

## TERN PROPERTIES COMPANY LIMITED

### 太興置業有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 277)**

*Executive Directors:*

Mr. Chan Hoi Sow (*Chairman and Managing Director*)

Mr. Chan Yan Tin, Andrew

Ms. Chan Yan Wai, Emily

*Registered Office:*

26th Floor

Tern Centre, Tower I

237 Queen's Road Central

Hong Kong

*Non-executive Director:*

Ms. Chan Yan Mei, Mary-ellen

*Independent Non-executive Directors:*

Mr. Chan Kwok Wai

Mr. Tse Lai Han, Henry

Ms. Cheung Chong Wai, Janet

28 June 2019

*To the Shareholders*

Dear Sir or Madam,

**(1) POSSIBLE OFF-MARKET SHARE BUY-BACK  
CONSTITUTING A CONNECTED TRANSACTION; AND  
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

### INTRODUCTION

Reference is made to (i) the Announcement in relation to the Deed of Undertaking, the Share Buy-back, the Share Buy-back Agreement, the Transfer and the S&P Agreement; and (ii) the announcement of the Company dated 13 June 2019 in relation to the extension of long stop date of the Deed of Undertaking and the Long Stop Date of the S&P Agreement.

On 26 April 2019 (after trading hours), the Covenantors executed the Deed of Undertaking in favour of the Company undertaking to execute the Share Buy-back Agreement relating to an off-market share buy-back by the Company from Grand Fort of 30,525,639 Buy-back Shares, representing approximately 9.92% of the entire issued share capital of the Company as at the Latest Practicable Date.

The Company is a company incorporated in Hong Kong. Under Section 240 of the Companies Ordinance, a listed company may buy back its own shares, otherwise than under section 238 (share buy-back under general offer) or section 239 (share buy-back on recognised stock market or approved stock exchange) of the Companies Ordinance, if the contract for buy-back of the shares is authorised in advance by special resolution.

Although the form of the draft Share Buy-back Agreement has been negotiated and finalised between the Covenantors and the Company, the Company will not execute the Share Buy-back Agreement unless and until (i) the passing of the requisite resolution by at least three-fourths of the vote cast on a poll by the Independent Shareholders present in person or by proxy at a general meeting of the Company approving the Share Buy-back Agreement; (ii) the Executive having approved the Share Buy-back pursuant to the Buy-backs Code (and such approval not having been withdrawn or revoked and the condition(s) of such approval (if any) having been satisfied); and (iii) the Executive having granted a waiver in favour of Noranger from its obligation to make a general offer for the Shares which would otherwise arise as a result of Share Buy-back Completion pursuant to note 6 to Rule 26.1 of the Takeovers Code (and such waiver not having been withdrawn or revoked and the condition(s) of such waiver (if any) having been satisfied). It is the Company's intention to enter into the Share Buy-back Agreement with Grand Fort after the above conditions are satisfied.

The purpose of the circular dated 28 June 2019 (the “**Circular**”) is to provide you with, among other things, (i) details of the Share Buy-back Agreement; (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders on the Share Buy-back and the Share Buy-back Agreement; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Share Buy-back and the Share Buy-back Agreement; (iv) other information as required to be disclosed under the Buy-backs Code, the Takeovers Code and the Listing Rules; and (v) the notice of the EGM.

## **THE SHARE BUY-BACK**

### **The Deed of Undertaking**

#### ***Date***

26 April 2019 (after trading hours)

#### ***Parties***

- (i) the Covenantors
- (ii) the Company

The Deed of Undertaking shall take effect commencing on 26 April 2019 and shall be terminated upon the earlier of (i) 30 August 2019 (or such other date as the parties may agree in writing) (as extended from 2 July 2019 to 30 August 2019 pursuant to a letter of extension dated 13 June 2019); and (ii) by agreement of the parties in writing.

Each of the Covenantors has irrevocably undertaken to the Company that, after:

- (i) the passing of the requisite resolution by at least three-fourths of the vote cast on a poll by the Independent Shareholders present in person or by proxy at a general meeting of the Company approving the Share Buy-back Agreement;
- (ii) the Executive having approved the Share Buy-back pursuant to the Buy-backs Code (and such approval not having been withdrawn or revoked and the condition(s) of such approval (if any) having been satisfied); and
- (iii) the Executive having granted a waiver in favour of Noranger from its obligation to make a general offer for the Shares which would otherwise arise as a result of Share Buy-back Completion pursuant to note 6 to Rule 26.1 of the Takeovers Code (and such waiver not having been withdrawn or revoked and the condition(s) of such waiver (if any) having been satisfied),

each of the Covenantors shall execute and deliver the Share Buy-back Agreement to the Company on the later of (i) 2 July 2019; and (ii) the third Business Day after the satisfaction of the abovementioned conditions.

### **The Share Buy-back Agreement**

#### ***Parties***

- (i) Grand Fort (as seller)
- (ii) Mr. Chim (as one of the Guarantors)
- (iii) Mr. Law (as one of the Guarantors)
- (iv) the Company (as purchaser)

#### ***Buy-back Shares***

Subject to the terms and conditions of the Share Buy-back Agreement, Grand Fort conditionally agrees to sell and the Company conditionally agrees to buy back the 30,525,639 Buy-back Shares (including each right attaching to the Buy-back Shares and free from any encumbrance), representing approximately 9.92% of the entire issued share capital of the Company as at the Latest Practicable Date.

#### ***Consideration***

The total consideration for the Buy-back Shares is HK\$155,680,758.90 (equivalent to HK\$5.10 per Buy-back Share) which was determined after arm's length negotiation between Grand Fort and the Company,

and taking into account (i) the prevailing market conditions; (ii) the low liquidity of the Shares; (iii) the current market prices of the Shares; (iv) the NAV value per Share; and (v) the opportunity to restore the public float of the Company. The consideration will be settled in cash by the Company.

As confirmed and according to the disclosure of interest forms filed by Grand Fort, Mr. Chim and Mr. Law with the Stock Exchange on 6 September 2016, the average purchase cost of the Buy-back Shares of Grand Fort was HK\$3.25 per Share.

### ***Adjusted consolidated NAV***

The Self-occupied Properties are classified as “Leasehold land” and stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. If taking into account the fair value of the Self-occupied Properties of HK\$127,100,000 with reference to the valuation report issued by Jones Lang LaSalle Limited as set out in Appendix III to the Circular, the adjusted consolidated NAV as at 31 March 2019 would be:-

Valuation of the Self-occupied Properties as at 31 March 2019	(a)	HK\$127,100,000
Less: Carrying amounts of the Self-occupied Properties as at 31 March 2019	(b)	HK\$14,922,000
Valuation surplus of the Self-occupied Properties	(c)=(a)-(b)	HK\$112,178,000
Add: Audited consolidated NAV as at 31 March 2019	(d)	HK\$3,739,917,000
<b>Adjusted consolidated NAV as at 31 March 2019</b>	<b>(e)=(c)+(d)</b>	<b>HK\$3,852,095,000</b>

### ***Comparison of value***

The Buy-back Price of HK\$5.10 per Buy-back Share represents:

- (i) a premium of approximately 6.25% over the closing price of HK\$4.80 per Share as quoted on the Stock Exchange on 26 June 2019, being the Latest Practicable Date;
- (ii) a premium of approximately 28.46% over the closing price of HK\$3.97 per Share as quoted on the Stock Exchange on 26 April 2019, being the Last Trading Day;
- (iii) a premium of approximately 28.46% over the average closing price of the Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day of approximately HK\$3.97 per Share;
- (iv) a premium of approximately 28.79% over the average closing price of the Shares as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day of approximately HK\$3.96 per Share;
- (v) a premium of approximately 24.69% over the average closing price of the Shares as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day of approximately HK\$4.09 per Share;

- (vi) a premium of approximately 22.01% over the average closing price of the Shares as quoted on the Stock Exchange for the last 90 consecutive trading days up to and including the Last Trading Day of approximately HK\$4.18 per Share;
- (vii) a premium of approximately 22.01% over the average closing price of the Shares as quoted on the Stock Exchange for the last 180 consecutive trading days up to and including the Last Trading Day of approximately HK\$4.18 per Share;
- (viii) a premium of approximately 14.35% over the average closing price of the Shares as quoted on the Stock Exchange for the last 360 consecutive trading days up to and including the Last Trading Day of approximately HK\$4.46 per Share;
- (ix) a discount of approximately 57.99% to the audited consolidated net asset value of the Group of approximately HK\$12.14 per Share (based on a total of 307,758,522 Shares in issue as at the Latest Practicable Date and the audited consolidated net asset value of the Group of HK\$3,735,855,000 as at 31 March 2018, as disclosed in the 2018 Annual Report);
- (x) a discount of approximately 57.78% to the unaudited consolidated NAV of approximately HK\$12.08 per Share (based on a total of 307,758,522 Shares in issue as at the Latest Practicable Date and the unaudited consolidated NAV of HK\$3,718,158,000 as at 30 September 2018, as disclosed in the 2018 Interim Report);
- (xi) a discount of approximately 58.02% to the audited consolidated NAV of approximately HK\$12.15 per Share (based on a total of 307,758,522 Shares in issue as at the Latest Practicable Date and the audited consolidated NAV of HK\$3,739,917,000 as at 31 March 2019, as disclosed in the 2019 Annual Results Announcement); and
- (xii) a discount of approximately 59.27% to the adjusted audited consolidated NAV of approximately HK\$12.52 per Share (based on a total of 307,758,522 Shares in issue as at the Latest Practicable Date and the adjusted audited consolidated NAV of HK\$3,852,095,000 as at 31 March 2019 as illustrated in the paragraph headed “Adjusted consolidated NAV” above).

Taking into consideration that the Group is involved in an asset-intensive business, whereby a majority of its assets are investment properties, the Board considers that the unaudited consolidated NAV as at 30 September 2018 per Share (i.e. approximately HK\$12.08 per Share) is a more appropriate benchmark over the current market price and it is substantially higher than the Buy-back Price. Although the Buy-back Price represents a premium of more than 20% over the current market price of the Shares, the Board considers that the market price level is relatively of less significance as it would not be possible for the Company to purchase sufficient number of Shares in the open market at such price levels and with any certainty. From 1 September 2016 (when the public float fell below the required minimum) up to and including the Last Trading Day, only an aggregate of 802,459 Shares were traded in the open market, representing approximately 2.6% of the 30,525,639 Buy-back Shares. In

view of the above, the Board considers that the Share Buy-back is a good opportunity for the Company to buy back its Shares at a reasonable price at a significant discount to the NAV per Share even though the consideration is higher than the market price.

### ***Conditions precedent to Share Buy-back Completion***

Share Buy-back Completion is conditional upon the satisfaction (or waiver by the Company) of the following conditions precedent:

- (i) the Company having sufficient reserves to effect the Share Buy-back in compliance with the relevant law and regulations;
- (ii) the warranties provided by Grand Fort and the Guarantors under the Share Buy-back Agreement remaining true, accurate and not misleading in all respects; and
- (iii) the conditions precedent under the S&P Agreement having been fulfilled or waived (as the case may be) (save for the condition requiring the Share Buy-back Agreement to become unconditional).

The Company may, at its absolute discretion, waive conditions (ii) and (iii) above. Condition (i) is not waivable as the Company will need to ensure that it has sufficient reserves before implementing the Share Buy-back. As at the Latest Practicable Date, condition (i) has been fulfilled, and the other conditions have not been fulfilled or waived.

In the event that any of the above conditions are not satisfied or waived (as applicable) on or before 5:00 p.m. on the expiry of two months from the date of the Share Buy-back Agreement or such later date as agreed by the parties in writing, the Share Buy-back Agreement shall cease and determine.

### **Share Buy-back Completion**

Share Buy-back Completion will take place on the fifth Business Day after the conditions under the Share Buy-back Agreement have been fulfilled or waived or such other date as the parties may agree in writing.

If the Company declares, pays or makes a dividend or distribution with the record date before Share Buy-back Completion, Grand Fort is entitled to receive such dividend and distribution.

Share Buy-back Completion and S&P Completion are inter-conditional and shall take place simultaneously.

Following Share Buy-back Completion, the Buy-back Shares will be transferred to the Company and cancelled. The percentage interest of all Shareholders in the issued share capital of the Company will be proportionally increased following the cancellation to the Buy-back Shares and the resulting reduction in the number of the issued Shares.

### **THE TRANSFER**

On 26 April 2019 (after trading hours), being the same date of execution of the Deed of Undertaking, the Board was informed by Mr. Chan that, Grand Fort (as seller), Mr. Chim and Mr. Law (as the Guarantors), and Smartprint (as purchaser) have entered into the S&P Agreement, pursuant to which Smartprint conditionally agreed to acquire and Grand Fort conditionally agreed to sell the 30,525,638 Sale Shares, representing approximately 9.92% of the entire issued share capital of the Company as at the Latest Practicable Date. Smartprint is a company wholly owned by Mr. Chan.

Immediately prior to Share Buy-back Completion, S&P Completion and cancellation of the Buy-back Shares, the Chan Concert Group was interested in an aggregate of 174,564,896 Shares, representing approximately 56.72% of the entire issued share capital of the Company as at the Latest Practicable Date. Immediately upon Share Buy-back Completion, S&P Completion and cancellation of the Buy-back Shares, the Chan Concert Group will be interested in an aggregate of 205,090,534 Shares, representing approximately 73.98% of the entire issued share capital of the Company.

### **The S&P Agreement**

#### ***Date***

26 April 2019 (after trading hours)

#### ***Parties***

- (i) Grand Fort (as seller)
- (ii) Mr. Chim (as one of the Guarantors)
- (iii) Mr. Law (as one of the Guarantors)
- (iv) Smartprint (as purchaser)

#### ***Shares to be transferred***

Subject to the terms and conditions of the S&P Agreement, Grand Fort conditionally agreed to sell and Smartprint conditionally agreed to acquire the 30,525,638 Sale Shares, representing approximately 9.92% of the entire issued share capital of the Company as at the Latest Practicable Date.

#### ***Consideration***

The total consideration for the Sale Shares is HK\$155,680,753.80 (equivalent to HK\$5.10 per Sale Share) which was determined after arm's length negotiation between Grand Fort and Smartprint, and taking into account the consideration for each Buy-back Share. The consideration for each Sale Share is the same as the consideration for each Buy-back Share to be acquired by the Company pursuant to the Share Buy-back Agreement. The total consideration will be settled in cash by Mr. Chan's own financial resources.

#### ***Conditions precedent to S&P Completion***

S&P Completion is conditional upon the satisfaction (or waiver by Smartprint) of the following conditions precedent:

- (i) the warranties provided by Grand Fort and the Guarantors under the S&P Agreement remaining true, accurate and not misleading in all respects; and
- (ii) the conditions precedent under the Share Buy-back Agreement having been fulfilled or waived (as the case may be) (save for the condition requiring the S&P Agreement to become unconditional).

Smartprint may, at its absolute discretion, waive conditions (i) and (ii) above.

In the event that any of the above conditions are not satisfied or waived (as applicable) on or before 5:00 p.m. on the Long Stop Date (as extended from 2 July 2019 to 30 August 2019 pursuant to a letter of extension dated 13 June 2019), the S&P Agreement shall cease and determine.

### ***S&P Completion***

S&P Completion will take place on the fifth Business Day after the conditions contemplated under the S&P Agreement have been fulfilled or waived or such other date as the parties may agree in writing.

S&P Completion and Buy-back Completion are inter-conditional and shall take place simultaneously.

### **EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY**

The following table illustrates the Company's shareholding structure (i) as at the Latest Practicable Date; (ii) immediately upon Share Buy-back Completion and cancellation of the Buy-back Shares; and (iii) immediately upon Share Buy-back Completion, S&P Completion and cancellation of the Buy-back Shares:

	As at the Latest Practicable Date			Immediately upon Share Buy-back Completion and cancellation of the Buy-back Shares			Immediately upon Share Buy-back Completion, S&P Completion and cancellation of the Buy-back Shares		
	No. of Shares	Approx. %		No. of Shares	Approx. %		No. of Shares	Approx. %	
Mr. Chan (Notes 1, 2 & 3)	2,063,000	0.66		2,063,000	0.73		2,036,000	0.73	
Smartprint	-	0.00		-	0.00		30,525,638	11.01	
Noranger (Note 2)	145,914,000	47.14		145,914,000	52.63		145,914,000	52.63	
Evergrande (Note 3)	25,822,896	8.39		25,822,896	9.32		25,822,896	9.32	
Mr. Andrew Chan (Note 4)	792,000	0.26		792,000	0.29		792,000	0.29	
<i>Sub-total of the Chan Concert Group</i>	174,564,896	56.72		174,564,896	62.97		205,090,534	73.98	
Grand Fort	61,051,277	19.84		30,525,638	11.01		-	0.00	
<i>Non-public Shareholders</i>	235,616,173	75.56		205,090,534	73.98		205,090,534	73.98	
Public Shareholders	72,142,349	23.44		72,142,349	26.02		72,142,349	26.02	
<b>Total</b>	<b>307,758,522</b>	<b>100.00</b>		<b>277,232,883</b>	<b>100.00</b>		<b>277,232,883</b>	<b>100.00</b>	

#### **Notes:**

- Mr. Chan is beneficially interested in 2,036,000 Shares.
- Noranger is wholly owned by Beyers which is indirectly owned by Sow Pin Trust, a discretionary trust, the beneficiaries of which are Mr. Chan and his family members. Mr. Chan is the founder of Sow Pin Trust. Credit Suisse Trust Limited, the trustee of Sow Pin Trust, is the holding company of Brock



Nominees Limited which wholly owned Global Heritage Group Limited and in turn wholly owned Beyers.

3. Evergrade is beneficially owned as to 50% by Mr. Chan and as to 50% by Beyers.
4. Mr. Andrew Chan, an executive Director and a son of Mr. Chan, is beneficially interested in 792,000 Shares.

As illustrated above, the public float of the Company shall be restored and will be above the minimum prescribed percentage of 25% as required under Rule 8.08 of the Listing Rules after Share Buy-back Completion, S&P Completion and cancellation of the Buy-back Shares.

In addition, it is the intention of the Company to continue to meet the public float requirements under Rule 8.08 of the Listing Rules immediately upon Share Buy-back Completion, S&P Completion and cancellation of the Buy-back Shares.

## INFORMATION ON THE COMPANY

The Company, an investment holding company, is incorporated in Hong Kong with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 277). The Group is principally engaged in property investment and treasury investment.

As at the Latest Practicable Date, there were 307,758,522 Shares in issue. The Company did not have any outstanding options, derivatives, warrants or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) which are convertible or exchangeable into Shares or other types of equity interest as at the Latest Practicable Date.

Set out below is the audited consolidated financial information of the Group for the two financial years ended 31 March 2019:

	<b>For the year ended</b>	
	<b>31 March</b>	
	<b>2019</b>	<b>2018</b>
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Revenue	80,270	81,260
Net profit before taxation	34,650	119,811
Profit attributable to owners of the Company	25,534	110,225
	<b>As at 31 March</b>	
	<b>2019</b>	<b>2018</b>
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Net assets	3,739,917	3,735,855

## **INFORMATION ON GRAND FORT**

Grand Fort is an investment holding company and is held as to 50% by Mr. Chim and as to 50% by Mr. Law. As at the Latest Practicable Date, Grand Fort is a substantial Shareholder holding 61,051,277 Shares, representing approximately 19.84% of the entire issued share capital of the Company. It is independent of the Directors and other substantial Shareholders. It does not have a representative on the Board and has not been involved in the management of the Group.

## **REASONS FOR AND BENEFITS OF THE SHARE BUY-BACK**

### **Shortfall in the Public Float**

The main purpose of the Share Buy-back is to restore the public float of the Company. As disclosed in the section headed "Effects on the Shareholding Structure of the Company" above, as at the Latest Practicable Date, the aggregate interests of the Chan Concert Group and Grand Fort are approximately 76.56%, and therefore only approximately 23.44% of the Shares are held by the public, which is below the minimum prescribed percentage of 25% under Rule 1.08 of the Listing Rules.

References are made to the announcements of the Company dated (i) 30 September 2016; (ii) 7 November 2016; (iii) 7 December 2016; (iv) 10 January 2017; (v) 10 February 2017; (vi) 10 March 2017; (vii) 10 April 2017; (viii) 11 May 2017; (ix) 13 June 2017; (x) 13 July 2017; (xi) 17 August 2017; (xii) 19 September 2017; (xiii) 21 December 2017; (xiv) 27 March 2018; (xv) 28 June 2018; (xvi) 4 October 2018; (xvii) 2 January 2019; and (xviii) 12 April 2019, in relation to the shortfall in the public float of the Company. As disclosed in the aforementioned announcements, the Company is of the view that the shortfall in the public float arose solely from the acquisition of 61,051,277 Shares by Grand Fort on 1 September 2016.

The Company has been considering various options to restore public float, and considered that an off-market share buy-back from a substantial Shareholder on commercially reasonable terms would be a feasible option. Immediately upon Share Buy-back Completion, S&P Completion and cancellation of the Buy-back Shares, the public float would be restored to approximately 26.02% which would meet the prescribed requirement under Rule 8.08 of the Listing Rules.

### **Grand Fort to Dispose of its Investment in One Single Disposal**

Grand Fort intends to realise its investment in the Company for other investment opportunities and to dispose of all the Shares held by it in one single disposal. It does not intend to hold any Shares after completion of the sale of the Buy-back Shares and the Sale Shares.

Taking into consideration that Grand Fort intends to dispose of all the 61,051,277 Shares held by it in one single disposal, to reduce the financial burden of the Company and to demonstrate Mr. Chan's confidence in the future of the Group, Mr. Chan had agreed to purchase a portion of the Shares held by Grand Fort. It is a commercial term that each of Smartprint and the Company will purchase 50% of the Shares held by Grand Fort and the parties would require Share Buy-back Completion and S&P

Completion to be inter-conditional such that the disposal of all the Shares held by Grand Fort can take place at the same time.

### **Proposed Implementation of the Share Buy-back**

The Company has also taken into consideration the following before implementing the Share Buy-back:

- (i) the Company would be able to restore its public float requirement under the Listing Rules upon Share Buy-back Completion and cancellation of the Buy-back Shares;
- (ii) as the liquidity of the Shares is low, with only 802,459 Shares having been traded in the open market from 1 September 2016 (where the public float of the Shares fell below the required minimum) up to and including the Last Trading Day, it is difficult to issue and/or place new Shares to investors without a substantial discount to the Share prices, whilst the issue of new Shares will have dilution effect on the shareholding of all the existing Shareholders as a whole;
- (iii) the Buy-back Price per Share is at a substantial discount of approximately 57.78% and 58.02% to the consolidated NAV of approximately HK\$12.08 per Share and HK\$12.15 per Share as at 30 September 2018 and 31 March 2019, respectively;
- (iv) there will be a buffer of approximately 1.02% over the minimum public float requirement of 25% under Rule 8.08 of the Listing Rules;
- (v) the Share Buy-back is a good opportunity to enhance the earnings per Share and the rate of return on capital of the Company; and
- (vi) the Share Buy-back will result in an approximately 6.36%, 6.34% and 6.47% enhancement in the NAV per Share attributable to the owners of the Company based on the unaudited consolidated NAV of HK\$3,718,158,000 as at 30 September 2018 (as disclosed in the 2018 Interim Report), audited consolidated NAV of HK\$3,739,917,000 as at 31 March 2019 (as disclosed in the 2019 Annual Results Announcement) and adjusted consolidated NAV of HK\$3,852,095,000 as at 31 March 2019 (as illustrated under the paragraph headed "Adjusted consolidated NAV" above), respectively.

In view of the above, Mr. Chan, Mr. Andrew Chan and Ms. Emily Chan, the executive Directors, and Ms. Mary-ellen Chan, the non-executive Director, after taking into account the above factors, considered that whilst the Share Buy-back is not in the ordinary and usual course of business of the Company, the Share Buy-back is a good opportunity to restore the public float of the Company and the terms of the Share Buy-back and the Share Buy-back Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **FINANCIAL EFFECTS OF THE SHARE BUY-BACK**

### **(i) Net assets per Share**

Based on the unaudited pro forma consolidated financial information of the Group as set out in Appendix II to the Circular and assuming that the Share Buy-back had taken place on 31 March 2019, the Group's unaudited net assets per Share as at 31 March 2019 would have increased by approximately 6.34% from approximately HK\$12.15 per Share to approximately HK\$12.92 per Share.

### **(ii) Basic earnings per Share**

Assuming that the Share Buy-back had taken place on 31 March 2019, the Share Buy-back will not have financial impact on the results of the Group and the net profit attributable to owners of the Company for FY2019 would remain unchanged at approximately HK\$25.53 million. As the number of issued Shares would decrease from 307,758,522 Shares to 277,232,883 Shares, the Group's basic earnings per Share would have increased by approximately 10.96% from approximately HK8.30 cents per Share to approximately HK9.21 cents per Share.

### **(iii) Total liabilities**

The consideration of the Share Buy-back will be settled in cash and funded by the Company's available cash flow. Assuming that the Share Buy-back had taken place on 31 March 2019 and the Buy-back Shares have been bought back in full and cancelled, the total liabilities would remain unchanged.

### **(iv) Working capital**

Based on the unaudited pro forma consolidated financial information of the Group as set out in Appendix II to the Circular and assuming that the Share Buy-back had taken place on 31 March 2019, the working capital (expressed as net current assets) would decrease by approximately 59.28% from approximately HK\$265.5 million to approximately HK\$108.1 million.

Based on the above, the Company considers that the Share Buy-back will have no material adverse effect on the Group's net assets per Share, basic earnings per Share and total liabilities. The Company continues to maintain sufficient and adequate working capital for its operations.

## **REGULATORY REQUIREMENTS**

### **Listing Rules Implications**

As at the Latest Practicable Date, Grand Fort is a substantial Shareholder holding 61,051,277 Shares, which represent approximately 19.84% of the entire issued share capital of the Company, and is thus a connected person of the Company. Accordingly, the entering into of the Share Buy-back Agreement shall constitute a non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## Buy-backs Code Implications

The Share Buy-back constitutes an off-market share buy-back by the Company under the Buy-backs Code. The Company has made an application to the Executive for approval of the Share Buy-back pursuant to Rule 2 of the Buy-backs Code. The Executive's approval, if granted, will normally be conditional upon, among other things, approval of the Share Buy-back by at least three-fourths of the votes cast on a poll by the Independent Shareholders in attendance in person or by proxy at a general meeting of the Company.

The execution of the Share Buy-back Agreement is conditional upon, among other things, the Share Buy-back having been approved by the Executive. Therefore, the Company will not proceed with the Share Buy-back unless the Executive has granted the relevant approval. There is no assurance that such approval will be granted or that all other conditions precedent to the Share Buy-back will be fulfilled.

As at the Latest Practicable Date, the Chan Concert Group is interested in an aggregate of 174,564,896 Shares, representing approximately 56.72% of the entire issued share capital of the Company. Out of the 174,564,896 Shares, (i) 2,036,000 Shares (representing approximately % of the entire issued share capital of the Company as at the Latest Practicable Date) are beneficially held by Mr. Chan; (ii) 792,000 Shares (representing approximately 0.26% of the entire issued share capital of the Company as at the Latest Practicable Date) are beneficially held by Mr. Andrew Chan; and (iii) 171,736,896 Shares (representing approximately 55.80% of the entire issued share capital of the Company as at the Latest Practicable Date) are held as to 145,914,000 Shares (representing approximately 47.41% of the entire issued share capital of the Company as at the Latest Practicable Date) by Noranger and as to 25,822,896 Shares (representing approximately 8.39% of the entire issued share capital of the Company as at the Latest Practicable Date) by Evergrade.

The issued share capital of Noranger is beneficially wholly owned by Beyers and the issued share capital of Evergrade is beneficially owned as to 50% by Mr. Chan and as to 50% by Beyers. Beyers is ultimately, indirectly and wholly owned by Sow Pin Trust, a discretionary trust, the founder of which is Mr. Chan and the beneficiaries of which are Mr. Chan and his family members. Immediately upon Share Buy-back Completion, S&P Completion and cancellation of the Buy-back Shares, the Chan Concert Group will be interested in an aggregate of 205,090,534 Shares, representing approximately 73.98% of the entire issued share capital of the Company.

As Smartprint is wholly owned by Mr. Chan and the S&P Agreement is inter-conditional with the Share Buy-back Agreement, Mr. Chan and his family members, including Mr. Andrew Chan, Ms. Emily Chan and Ms. Mary-ellen Chan, and the corporations controlled by Mr. Chan, namely Noranger and Evergrade, have material interests and involved in the Share Buy-back. As such, Mr. Chan, Mr. Andrew Chan, Ms. Emily Chan, Ms. Mary-ellen Chan have abstained from voting on the relevant Board resolutions to approve the Share Buy-back. Save for the abovementioned Directors, no other Director has a material interest in the Deed of Undertaking, the Share Buy-back Agreement and the Share Buy-back, and is required to abstain from voting on the relevant Board resolutions.

As disclosed above and as required by the Buy-backs Code, the following Shareholders have a material interest and involved in the Share Buy-back which is different from the interests of all other Shareholders, and shall abstain from voting on the resolution to be proposed at the EGM for approving the Share Buy-Back Agreement and the Share Buy-back:

- (i) Grand Fort (which holds 61,051,277 Shares representing approximately 19.84% of the entire issued share capital of the Company as at the Latest Practicable Date);
- (ii) Mr. Chan (who holds 2,036,000 Shares representing approximately 0.66% of the entire issued share capital of the Company as at the Latest Practicable Date);
- (iii) Mr. Andrew Chan (who holds 792,000 Shares representing approximately 0.26% of the entire issued share capital of the Company as at the Latest Practicable Date);
- (iv) Noranger (which holds 145,914,000 Shares representing approximately 47.41% of the entire issued share capital of the Company as at the Latest Practicable Date); and
- (v) Evergrade (which holds 25,822,896 Shares representing approximately 8.39% of the entire issued share capital of the Company as at the Latest Practicable Date).

#### **Other Takeovers Code Implications**

As at the Latest Practicable Date, Noranger is interested in 145,914,000 Shares, representing approximately 47.41% of the entire issued share capital of the Company. Immediately after Share Buy-back Completion and cancellation of the Buy-back Shares, the shareholding of Noranger in the Company will increase from approximately 47.41% to 52.63% giving rise to an obligation on the part of Noranger to make a general offer for all the Shares not already owned or agreed to be acquired by Noranger and the parties acting in concert with it under Rule 26.1 of the Takeovers Code.

The Board has been informed that Noranger has applied to the Executive for a waiver in respect of the obligation of Noranger to make a general offer for all the issued Shares not already owned or agreed to be acquired by Noranger and parties acting in concert with it which may otherwise arise as a result of the Share Buy-back. If the waiver is not granted to Noranger, the parties to the Deed of Undertaking will not enter into the Share Buy-back Agreement and the Share Buy-back will not proceed.

#### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Thursday, 25 July 2019 to Tuesday, 30 July 2019 (both dates inclusive) for determining the entitlements to attend the EGM. No transfer of Shares will be registered during this period. Shareholders are reminded that, in order to qualify for attendance of the EGM, they must lodge completed transfer forms together with the certificates for the relevant Shares with the Registrar not later than 4:30 p.m. on Wednesday, 24 July 2019.

## **EGM**

The notice convening the EGM to be held at 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong on Tuesday, 30 July 2019 at 11:00 a.m. is set out on pages EGM-1 to EGM-2 of the Circular. The EGM will be held to consider and, if thought fit, approve the Share Buy-back Agreement and the transactions contemplated thereunder.

Grand Fort, Mr. Chan, Mr. Andrew Chan, Noranger and Evergrade have a material interest and involved in the Share Buy-back which is different from the interests of all other Shareholders, and shall abstain from voting on the resolution to be proposed at the EGM for approving the Share Buy-Back Agreement and the Share Buy-back. For further details, please refer to the section headed "Buy-backs Code Implications" above.

The form of proxy for use at the EGM is enclosed with the Circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company at 26th Floor, Tern Centre, Tower 1, 237 Queen's Road Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) if you so wish.

## **VOTING BY WAY OF POLL**

All votes at the EGM will be taken by poll in accordance to the Buy-backs Code, the Takeovers Code and the Listing Rules.

## **GENERAL**

The Independent Board Committee comprising all of the three independent non-executive Directors, namely Mr. Chan Kwok Wai, Mr. Tse Lai Han, Henry and Ms. Cheung Chong Wai, Janet, has been established to consider the Share Buy-back and to give recommendation to the Independent Shareholders as to whether the terms of the Share Buy-back and the Share Buy-back Agreement are fair and reasonable and make recommendation on voting. As mentioned above, Ms. Mary-ellen Chan, the non-executive Director, has a material interest and involved in the Share Buy-back, and is therefore excluded from the Independent Board Committee in giving recommendation in respect of the Share Buy-back and the Share Buy-back Agreement.

Founder Securities Capital has been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Share Buy-back and the Share Buy-back Agreement are fair and reasonable and make recommendation on voting.

## **RECOMMENDATION**

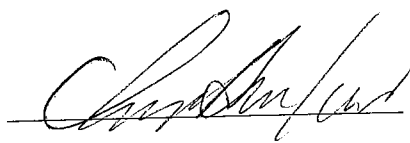
On the basis of the information set out in the Circular, Mr. Chan, Mr. Andrew Chan and Ms. Emily Chan, the executive Directors, and Ms. Mary-ellen Chan, the non-executive Director, after taking into account the above factors, considered that whilst the Share Buy-back is not in the ordinary and usual course of business of the Company, the Share Buy-back is a good opportunity to restore the public float of the Company and the terms of the Share Buy-back and the Share Buy-back Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. As such, the aforementioned Directors recommend the Shareholders to vote in favour of the relevant resolution to be proposed at the EGM. The Independent Shareholders are advised to read carefully the letter from the Independent Board Committee set out on pages 23 to 24 of the Circular and the letter from Founder Securities Capital set out on pages 25 to 55 of the Circular before deciding as to how to vote on the relevant resolution to be proposed at the EGM.

## **FURTHER INFORMATION**

Your attention is also drawn to the additional information set out in the appendices to the Circular.



By order of the Board of  
**Tern Properties Company Limited**

A handwritten signature in black ink, appearing to read 'Chan Hoi Sow', is written over a horizontal line.

Chan Hoi Sow

Chairman