the business operations of the Target Group and the degree of the impact depends on the situation of the epidemic preventive measures and the duration of the epidemic. The Target Group will monitor the developments of COVID-19 situation closely, assess and react actively to its impacts on the financial position and operating results of the Target Group. Up to the date of this circular, the assessment is still in progress. Other than those disclosed above, the Target Group had no material events for disclosure subsequent to 31 March 2020 and up to the date of this circular.

31. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Historical Financial Information, the Target Group had the following significant transactions and balances with related parties during the years as follows:

(a) Details of transactions with related parties are follows:

	Year ended 31 March			Six months ended	
	2018	2019	2020	2019	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Salary expense paid to					
— spouse of a director	180	835	839	390	507
Retirement benefit scheme					
contributed to					
— spouse of a director	9	18	18	9	9
Purchase of property, plant and					
equipment and investment					
properties from					
— spouse of a director	—	2,000	—	—	—
— related party controlled by					
the spouse of a director	—	2,000	—	—	—
— director of the Target Group	—	4,000	—	—	—
	—	8,000	—	—	—

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

(b) Outstanding balances with related parties

	As at 31 March			As at
	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	30 September 2020 HK\$'000
Other payable				
— spouse of a director	—	(5)	(5)	(5)
Deposits for purchase of property, plant and equipment and investment properties from				
— spouse of a director	200	—	—	—
— related party controlled by the spouse of a director	200	—	—	—
— director of the Target Group	400	—	—	—
	<u>800</u>	<u>—</u>	<u>—</u>	<u>—</u>
Amount due from a director	<u>133</u>	<u>1,050</u>	<u>3,249</u>	<u>3,342</u>
Amount due to a director	<u>—</u>	<u>(3,120)</u>	<u>(3,120)</u>	<u>(3,120)</u>
Amounts due to shareholders	<u>—</u>	<u>(5,180)</u>	<u>(5,180)</u>	<u>(5,180)</u>

(c) Compensation of key management personnel

Directors are the key management of the Target Group disclosed in Note 10(a) to the Historical Financial Information. The remuneration of the Directors is determined by the shareholders having regard to the performance of individuals and market trends.

32. PARTICULARS OF THE SUBSIDIARY OF THE TARGET COMPANY

General information of the subsidiary

Details of the Target Group's subsidiary at the end of the Relevant Periods are set out below:

Name of subsidiary	Class of shares held	Place of incorporation/ operations	Paid up issued share capital	Proportion of ownership interest and voting power held by the Target Company Directly			As at 30 September 2020	Principal activities
				As at 31 March 2018	2019	2020		
LMP International Limited	Ordinary	Hong Kong	HK\$1	100%	100%	100%	100%	Trading of furnishings and provision of interior design, fitting out and decoration services

Note: No subsidiary had issued any debt securities at the end of the Relevant Periods.

All companies comprising the Target Group have adopted 31 March as their financial year-end.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

33. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE TARGET COMPANY

	As at 31 March			As at
	2018	2019	2020	30 September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current asset				
Investments in a subsidiary	<u>3,068</u>	<u>3,068</u>	<u>1,534</u>	<u>—</u>
Current assets				
Bank balances and cash	<u>—</u>	<u>4</u>	<u>4</u>	<u>4</u>
Current liabilities				
Amount due to a subsidiary	<u>—</u>	<u>5</u>	<u>59</u>	<u>71</u>
Net current liabilities	<u>—</u>	<u>(1)</u>	<u>(55)</u>	<u>(67)</u>
Net assets (liabilities)	<u>3,068</u>	<u>3,067</u>	<u>1,479</u>	<u>(67)</u>
Capital and reserves				
Share capital	2	2	2	2
Reserves	<u>3,066</u>	<u>3,065</u>	<u>1,477</u>	<u>(69)</u>
Total equity (deficit)	<u>3,068</u>	<u>3,067</u>	<u>1,479</u>	<u>(67)</u>

Movements in the Target Company's reserves

The Target Company	Share premium	Accumulated losses	Total reserves
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2017	3,066	—	3,066
Profit and other comprehensive income for the year	—	10,000	10,000
Dividend paid	<u>—</u>	<u>(10,000)</u>	<u>(10,000)</u>
At 31 March 2018	3,066	—	3,066
Profit and other comprehensive income for the year	—	9,999	9,999
Dividend paid	<u>—</u>	<u>(10,000)</u>	<u>(10,000)</u>
At 31 March 2019	3,066	(1)	3,065
Loss and other comprehensive expense for the year	<u>—</u>	<u>(1,588)</u>	<u>(1,588)</u>
At 31 March 2020	3,066	(1,589)	1,477
Loss and other comprehensive expense for the period	<u>—</u>	<u>(1,546)</u>	<u>(1,546)</u>
At 30 September 2020	<u>3,066</u>	<u>(3,135)</u>	<u>(69)</u>

Note: Share premium of the Target Company represents the difference between the costs of investment in the subsidiary acquired pursuant to the re-organisation effected on 6 June 2016 over the nominal value of the share capital of the Target Company in exchange therefor.

34. NON-CASH TRANSACTIONS

During the six months ended 30 September 2020, the Target Group entered into a new lease agreement for the use of leased office premise for 25 months. On the lease commencement, the Group recognised approximately HK\$712,000 of right-of-use asset and approximately HK\$712,000 lease liability.

As detailed in Note 15 to the Historical Financial Information, a tenancy agreement of office premise has been early terminated during the six months ended 30 September 2020. Approximately HK\$113,000 of right-of-use assets and approximately HK\$115,000 of lease liabilities in related to the tenancy agreement has been derecognised and resulted in a gain of approximately HK\$2,000 upon the derecognition.

During the year ended 31 March 2018, the Target Company declared dividend of approximately HK\$10,000,000, of which HK\$5,470,000 was settled by cash and approximately HK\$4,530,000 was settled by netting off the amount due from a director who is also one of the shareholders of the Target Company.

The following is the text of a report from Asian Alliance (HK) CPA Limited, the independent reporting accountant, in respect of the unaudited pro forma financial information of the Enlarged Group as set out in this Appendix and prepared for the sole purpose of inclusion in this circular.



INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF SHEN YOU HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Shen You Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position of the Group and Diamond Motto Limited (the “**Target Company**”) and its subsidiary (together with the Group, hereinafter collectively referred to as the “**Enlarged Group**”) as at 30 June 2020 and related notes (the “**Unaudited Pro Forma Financial Information**”) as set out on pages III-4 to III-10 of the circular issued by the Company dated 13 January 2021 (the “**Circular**”) in connection with the proposed acquisition of the entire issued share capital of the Target Company and sale loans due by the Target Group (the “**Proposed Transaction**”). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages III-4 to III-5 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Proposed Transaction on the Group's financial position as at 30 June 2020 as if the Proposed Transaction had taken place at 30 June 2020. As part of this process, information about the Group's financial position as at 30 June 2020, has been extracted by the Directors from the Company's unaudited condensed consolidated financial statements for the six months ended 30 June 2020, on which no audit or review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) and with reference to Accounting Guideline 7 “*Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “*Code of Ethics for Professional Accountants*” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

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

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “*Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 31 of Chapter 7 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

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

The purpose of Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Proposed Transaction on unadjusted financial information of the Group as if the Proposed Transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Transaction at 30 June 2020 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors

in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Proposed Transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Enlarged Group, the Proposed 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 31(1) of Chapter 7 of the GEM Listing Rules.

Asian Alliance (HK) CPA Limited

Certified Public Accountants

Lam Chik Tong

Practising Certificate Number: P05612

8/F Catic Plaza

8 Causeway Road

Causeway Bay

Hong Kong

13 January 2021

**INTRODUCTION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

The following is an illustrative unaudited pro forma consolidated statement of financial position of Shen You Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) and Diamond Motto Limited (the “**Target Company**”) and its subsidiary (collectively referred to the “**Target Group**”) (together with the Group, hereinafter collectively referred to as the “**Enlarged Group**”) as at 30 June 2020 (the “**Unaudited Pro Forma Financial Information**”) regarding the proposed acquisition of the entire issued share capital of and sale loans due by the Target Company (the “**Proposed Transaction**”). The Unaudited Pro Forma Financial Information is prepared to illustrate the effects of the Proposed Transaction on the consolidated statement of financial position of the Enlarged Group as if the Proposed Transaction have taken place on 30 June 2020. Details of the Proposed Transaction are set out in the section headed “Letter from the Board” contained in the circular dated 13 January 2021 issued by the Company (the “**Circular**”).

The Unaudited Pro Forma Financial Information has been prepared by the Directors in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) for the purpose of illustrating the effect of the Proposed Transaction pursuant to the terms of the sale and purchase agreement dated 18 August 2020 (the “**Diamond Motto Acquisition Agreement**”) entered into between the Company and vendor A, vendor B, vendor C and vendor D (collectively referred to the “**Vendors**”), to conditionally acquire the entire issued share capital of and sale loans due by the Target Company. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Enlarged Group had the Proposed Transaction been completed as of the specified dates or any future date.

The Unaudited Pro Forma Financial Information of the Enlarged Group is prepared based on (i) the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020, which has been extracted from the Group’s published interim report for the six months ended 30 June 2020 dated 14 August 2020; and (ii) the audited financial information of the Target Group for the six months ended 30 September 2020 as extracted from the accountant’s report thereon set out in Appendix II to this Circular, and adjusted on a pro forma basis to reflect the effect of the Proposed Transaction. A narrative description on these pro forma adjustments that are (i) directly attributable to the Proposed Transaction and not relating to future events and decisions; and (ii) factually supportable based on the terms of the Diamond Motto Acquisition Agreement.

The Unaudited Pro Forma Financial Information has been prepared using accounting policies consistent with that of the Group. The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates, uncertainties and currently available information. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Proposed Transaction been completed on 30 June 2020 nor purport to predict the future financial position of the Enlarged Group.

The Unaudited Pro Forma Financial Information should be read in conjunction with (i) the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2020 dated 14 August 2020 and (ii) other financial information included elsewhere in this circular.

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

	The Group as	The Target	Pro forma adjustments				Enlarged
	at 30 June 2020	Group as at 30 September 2020	HK\$'000	HK\$'000	HK\$'000	HK\$'000	Group As at 30 June 2020
	(Note 1)	(Note 2)	(Note 3)	(Note 4)	(Note 5)	(Note 6)	HK\$'000
NON-CURRENT ASSETS							
Property, plant and equipment	5,368	4,799	—	—	—	—	10,167
Investment properties	—	4,300	—	—	—	—	4,300
Investment in subsidiaries	—	—	8,560	(8,560)	—	—	—
Goodwill	—	—	—	9,098	—	—	9,098
Right-of-use assets	4,633	574	—	—	—	—	5,207
Financial assets at fair value through profit or loss	4,815	—	—	—	—	—	4,815
Prepayments, other receivables and other assets	1,789	—	—	—	—	—	1,789
	<u>16,605</u>	<u>9,673</u>	<u>8,560</u>	<u>538</u>	<u>—</u>	<u>—</u>	<u>35,376</u>
CURRENT ASSETS							
Inventories	12,421	—	—	—	—	—	12,421
Contract assets	—	890	—	—	—	—	890
Trade receivables	9,004	5,279	—	—	—	—	14,283
Prepayments, other receivables and other assets	9,667	1,449	—	—	—	3,342	14,458
Tax recoverable	543	8	—	—	—	—	551
Amount due from a director	—	3,342	—	—	—	(3,342)	—
Bank balances and cash	18,284	72	—	—	(1,100)	—	17,256
	<u>49,919</u>	<u>11,040</u>	<u>—</u>	<u>—</u>	<u>(1,100)</u>	<u>—</u>	<u>59,859</u>

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

	The Group as at 30 June 2020 <i>HK\$'000</i> <i>(Note 1)</i>	The Target Group as at 30 September 2020 <i>HK\$'000</i> <i>(Note 2)</i>	Pro forma adjustments				Enlarged Group As at 30 June 2020 <i>HK\$'000</i>
			<i>HK\$'000</i> <i>(Note 3)</i>	<i>HK\$'000</i> <i>(Note 4)</i>	<i>HK\$'000</i> <i>(Note 5)</i>	<i>HK\$'000</i> <i>(Note 6)</i>	
CURRENT LIABILITIES							
Contract liabilities	—	1,125	—	—	—	—	1,125
Trade payables	4,422	1,788	—	—	—	—	6,210
Other payables and accruals	5,010	1,267	—	—	—	—	6,277
Bank borrowings	—	3,561	—	—	—	—	3,561
Bank overdraft	—	4,607	—	—	—	—	4,607
Lease liabilities	2,126	359	—	—	—	—	2,485
Amount due to a director	—	3,120	(3,120)	—	—	—	—
Amounts due to shareholders	—	5,180	(5,180)	—	—	—	—
Tax payable	1,121	—	—	—	—	—	1,121
	<u>12,679</u>	<u>21,007</u>	<u>(8,300)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>25,386</u>
NET CURRENT ASSETS (LIABILITIES)							
	<u>37,240</u>	<u>(9,967)</u>	<u>8,300</u>	<u>—</u>	<u>(1,100)</u>	<u>—</u>	<u>34,473</u>
TOTAL ASSETS LESS CURRENT LIABILITIES							
	<u>53,845</u>	<u>(294)</u>	<u>16,860</u>	<u>538</u>	<u>(1,100)</u>	<u>—</u>	<u>69,849</u>
NON-CURRENT LIABILITIES							
Lease liabilities	<u>2,710</u>	<u>244</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,954</u>
	<u>2,710</u>	<u>244</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,954</u>
NET ASSETS (LIABILITIES)							
	<u>51,135</u>	<u>(538)</u>	<u>16,860</u>	<u>538</u>	<u>(1,100)</u>	<u>—</u>	<u>66,895</u>
EQUITY							
Share capital	12,000	2	3,372	(2)	—	—	15,372
Reserves	<u>39,135</u>	<u>(540)</u>	<u>13,488</u>	<u>540</u>	<u>(1,100)</u>	<u>—</u>	<u>51,523</u>
Total equity	<u>51,135</u>	<u>(538)</u>	<u>16,860</u>	<u>538</u>	<u>(1,100)</u>	<u>—</u>	<u>66,895</u>

Notes to the Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group

1. For the purpose of preparation of the Unaudited Pro Forma Financial Information, the amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020 as set out in the published interim report of the Company for the six months ended 30 June 2020 dated 14 August 2020.
2. For the purpose of preparation of Unaudited Pro Forma Financial Information, the amounts are extracted from the accountant's report on the Target Group as at 30 September 2020 as set out in Appendix II to this circular.
3. The adjustment represents the acquisition of the entire equity interest in the Target Company. Pursuant to the Diamond Motto Acquisition Agreement, the Group has conditionally agreed to acquire the entire issued share capital of the Target Company for an aggregated consideration amounted to HK\$14,500,000 ("**Consideration**") (as to approximately HK\$6,200,000 for the acquisition of the entire issued share capital of the Target Company (the "**Sale Shares**") and as to approximately HK\$8,300,000 for settlement of the amounts due to the vendor B, vendor C and vendor D of approximately HK\$2,590,000, HK\$2,590,000 and HK\$3,120,000, respectively (collectively, the "**Sale Loans**")), which is to be satisfied by way of allotment and issue of an aggregated of 67,441,860 shares of the Company at an issue price of HK\$0.215 per share (the "**Consideration Share(s)**"). For the purpose of the Unaudited Pro Forma Financial Information, the fair values of the Consideration Shares at the date of completion is assumed to be HK\$0.250 which represent the market share price of the Company per Consideration Share to the Vendors on 30 June 2020. As the fair value of the Consideration Shares at the date of completion may be substantially different from the closing price of the Company's shares at 30 June 2020, the actual fair value of the consideration of the Transaction and in turn, the amount of goodwill may be different from those presented in the Unaudited Pro Forma Financial Information. Accordingly, the amount of reserve of approximately HK\$13,488,000 was the difference between the fair value of the Consideration Shares and the par value of Consideration Shares on 30 June 2020.

The Consideration is subject to the deduction by the shortfall amount in respect to the profit guarantee provided by vendor A in respect of the guaranteed profit of HK\$2,000,000 for the 12-month period commencing after the Completion Date (as defined in this Circular). If the guaranteed profit cannot be met, the Company will be compensated in cash with 7.25 times of the shortfall of future profit, and the maximum amount of compensation will be HK\$14,500,000 (the "**Contingent Consideration Receivables**"). The Contingent Consideration Receivables should be measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Based on the Directors' best estimation, the probability of meeting the profit guarantee by the vendor A is high and therefore it assumes that the fair value of the Contingent Consideration Receivables at 30 June 2020 is HK\$Nil.

Upon the completion of the Proposed Transaction, the Target Company would become a direct owned subsidiary of the Company.

4. The adjustment represents the elimination of investment cost in the Target Company.

Under the Hong Kong Financial Reporting Standard 3 (Revised) — Business Combinations, acquisition method of accounting is applied to account for the Proposed Acquisition.

For the purpose of this Unaudited Pro Forma Financial Information of the Enlarged Group, the Directors had assessed whether there is any material fair value adjustment of the assets and liabilities being acquired based on their acknowledge of the business of the Target Company. Based on the current available information, no fair value adjustment should be made. The fair values of the assets and liabilities being acquired may be subject to change after further assessment by the Directors at the completion of the Proposed Transaction.

Goodwill arising on the Proposed Acquisition

	<i>HK\$'000</i>
Consideration transferred	16,860
Add: Net liabilities acquired	538
Less:	
Amount due to a director	(3,120)
Amounts due to shareholders	<u>(5,180)</u>
Goodwill	<u><u>9,098</u></u>

According to the Group's accounting policy, after initial recognition, goodwill will be measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at least annually or whenever events or changes in circumstances indicate its carrying amount may not be recoverable in accordance with the requirements of Hong Kong Accounting Standards 36 "Impairment of Assets" ("HKAS 36"). For the purpose of impairment testing, goodwill will be allocated to the cash generating units ("CGUs") that are expected to benefit from the synergies of the acquisition of the Target Group.

For the purpose of the unaudited pro forma financial information, the Company has ensured the steps taken on the assessment of impairment performed in accordance with HKAS 36, which is consistent with the accounting policy of the Company.

As of the date of this circular, the Directors have not finalised the allocation of goodwill to be recognised from the Proposed Transaction and have not noted any goodwill impairment indicator. Accordingly, the Directors have not performed any impairment

assessment of the goodwill. The Directors confirm that the Company will adopt the consistent accounting policies as principle assumptions to assess the goodwill in the future.

5. The adjustment represents estimated legal and professional fees and other expenses of approximately HK\$1,100,000 directly attributable to the acquisition.
6. The adjustment represents a reallocation of accounts.
7. Saved as aforesaid, no other adjustments have been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 June 2020.
8. All pro forma adjustments are not expected to have a continuing effect on the Group or the Target Group.

Set out below is the management discussion and analysis of the Target Group for each of the financial years ended 31 March 2018, 2019 and 2020 and the six months ended 30 September 2019 and 2020 (the “**Relevant Periods**”).

1. BUSINESS REVIEW

The Target Group is principally engaged in the business of the provision of (i) combined services of interior design and fit out; (ii) interior design services; and (iii) sales of furnishings in Hong Kong.

Interior Design and Fit out Projects

The interior design and fit out projects mainly included commercial premises, residential properties, governmental bodies and public institutions such as offices, shops, restaurants, service apartments, schools, residential houses and apartments (the “**Interior Design and Fit Out Projects**”). For these projects, the Target Group often starts from the very beginning by developing a comprehension of the customer’s concept and requirements, formation of design blueprints, conducting site visit, preparing drawings, plans and reference pictures for discussion, then preparing and confirming quotation, engaging subcontractors, monitoring and supervising the work progress until completion and handover of the fitted premises to the customers.

Interior Design Projects

The interior design services mainly included without fit out work for the customers for different kinds of premises (the “**Interior Design Projects**”). For Interior Design Projects, the task is limited to preparing complete design drawings and proposals for the customers. The customers may then engage their contractor and other professionals to implement the fit out work on the basis of the approved design plan prepared by the Target Group.

2. FINANCIAL PERFORMANCE

The following table sets forth the consolidated results of the Target Group for each of the financial years ended 31 March 2018 (“**FY2018**”), 31 March 2019 (“**FY2019**”) and 31 March 2020 (“**FY2020**”) and the six months ended 30 September 2019 (“**PE2019**”) and 30 September 2020 (“**PE2020**”) which are extracted from, and should be read together with, the financial information prepared in accordance with the basis of preparation and presentation as set out in the Financial Information of the Target Group in Appendix II to this circular.

	FY2020	FY2019	FY2018	PE2020	PE2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	28,997	38,489	59,951	2,886	17,234
Direct costs	<u>(25,268)</u>	<u>(32,567)</u>	<u>(28,312)</u>	<u>2,337</u>	<u>14,861</u>
Gross profit	3,729	5,922	31,639	549	2,373
Other income, gains and losses, net	(76)	478	1	748	64
Impairment losses of financial assets reversed (recognized), net	(945)	(421)	142	63	67
General and administrative expenses	<u>(7,082)</u>	<u>(11,751)</u>	<u>(4,117)</u>	<u>(3,013)</u>	<u>(3,482)</u>
Operating (loss) profit	(4,374)	(5,772)	27,665	(1,779)	(978)
Finance costs	<u>(441)</u>	<u>(80)</u>	<u>(51)</u>	<u>(240)</u>	<u>(205)</u>
(Loss) profit before tax	(4,815)	(5,852)	27,614	(2,019)	(1,183)
Income tax expense	<u>—</u>	<u>(1)</u>	<u>(4,489)</u>	<u>—</u>	<u>—</u>
(Loss) profit and other comprehensive (expense) income for the year	<u>(4,815)</u>	<u>(5,853)</u>	<u>23,125</u>	<u>(2,019)</u>	<u>(1,183)</u>

2.1 Revenue and segment information

For FY2018, FY2019 and FY2020, the Target Group recorded revenue of approximately HK\$60.0 million, HK\$38.5 million and HK\$29.0 million respectively, representing a decrease of approximately HK\$21.5 million in FY2019 compared to FY2018 and approximately HK\$9.4 million in FY2020 compared to FY2019 mainly due to the decrease in combined services of interior design and fit out and interior design services. For PE2019 and PE2020, the Target Group recorded revenue of approximately HK\$17.2 million and HK\$2.9 million respectively, representing a decrease of approximately HK\$14.3 million in PE2020 compared to PE2019. This is mainly due to the decrease in combined services of interior design and fit out.

The following table sets out the breakdown of the revenue of the Target Group generated from three segments by business nature for FY2018, FY2019, FY2020, PE2019 and PE2020.

	FY2020		FY2019		FY2018		PE2020		PE2019	
	HK\$'000	% of total revenue	HK\$'000	% of total revenue	HK\$'000	% of total revenue	HK\$'000	% of total revenue	HK\$'000	% of total revenue
Combined services of interior design and fit out	27,772	95.8%	34,083	88.5%	42,912	71.6%	2,826	97.9%	16,924	98.2%
Interior Design services	1,178	4.0%	4,385	11.4%	16,669	27.8%	60	2.1%	298	1.7%
Sales of furnishings	47	0.2%	21	0.1%	370	0.6%	—	—	12	0.1%
	<u>28,997</u>		<u>38,489</u>		<u>59,951</u>		<u>2,886</u>		<u>17,234</u>	

The revenue of combined services of interior design and fit out and interior design services was approximately HK\$42.9 million, HK\$34.1 million and HK\$27.8 million for FY2018, FY2019 and FY2020 respectively, representing a decrease of approximately HK\$8.8 million in FY2019 compared to FY2018 and a decrease of approximately HK\$6.3 million in FY2020 compared to FY2019. This is mainly due to the decrease in demand for the combined services of interior design and fit out. For PE2019 and PE2020, the combined services of interior design and fit out decreased from HK\$16.9 million in PE2019 to HK\$2.8 million in PE2020, mainly due to the outbreak of novel coronavirus (“COVID-19”) pandemic, which has significantly affected the demand for the services.

The revenue of interior design services was approximately HK\$16.7 million, HK\$4.4 million and HK\$1.2 million for FY2018, FY2019 and FY2020 respectively, representing a decrease of approximately HK\$12.3 million in FY2019 compared to FY2018 and a decrease of approximately HK\$3.2 million in FY2020 compared to FY2019. This is mainly due to a decrease in demand and service orders for design projects. For PE2019 and PE2020, interior design services decreased from HK\$0.3 million in PE2019 to HK\$0.06 million in PE2020, mainly due to the outbreak of COVID-19, as such the demand for design projects dropped significantly.

The interior design and fit out industry relies heavily on the performance of the real estate industry. The COVID-19 pandemic has a drastic effect on the Hong Kong economy, leading to a slowdown in the Hong Kong real estate market. The Interior Design and Fit Out Projects for residential and commercial market also dropped substantially during the first half of 2020. Because of the outbreak of COVID-19 pandemic, many fitting out works were forced to be suspended or delayed as certain customers prohibited or limited access to the relevant employees and/or subcontractors of the Target Group from carrying out onsite work, thereby impeding the progress of certain projects. The preventive measures of the COVID-19 pandemic also caused delay in meetings with customers and site visits, thereby adversely affecting the contract awarding processes. Due to the above factors, the number of projects contracts entered into by the Target Group dropped from 25 in the first half of 2019 to 13 in the first half of 2020 and the recognised revenue also decreased significantly to HK\$2.9 million for PE2020 compared to HK\$17.2 million for PE2019.

The segment of sales of furnishings is declining during FY2018, FY2019, FY2020, PE2019 and PE2020. The main reason is due to keen competition for the sales of furnishings which do not include any value-added services. Therefore, the Target Company decreased its internal resources for development in this segment.

As at the Latest Practicable Date, there are seven ongoing contracts with an aggregate contract amount of approximately HK\$13.7 million. The management of the Target Group expected that most of such ongoing contracts would be completed in the second half of the financial year ended 31 March 2021 (“FY2021”). Also, potential contracts with an aggregate contract amount of approximately HK\$3.6 million are likely to be entered into in FY2021. It is expected that the revenue to be recognised by the Target Group in the second half of FY2021 would not be less than HK\$12.0 million, and the revenue would not be less than HK\$14.9 million for the whole FY2021.

2.2 Direct costs

Direct costs represented the director cost related to the project which mainly included materials and direct staff cost etc. Direct cost increased by approximately 15.2% from approximately HK\$28.3 million in FY2018 to approximately HK\$32.6 million in FY2019; direct costs decreased from approximately HK\$32.6 million in FY2019 to approximately HK\$25.3 million in FY2020, with a decrease of approximately 22.4%. For PE2019 and PE2020, the direct cost decreased by approximately 84.6% from approximately HK\$14.9 million in PE2019 to approximately HK\$2.3 million in PE2020, which is in line with the decrease of revenue on the same period.

2.3 Gross profit and gross profit margin

The gross profit was approximately HK\$31.6 million, HK\$5.9 million and HK\$3.7 million and the gross profit margin was around 52.8%, 15.4% and 12.9% for FY2018, FY2019 and FY2020, respectively. The gross profit margin decreased from approximately 52.8% in FY2018 to approximately 15.4% in FY2019 and slightly decreased from approximately 15.4% in FY2019 to approximately 12.9% in FY2020, which was mainly due to the significant drop of the interior design services which has high profit margin and the change in customer base of the Target Group as more projects are related to the corporate clients which have lower margin than the residential clients. For PE2019 and PE2020, the gross profit was approximately HK\$2.4 million and HK\$0.5 million respectively. The gross profit margin increased from approximately 13.8% in PE2019 to approximately 19.0% in PE2020.

2.4 Other income, gains and losses

Other income and gains mainly included interest income, gain or loss on the revaluation of the investment properties, rental income and miscellaneous income.

2.5 General and administrative expenses

General and administrative expenses primarily consisted of (i) staff costs, (ii) rental expense, (iii) traveling and office expense and (iv) professional fees. General and administrative expenses was approximately HK\$4.1 million, HK\$11.8 million and HK\$7.1 million for FY2018, FY2019 and FY2020, respectively, representing an increase of approximately HK\$7.7 million in FY2019 compared to FY2018 and decrease of approximately HK\$4.7 million in FY2020 compared to FY2019 mainly due to the one-off professional fee for the listing expenses generated in FY2019 and the increase of the staff cost in FY2020. For PE2019 and PE2020, the general and administrative expense was approximately HK\$3.5 million and HK\$3.0 million respectively, representing a decrease of approximately HK\$0.5 million in PE2019 compared to PE2020, mainly due to the decrease of rental expenses and staff cost in PE2020.

2.6 Finance cost

Finance costs mainly represent interest expenses incurred in connection with the bank loans. The Target Group recorded finance costs of approximately HK\$51,000, HK\$80,000 and HK\$441,000 for FY2018, FY2019 and FY2020 respectively. The increase of finance costs was mainly attributable to an increase in total borrowings during the year compared to the same period in the previous years. For PE2019 and PE2020, the finance cost was approximately HK\$205,000 and HK\$240,000 respectively. The slight increase in finance cost of HK\$35,000 was mainly due to the increase in bank overdraft during PE2020 compared to PE2019.

2.7 Income tax expense

The Target Group recorded income tax expenses of approximately HK\$4.5 million of FY2018, HK\$1,000 of FY2019 and no income tax expenses of FY2020. No income tax expenses for FY2020 is mainly due to the Target Group recorded the loss before tax on FY2020. Moreover, no income tax was recorded for PE2019 and PE2020 due to the loss before tax recorded in the Target Group.

2.8 (Loss)/profit for the year

Due to the above reasons, profit for the year was approximately HK\$23.0 million for 2018 and loss for the year was approximately HK\$5.9 million and HK\$4.8 million for FY2019 and FY2020, respectively. Moreover, the loss was approximately HK\$1.2 million and HK\$2.0 million for PE2019 and PE2020 respectively.

3. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Target Group's operations were primarily financed through its operating and financing activities. The Target Group believes that in the long term, the Target Group's operations will continue to be funded by a combination of cash generated from the Group's operating activities and financing activities.

As at 31 March 2018, 31 March 2019, 31 March 2020 and 30 September 2020, the Target Group's bank balances and cash amounted to approximately HK\$6.0 million, HK\$0.06 million, HK\$2.0 million and HK\$0.07 million respectively. The bank balances and cash are mainly denominated in Hong Kong Dollar and denominated in other currencies are not significant. Bank balances and cash decreased as at 31 March 2019, mainly due to the dividend paid to the shareholders during that financial year.

As at 31 March 2018, 31 March 2019, 31 March 2020 and 30 September 2020, the Target Group's bank borrowings and overdraft were approximately HK\$1.4 million, HK\$7.6 million, HK\$8.7 million and HK\$8.2 million respectively. The bank borrowings were denominated in Hong Kong Dollar, which is the functional currency of the Target Group. As such, the Target Group does not have any material exposure to currency risk. The bank borrowings carried a variable interest rate with reference to prime rate of Hong Kong.

As at 31 March 2019, 31 March 2020 and 30 September 2020, the Target Group's due to a director were approximately HK\$3.1 million and due to shareholders were HK\$5.2 million. Upon Completion of the Acquisition, the amount due to a director and amount due to shareholders would be fully settled by the issue of Consideration Shares of the Company.

As at 31 March 2018, 31 March 2019, 31 March 2020 and 30 September 2020, the Target Group had net current assets/(liabilities) of approximately HK\$21.3 million, HK\$(2.4) million, HK\$(7.1) million and HK\$(10.0) million respectively, which mainly included trade and other receivables, contract assets, cash and cash equivalents, trade and other payables, bank overdrafts and borrowing and amount due to a director and shareholders. The Target Group's current ratio decreased from approximately 2.69 as at 31 March 2018 to 0.90 as at 31 March 2019, 0.65 as at 31 March 2020 and 0.53 as at 30 September 2020. Such decrease was mainly due to the increase in the Target Group's financing need under unfavourable market conditions.

4. GEARING RATIO

Gearing ratio is computed as total borrowings divided by total equity. The overall gearing ratio of the Target Group was 6.1%, 252.1%, 1,150.7% as at 31 March 2018, 31 March 2019, 31 March 2020 and 30 September 2020 respectively. The gearing ratio of the Target Group has been increasing during the Relevant Periods, mainly due to the increase of the bank overdraft and loans, director's loan and shareholders' loan to support the listing expense of the Target Group as well as the dividend paid to shareholder which reduce the amount of total equity.

5. SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS AND DISPOSALS

During the Relevant Periods, the Target Group acquired the building and investment properties on FY2018 as disclosed in Note 13 and Note 14 to the Accountant's Report of the Target Group in Appendix II to this circular. Save as disclosed above, the Target Group did not conduct any material acquisition or disposal of subsidiaries, associates and joint ventures.

6. CHARGE ON THE TARGET GROUP'S ASSETS

The charged assets of the Target Group as at 31 March 2018, 31 March 2019, 31 March 2020 and 30 September 2020 were the building and investment properties which has been disclosed in Note 13 and Note 14 to the Accountant's Report of the Target Group in Appendix II to this circular.

7. CONTINGENT LIABILITY

As at the end of all Relevant Periods, the Target Group did not have any material contingent liabilities, guarantees, litigations or claims pending or threatened against the Target Group.

8. CAPITAL COMMITMENT

As at the end of all Relevant Periods, the Target Group did not have any capital commitment.

9. EXPOSURE ON FOREIGN CURRENCY FLUCTUATION

As the operations of Target Group were principally in the Hong Kong and most of the transactions, assets and liabilities of Target Group were denominated in Hong Kong Dollar, the operations of Target Group were not subject to significant exchange risk. Accordingly, no financial instruments for hedging purposes were used by Target Group for the Relevant Period.

10. TREASURY POLICIES

The Target Group adopts a conservative approach towards its treasury policies. The Target Group strives to reduce exposure to credit risk by performing ongoing credit evaluation of the financial conditions of its clients and credit review of the Target Group's loan portfolio. To manage liquidity risk, the management of Target Group closely monitors the Target Group's liquidity position to ensure that the liquidity structure of the Target Group's assets, liabilities and commitments can meet its funding requirements.

11. EMPLOYEE

As at 31 March 2018, 31 March 2019 and 31 March 2020, the Target Group had less than 20 employees respectively. Remuneration for employees for the FY2018, FY2019 and FY2020 amounts to approximately HK\$4.0 million, HK\$5.7 million and HK\$5.9 million respectively. The remuneration of the employees of the Target Group is determined in accordance with performance, professional experiences and the prevailing market conditions. Management reviews the employee remuneration policy and arrangement of the Target Group on a regular basis. Apart from pension and mandatory provident funds, the Target Group may grant discretionary bonus to employees as awards in accordance with individual performance.

12. FUTURE PLANS

As at the Latest Practicable Date, the Target Group has no plan for material investments or capital assets. It is intended that the Target Group will continue to develop combined services of interior design and fit out project, and seek for opportunities to expand the interior design services.

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

As at the Latest Practicable Date

<i>Authorised:</i>		<i>HK\$</i>
1,000,000,000	Shares at nominal value of HK\$0.05 each	50,000,000
 <i>Issued and fully-paid or credited as fully paid:</i>		
240,000,000	Shares at nominal value of HK\$0.05 each	12,000,000

All the Shares in issue rank pari passu with each other in all respects including as regards to dividends and voting rights.

3. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests and short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) held by the Directors and chief executive of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to Section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules are as follows:

Long positions in the Shares and the underlying shares

Name of Director	Capacity/Nature of interest	Number of Shares held	Approximate percentage of shareholding in the Company <i>(Note 1)</i>
Mr. Wong Kwok Wai, Albert (“ Mr. Wong ”)	Interest of a controlled corporation	120,000,000 (L) <i>(Notes 2 and 3)</i>	50.00%
Mr. Leung King Yue, Alex	Beneficial interest	10,000,000 (L) <i>(Note 3)</i>	4.17%

Notes:

1. The percentage of shareholding was calculated based on the Company’s total number of issued Shares as at the Latest Practicable Date (i.e. 240,000,000 Shares).
2. Three Gates Investment Limited (“**Three Gates Investment**”), a company incorporated in the British Virgin Islands on 15 August 2016, is wholly and beneficially owned by Mr. Wong, who is an executive Director and chairman of the Company. Therefore, Mr. Wong is deemed to be interested in 120,000,000 Shares held by Three Gates Investment by virtue of his 100% shareholding interest in Three Gates Investment.
3. The letter “L” denotes the person’s long position in the Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations that was notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or was required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

(b) Interests of substantial Shareholders

So far as known to the Directors, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had or were deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under Section 336 of the SFO who, are directly or indirectly interested in 5% or more of the Shares.

Long positions in the Shares and the underlying shares

Name of Shareholder	Capacity/Nature of interest	Number of Shares held	Approximate percentage of shareholding in the Company <i>(Note 1)</i>
Three Gates Investment	Beneficial owner	120,000,000 (L) <i>(Notes 2, 3 and 5)</i>	50.00%
Gold-Face Finance Limited (“ Gold-Face ”)	Person having a security interest in the Shares	80,000,000 (L) <i>(Notes 3, 4 and 5)</i>	33.33%
Upbest Credit and Mortgage Limited (“ Upbest Credit and Mortgage ”)	Person having a security interest in the Shares	80,000,000 (L) <i>(Notes 3, 4 and 5)</i>	33.33%
Good Foundation Company Limited (“ Good Foundation ”)	Person having a security interest in the Shares	80,000,000 (L) <i>(Notes 3, 4 and 5)</i>	33.33%
Upbest Strategic Company Limited (“ Upbest Strategic ”)	Person having a security interest in the Shares	80,000,000 (L) <i>(Notes 3, 4 and 5)</i>	33.33%
Upbest Financial Holdings Limited (“ Upbest Financial ”)	Person having a security interest in the Shares	80,000,000 (L) <i>(Notes 3, 4 and 5)</i>	33.33%
Upbest Group Limited (“ Upbest Group ”)	Person having a security interest in the Shares	80,000,000 (L) <i>(Notes 3, 4 and 5)</i>	33.33%

Notes:

1. The percentage of shareholding was calculated based on the Company’s total number of issued Shares as at the Latest Practicable Date (i.e. 240,000,000 Shares).
2. Three Gates Investment, a company incorporated in the British Virgin Islands on 15 August 2016, is wholly and beneficially owned by Mr. Wong who is an executive Director and chairman of the Company. Therefore, Mr. Wong is deemed to be interested in 120,000,000 Shares held by Three Gates Investment by virtue of his 100% shareholding interest in Three Gates Investment.

3. 80,000,000 Shares held by Three Gates Investment have been charged in favour of Gold-Face as security for a loan granted in favour of Mr. Wong, the chairman, chief executive officer, executive director and controlling shareholder of the Company.
4. As Gold-Face is wholly-owned by Upbest Credit and Mortgage, which in turn is wholly-owned by Upbest Strategic and Good Foundation in equal parts, which in turn are both wholly-owned by Upbest Financial, which in turn is wholly-owned by Upbest Group. Upbest Credit and Mortgage, Upbest Strategic, Good Foundation, Upbest Financial and Upbest Group are all deemed to be interested in the security interest in the 80,000,000 Shares charged in favour of Gold-Face by virtue of the SFO.
5. The letter “L” denotes the person’s long position in the Shares.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other persons who had any interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under Section 336 of the SFO, who are directly or indirectly interested in 5% or more of the Shares.

4. DIRECTORS’ SERVICE CONTRACTS

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

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or substantial Shareholder or any of their respective close associates has any interest in business which competes with or may compete with the business of the Group or has any other conflict of interests which any person has or may have with the Group.

6. LITIGATION

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

7. INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been 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 since 31 December 2019, the date to which the latest published audited accounts of the Group were made up.

There was no contract or arrangement entered into by any member of the Group, subsisting as at the Latest Practicable Date, in which any of the Directors was materially interested and which was significant in relation to the business of the Group as a whole.

8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date which are or may be material:

- (a) the loan agreement dated 31 March 2020 entered into between Mr. Wong and 廣州新華線業有限公司 (for identification only, Guangzhou Xinhua Thread Company Limited) (“**Guangzhou Xinhua**”) in relation to the intra-group current account advances previously made by Guangzhou Xinhua to Mr. Wong;
- (b) the shareholder’s loan agreement dated 31 March 2020 entered into between Mr. Wong and Tseyu International Trading Company Limited (“**Tseyu International**”) in relation to the shareholder’s loans previously advanced by Mr. Wong to Tseyu International;
- (c) the underwriting agreement dated 9 April 2020 (the “**Underwriting Agreement**”) entered into between the Company and Upbest Securities Company Limited (the “**Underwriter**”) in relation to the issue by way of rights on the basis of one (1) rights share for every two (2) then existing Shares held by the qualifying Shareholders on the record date at HK\$0.043 per rights share (the “**Rights Issue**”) (including the extension letter dated 27 April 2020 entered into by the Company and the Underwriter to mutually extend the relevant dates under the Underwriting Agreement);
- (d) the supplemental underwriting agreement dated 7 May 2020 entered into between the Company and the Underwriter in relation to the modification and variation of certain terms of and reflecting the changes of the relevant dates for the Rights Issue as referred to in the Underwriting Agreement; and
- (e) the Sale and Purchase Agreement.

9. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of an expert who has given opinions, letter or advice which are contained in this circular (the “**Expert**”):

Name	Qualification
Asian Alliance (HK) CPA Limited	Certified public accountants

As at the Latest Practicable Date, the above Expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letters/reports or its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, the Expert had no shareholding in any member of the 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 Group.

As at the Latest Practicable Date, the Expert had no interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019, being the date to which the latest published audited accounts of the Company were made up.

10. MISCELLANEOUS

- (a) The registered office of the Company is located at Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.
- (b) The head office and principal place of business of the Company in Hong Kong is Unit 1302, 13/F., New East Ocean Centre, 9 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong. The principal place of business of the Company in the PRC is No. 386 Zeng Nan Road, Zeng Jiao Cun, Fang Cun, Liwan District, Guangzhou, the PRC.
- (c) The Company's branch share registrar and transfer office in Hong Kong is Tricor Investor Services Limited located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The company secretary and compliance officer of the Company is Mr. Chan Yiu Tung, Enoch, who is also an executive Director, a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.
- (e) In the event of any inconsistency, the English texts of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

11. AUDIT COMMITTEE

As at the Latest Practicable Date, the audit committee of the Board comprises three members, namely Mr. Sung Alfred Lee Ming, Mr. Chan Tsun Choi, Arnold and Mr. Chow Chin Hang, Joel, being all the independent non-executive Directors. The primary duties of the audit committee are to review financial information, monitor the Company's financial reporting system and internal control procedures and maintain the relationship with the Company's auditors.

Mr. Sung Alfred Lee Ming, aged 62, has over 30 years of experience in accounting and assurances. Mr. Sung graduated from La Trobe University in Australia in March 1984 with a bachelor's degree in economics. Mr. Sung was admitted as a fellow of the Taxation Institute of Australia and a member and fellow of the Hong Kong Institute of Certified Public Accountants in November 1987, December 1987 and February 1995, respectively. He was also admitted as an associate of CPA Australia and Chartered Accountants Australia and New Zealand in March 1986 and April 1989, respectively. Mr. Sung has been the sole proprietor of Alfred Sung & Co. since 1999 and he is primarily responsible for overseeing audit and taxation works. Currently, Mr. Sung serves as an executive director of Modern Living Investments Holdings Limited (stock code: 8426), a company listed on GEM. From April 2012 to October 2014, Mr. Sung served as an independent non-executive director of China Silver Technology Holdings Limited (formerly known as TC Orient Lighting Holdings Limited) (stock code: 515), a company listed on the Main Board of the Stock Exchange. Save as disclosed above, Mr. Sung did not hold other directorship in any other listed or public companies, of which the securities are listed on any securities market in Hong Kong or overseas in the three preceding years.

Mr. Chan Tsun Choi, Arnold, aged 60, obtained his bachelor's degree in business administration from the Chinese University of Hong Kong in 1986, a postgraduate diploma in banking and finance from the City University of Hong Kong (formerly known as City Polytechnic of Hong Kong) in 1990 and a master's degree in finance from City University of Hong Kong in 1995. He is a fellow member of Hong Kong Institute of Certified Public Accountants, Hong Kong Securities and Investment Institute, UK Chartered Management Institute, Certified Practising Accountants, Australia, a member of International Institute of Management and a Chartered Financial Analyst charterholder. He is currently an independent non-executive director of JBB Builders International Limited, whose shares are listed on the main board of the Stock Exchange (stock code: 1903). Mr. Chan has extensive experience in project finance and fund-raising activities for construction projects in Hong Kong and Asia Pacific. From January 1998 to December 2019, Mr. Chan worked at Dragages Hong Kong Limited, a subsidiary of Bouygues Construction, with his last position as special advisor to chairman. He was the structured finance director and project finance director of Dragages Hong Kong Limited from March 2005 to March 2019. He was responsible for fund raising activities and financing for construction projects in Hong Kong and Asia Pacific. Save as disclosed above, Mr. Chan did not hold other directorship in any other listed or public companies, of which the securities are listed on any securities market in Hong Kong or overseas in the three preceding years.

Mr. Chow Chin Hang, Joel, aged 38, obtained his bachelor of science degree in mathematics, economics and finance from The University of Hong Kong in 2004. Mr. Chow is a Chartered Financial Analyst. Mr. Chow has over 15 years of experience in managing investment funds. Prior to joining the Company, Mr. Chow served at Dah Sing Bank from October 2004 to July 2005 as a risk control assistant and he served at JK Capital Management Limited from July 2005 to December 2017 with his last position as an assistant portfolio manager. From May 2018 to May 2019, Mr. Chow served as an assistant portfolio manager at Step Capital Management (HK) Limited. From May 2019 to August 2020, Mr. Chow served as a portfolio manager at Reliance International Financial Planners Limited. Since September 2020, Mr. Chow has served as a portfolio manager at Perpetuum Wealth Management Limited and since October 2020, he has served as a responsible officer to carry out Type 4 (advising on

securities) and Type 9 (asset management) regulated activities under the SFO. Mr. Chow did not hold other directorship in any other listed or public companies, of which the securities are listed on any securities market in Hong Kong or overseas in the three preceding years.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Unit 1302, 13/F., New East Ocean Centre, 9 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong during normal business hours on any business day from the date of this circular up to and including the date of EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for each of the three financial years ended 31 December 2017, 2018 and 2019;
- (c) the first quarterly report of the Company for the three months ended 31 March 2020;
- (d) the interim report of the Company for the six months ended 30 June 2020;
- (e) the third quarterly report of the Company for the nine months ended 30 September 2020;
- (f) the accountants' report of the Target Group prepared by Asian Alliance (HK) CPA Limited, the text of which is set out in Appendix II to this circular;
- (g) the accountants' report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;
- (h) the material contracts referred to in the paragraph headed "8. Material Contracts" of this appendix;
- (i) the written consent referred to in paragraph headed "9. Qualification and consent of Expert" of this appendix; and
- (j) this circular.

NOTICE OF THE EGM

SHEN YOU HOLDINGS LIMITED

申酉控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8377)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of Shen You Holdings Limited (the “**Company**”) will be held at 7/F., Nexxus Building, 41 Connaught Road Central, Central, Hong Kong on Tuesday, 2 February 2021 at 2:30 p.m. for the purpose of considering and, if thought fit, passing the following resolution(s) with or without amendments as ordinary resolution(s) of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the conditional sale and purchase agreement dated 18 August 2020 (as amended and supplemented by an extension letter dated 17 November 2020) (the “**Sale and Purchase Agreement**”) entered into amongst the Company (as purchaser) and Mr. Leung Tat Chi, Loyal Grace Investments Limited, Key Summit Enterprises Limited and Glory Radiance International Limited (as vendors) (the “**Vendors**”) in relation to the proposed acquisition by the Company from the Vendors of the entire issued share capital of and the shareholder’s loans due by Diamond Motto Limited for a consideration of HK\$14,500,000 (a copy of which has been marked “A” and has been produced to the Meeting and signed by the chairman of the Meeting for identification purpose) and all transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) subject to the fulfillment (or waiver, as the case may be) of the conditions precedent set out in the Sale and Purchase Agreement, the directors (each a “**Director**”) of the Company be and are hereby granted a specific mandate to allot and issue 67,441,860 new shares of HK\$0.05 each in the capital of the Company (the “**Consideration Share(s)**”) to the Vendors (or his/its nominee(s)), credited as fully paid, at the issue price of HK\$0.215 per Consideration Share pursuant to the terms and conditions of the Sale and Purchase Agreement; and

NOTICE OF THE EGM

- (c) any one or more of the Directors be and is/are hereby authorised to do all such acts and things, to sign and execute all such documents (and to affix the common seal of the Company thereon, if necessary) for the purpose of, or in connection with, the implementation of and giving effect to the Sale and Purchase Agreement, including but not limited to the allotment and issue of the Consideration Shares, and the transactions contemplated thereunder, and to make and agree to make such variations of the terms of the Sale and Purchase Agreement which he/she/they consider necessary, desirable or expedient.”

By order of the Board
Shen You Holdings Limited
Wong Kwok Wai, Albert
Chairman, Chief Executive Officer and Executive Director

Hong Kong, 13 January 2021

Registered office:
Windward 3, Regatta Office Park
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

*Head office and principal place of business
in Hong Kong:*
Unit 1302, 13/F.
New East Ocean Centre
9 Science Museum Road
Tsim Sha Tsui East
Kowloon, Hong Kong

Notes:

1. All resolutions at the Meeting will be taken by poll (except where the chairman decides to allow a resolution relating to a procedural or administrative matter to be voted on by a show of hands) pursuant to Rule 17.47(4) of the GEM Listing Rules. The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the GEM Listing Rules.
2. Any shareholder of the Company entitled to attend and vote at the Meeting convened by this notice is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a shareholder of the Company. A shareholder who is the holder of two or more shares of the Company may appoint more than one proxy to represent him to attend and vote on his behalf. If more than one proxy is so appointed, the number of shares in respect of which each such proxy is so appointed must be specified in the relevant form of proxy.
3. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the Meeting (i.e. Sunday, 31 January 2021 at 2:30 p.m. (Hong Kong time)) or adjournment thereof. Delivery of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the Meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. For determining the entitlement to attend and vote at the above Meeting, the register of members of the Company will be closed from Thursday, 28 January 2021 to Tuesday, 2 February 2021, both dates inclusive, during which period no transfer of shares will be effected and registered. In order to be eligible to attend and vote at the Meeting, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 27 January 2021.

NOTICE OF THE EGM

As at the date of this notice, the Board comprises three executive Directors, namely, Mr. Wong Kwok Wai, Albert, Mr. Chan Yiu Tung, Enoch and Mr. Leung King Yue, Alex; and three independent non-executive Directors, namely, Mr. Sung Alfred Lee Ming, Mr. Chan Tsun Choi, Arnold and Mr. Chow Chin Hang, Joel.

This notice will remain on the website of GEM at www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the date of its posting and on the website of the Company at www.shenyouholdings.com.