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德祥地產集團有限公司\*

**ITC PROPERTIES GROUP LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 199)

**FURTHER INFORMATION ON  
THE DISCLOSEABLE TRANSACTIONS  
IN RELATION TO  
THE ACQUISITION OF 19% INTERESTS IN  
PREMIER MAKER LIMITED AND  
TRANSFER OF TARGET LOAN NOTES**

Reference is made to the announcement of the Company dated 29 November 2019 in relation to the acquisition of 19% interests in Premier Maker and the Target Loan Notes Transfer (the “**Announcement**”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

The Company wishes to provide further information on the Acquisition and the Target Loan Notes Transfer.

**THE ACQUISITION AGREEMENT**

As disclosed in the Announcement, the Consideration was determined with reference to (i) the unaudited consolidated net liabilities of the Premier Maker Group (after equity accounting for the results, assets and liabilities of the PRC Company) of approximately HK\$126.9 million as at 12 November 2019 (the “**Premier Maker Net Liabilities**”); (ii) the loan of approximately HK\$214.2 million due to its shareholders; and (iii) its share of revaluation surplus of approximately HK\$697.0 million which was based on the valuation of the Property as at 31 October 2019 performed by 北京世城嘉業房地產土地評估有限責任公司 (Beijing Shi Cheng Jia Ye Real Estate & Land Appraisal Co., Ltd.), an independent valuer in the PRC (the “**Valuer**”).

The valuation of the Property was conducted by using the cost approach and counter-checked by the income approach and arrived at by taking the average of the results of these two approaches. The key assumptions adopted in the valuation include:

- the usage of the Property as a hotel under the land use rights certificate;
- the title of the Property is freely transferrable, and free from any encumbrances; and

\* For identification purposes only

- during the effective period of the valuation report, the property market will be stable and there will be no material changes to the related governmental policies of property market.

The use of the cost approach requires an estimate of the replacement cost of the Property from which deductions are then made for applicable depreciation. Replacement cost of the Property includes the cost of acquiring land use rights of similar size and usage (determined from market-based evidences by analysing similar sales or offerings of comparable land parcels), construction costs of building with similar specifications and other related fees, expenses and taxes. The use of the income approach requires computing the expected economic benefit of the Property based on information including average occupancy rate, average room rate, return period and capitalisation rate and converted to present value.

The Company has discussed with the Valuer the methodologies and assumptions adopted in the valuation of the Property (in particular for those adopted in the cost approach as the Company considered that it is more relevant in acquisition of a property interest), and considers that they are commonly used for the valuation of hotel properties in the PRC held for long term investment purpose and thus are fair and reasonable in light of the Group's strategy in the investment in the Property.

The Premier Maker Net Liabilities were based on the management account of the Premier Maker Group as at 12 November 2019, in which the Property was only equity accounted for 50% share of its net book value at approximately RMB172.0 million and no adjustment was made on the revaluation for the latest value of the Property. Therefore, in determining the Consideration, the Premier Maker Net Liabilities have been adjusted by the share of revaluation surplus of the Property attributable to Premier Maker.

Furthermore, the Premier Maker Net Liabilities were arrived at after deducting all shareholders' loans owing by Premier Maker. Such shareholders' loans are interest free and unsecured and have no fixed repayment date. In view of the financial position of the Premier Maker Group, the Directors believe that Premier Maker would be able to repay its shareholders' loans (including the Sale Loan acquired by Beam Castle under the Acquisition) in due course and hence are of the view that the aggregate amount of the shareholders' loans should be added back in calculating the unaudited consolidated net assets (liabilities) of the Premier Maker Group for the purpose of determining the Consideration.

Taking into account the above adjustments, the Premier Maker Group would have unaudited consolidated net assets of approximately HK\$784.3 million as at the date of Acquisition. The calculation of such amount is set out below:

	<i>HK\$'million</i>
Premier Maker Net Liabilities	(126.9)
Add back: shareholders' loans due by Premier Maker	214.2
Adjusted by adding: revaluation surplus of the Property	<u>697.0</u>
Adjusted consolidated net assets of the Premier Maker Group (the "Adjusted Net Assets")	<u><u>784.3</u></u>

The Consideration is approximately 1.7% below the Adjusted Net Assets attributable to the Sale Shares. Taking into account the above, the Directors consider that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole. As the Option Consideration was determined on the same basis, the Directors also consider that the Option Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Group intends to account for the Premier Maker Group as a long term investment, which is to be stated at cost less any impairment and the dividends derived are to be recognised in the statement of profit or loss of the Group. As the accounts of the PRC Company indicate that the PRC Company has been generating positive cash flow from its hotel operation in recent years, the Group expected that the PRC Company will be able to make distribution in accordance with the sino-foreign joint venture agreement between its equity owners in the near future. Accordingly, the Group expects such distribution to flow up as a stable income stream to the Group either by way of dividends or repayment of shareholder's loan.

### **THE TARGET LOAN NOTES TRANSFER**

As disclosed in the Announcement, the outstanding principal of the Loan Notes and unpaid interest thereon were HK\$500.0 million and HK\$35.5 million respectively, for which ECL of approximately HK\$316.8 million has been provided in the unaudited consolidated financial statements of the Group for the six months ended 30 September 2019. Since 30 September 2019 and up to the date of the Announcement, a further provision of HK\$4.5 million has been made on the Loan Notes and the interest accrued thereon, such that the carrying value of the Loan Notes and the accrued interests amounted to HK\$214.2 million. The pro rata carrying value of the Target Loan Notes therefore amounted to HK\$77.1 million as at the date of the Announcement.

The Imputed Value of the Target Loan Notes of HK\$96.4 million (i) represents approximately 50% of the aggregate sum of the principal amount of the Target Loan Notes of HK\$180 million and the outstanding accrued interest of HK\$12.8 million, which is the same as ECL of about 50% as indicated by the preliminary assessment performed by Norton Appraisals Holdings Limited, an independent valuer in Hong Kong, in accordance with the HKIS Valuation Standards 2017 issued by Hong Kong Institute of Surveyors, International Valuation Standards 2017 issued by International Valuation Standards Council and the definition and standard laid down by Hong Kong Financial Reporting Standards 9 – *Financial Instruments* issued by Hong Kong Institute of Certified Public Accountants, based on the parameters and statistical data extracted from market researches published by Moody's Investors Service, the terms of the Loan Notes and the repayments by Master Glory; and (ii) is higher than the carrying value of the Target Loan Notes together with the accrued interest of HK\$77.1 million at the date of the Announcement, which leads to an estimated gain of approximately HK\$19.3 million arising from the Target Loan Notes Transfer and a reduction of the cash outlay required for the Acquisition. In view of the aforesaid, the Directors consider that the Target Loan Notes Transfer is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Contingent Amount was determined after arm's length negotiations between Beam Castle and Fortune Generation and after the Company having taken into account the carrying value of the Target Loan Notes as at 30 September 2019 of HK\$77.1 million and all available information of Master Glory in relation to its repayment ability. As the Imputed Value of the Target Loan Notes of HK\$96.4 million is already higher than the carrying value as at 30 September 2019 of HK\$77.1 million, the Contingent Amount is simply to provide the Group with a potential upside if, for any reason which is not available to the Group in its assessment of the expected recovery of the Target Loan Notes as mentioned above, Fortune Generation is able to recover an amount higher than the Imputed Value. The Directors therefore consider that the Contingent Amount is fair and reasonable and in the interests of the Company and the Shareholders as a whole in the context of the Acquisition.

The above information does not affect the information disclosed in the Announcement.

By order of the Board  
**ITC Properties Group Limited**  
**Cheung Hon Kit**  
*Chairman*

Hong Kong, 9 January 2020

As at the date of this announcement, the Directors are as follows:

*Executive Directors:*

Mr. Cheung Hon Kit (*Chairman*)

Mr. Chan Fut Yan (*Managing Director*)

Mr. Cheung Chi Kit (*Chief Financial Officer*)

Mr. Chan Yiu Lun, Alan

Mr. Wong Lai Shun, Benny

*Independent Non-executive Directors:*

Hon. Shek Lai Him, Abraham, *GBS, JP* (*Vice Chairman*)

Mr. Kwok Ka Lap, Alva

Mr. Chan Pak Cheong Afonso

*In case of any inconsistency, the English version of this announcement shall prevail over the Chinese version.*