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TFG INTERNATIONAL GROUP LIMITED

富元國際集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 542)

SUPPLEMENTAL ANNOUNCEMENT

DISCLOSEABLE TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF CHINA CULTURAL TOURISM GROUP LIMITED

Reference is made to the announcement of TFG International Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 15 June 2023 (the “**Announcement**”) in relation to the acquisition of the entire issued share capital of China Cultural Tourism Group Limited. Unless otherwise defined, capitalised terms used herein shall have the meaning as those defined in the Announcement.

The Company would like to provide supplemental information to the Announcement as follows:

SETTLEMENT OF INDEBTEDNESS

As disclosed in the Announcement, as at the date of the Agreement, Jiangmen Quanlin Outdoor Sports Development Co., Ltd.* (江門市泉林戶外運動發展有限公司) (“**Jiangmen Quanlin**”), a member of the Target Group, was indebted to Zhuhai Tiandi Enterprise Co., Ltd.* (珠海市田地企業有限公司) (“**Zhuhai Tiandi**”), an Independent Third Party, for an amount of RMB180,228,843 (the “**JQ Debt**”).

Background of the ZT Debt

Zhuhai Tiandi previously advanced an amount of RMB180,228,843 to Jiangmen Quanlin, which was in turn advanced to Taishan Nanfang Property Investment and Development Co., Ltd.* (台山市南方房地產投資開發有限公司) (“**Taishan Nanfang**”), a member of the Target Group, for development of the Project. RMB44,552,993, being an amount not applied by Taishan Nanfang in the development of the Project, had been directly repaid to Zhuhai Tiandi, the ultimate lender, instead of Jiangmen Quanlin, the intermediate lender.

In order to pursue the sale and purchase of the Target Group, the Parties agreed to rectify the above lending arrangements, pursuant to which, in principle (i) Zhuhai Tiandi shall repay the amount of RMB44,552,993 (the “**ZT Debt**”) to Taishan Nanfang; and (ii) Taishan Nanfang shall apply the same amount for Jiangmen Quanlin’s partial settlement of the JQ Debt.

Settlement of the JQ Debt and ZT Debt

As disclosed in the Announcement, pursuant to the Agreement, the Purchaser has agreed to settle the JQ Debt, of which RMB13,675,850 shall be repaid within seven (7) Business Days from the date of the Agreement and RMB166,552,993 shall be repaid within twelve (12) months from the date of the Agreement. At the time the Purchaser is to repay the aforementioned RMB166,552,993 to Zhuhai Tiandi, the Vendor must ensure that Zhuhai Tiandi settles the ZT Debt owed by Zhuhai Tiandi to Taishan Nanfang, to achieve the purpose as disclosed in the preceding paragraph. In substance, settlement of the JQ Debt by the Purchaser and settlement of the ZT Debt by Zhuhai Tiandi shall take place concurrently, which is achieved by offsetting the ZT Debt against the JQ Debt. The above arrangement will result in the payment of RMB122,000,000 to Zhuhai Tiandi by the Purchaser on the repayment date, which is within 12 months from the date of the Agreement.

At any given point in time, the amount of cash utilized by the Purchaser for repaying the JQ Debt shall not exceed RMB135,675,850, being the net indebtedness after considering the difference between the JQ Debt and the ZT Debt (the “**Net Indebtedness Amount**”), under any circumstances.

For the avoidance of doubt, the settlement of the ZT Debt does not form part of the conditions precedents of the Acquisition.

BASIS OF CONSIDERATION

The Consideration was determined after arm’s length negotiation between the Group and the Vendor with reference to (i) the appraised value of the Project Lands (hereinafter referred to as the “**Property**”) as at 30 April 2023 of approximately RMB310,000,000, as assessed by B.I. Appraisals Limited, an independent professional valuer (the “**Valuation**”); (ii) the Net Indebtedness Amount which shall be settled by the Purchaser as disclosed above; and (iii) the benefits of the Acquisition brought about to the Group upon Completion as disclosed in the Announcement and this announcement.

The Acquisition will be funded by the following ways:

- (a) (i) RMB36,324,150, being part of the Consideration which shall be paid in cash by the Purchaser to the Vendor within seven (7) Business Days from the date of signing of the Agreement, and (ii) RMB13,675,850, being part of the JQ Debt which shall be repaid within seven (7) Business Days from the date of the Agreement, are funded by internal resources of the Group; and

- (b) (i) RMB133,000,000, being part of the Consideration which shall be paid in cash by the Purchaser if the Regulatory Approval cannot be obtained, and (ii) RMB122,000,000, being part of the JQ Debt after offsetting the ZT Debt which shall be repaid within twelve (12) months from the date of the Agreement, will be funded by project loans from financial institutions, accelerating the return of sales proceeds from existing projects of the Group and borrowing from other independent third parties.

According to the valuation report prepared by the valuer (the “**Valuation Report**”):

- (a) The Valuation has been carried out in accordance with The HKIS Valuation Standards 2020 published by the Hong Kong Institute of Surveyors and under generally accepted valuation procedures and practices, which are in compliance with Chapter 5 and Practice Note 12 of the Listing Rules.
- (b) In valuing the Property, which is to be held for future development by the Group upon acquisition, the Valuer has adopted the Direct Comparison Method assuming sale of the Property in its existing state by making reference to market evidence of comparable properties as available in the relevant market subject to appropriate adjustments made to reflect such differences including but not limited to location, time, size and other relevant factors between the Property and the comparable properties. The Direct Comparison Method is universally considered to provide the most reliable indication of value for property with a known market. The Valuer has adopted this method in line with the market practice.
- (c) The following assumptions were adopted by the Valuer:
- (i) The Property would be sold in the open market without the benefit of deferred terms contracts, leasebacks, joint venture, management agreements, or any similar arrangements that would serve to affect its value.
 - (ii) No account has been taken of any option or right of pre-emption concerning or effecting a sale and no forced sale situation in any manner is assumed in the Valuation.
 - (iii) The Property will be constructed, occupied and used in full compliance with, and without contravention of all ordinances, except only where otherwise stated.
 - (iv) All consents, approvals, required licences, permits, certificates and authorizations have been obtained, except only where otherwise stated, for the use of the Property upon which the Valuation is based.
 - (v) The land premium for the grant of the Property has been fully settled by Taishan Nanfang.
 - (vi) The land use of the Property is classified as tourism and commercial in all statutory documents.

- (vii) The Property is not considered as idle land by Taishan Municipal Natural Resource Bureau (台山市自然資源局).
- (viii) The Property will be able to be developed in accordance with the Planning Requirements for land parcels at Xiatangwan, Shaju, Beidou Town, Taishan City (台山市北陡鎮沙咀下塘灣地塊規劃條件).
- (ix) The existing buildings erected on the Property will be demolished.
- (x) The land use rights of the Property will be renewed upon expiry of the land use term.

The Board has considered the following factors when assessing the fairness and reasonableness of the Valuation:

- (a) With respect to the adoption of the valuation approach, the Directors understand that the Valuer has considered that the Direct Comparison Method is appropriate to reflect the market value of the Property (the Project Lands), by making reference to market evidence of comparable properties as available in the relevant market subject to appropriate adjustments. The Valuer was able to identify three comparable properties with similar location, time, size, etc., which had been subsequently reviewed by the Board.
- (b) The Directors have discussed with the Valuer regarding their work performed and the Valuation Report, and understood that in conducting the Valuation and arriving at the appraised value of the Property, the Valuer: (i) understands the Property will be acquired by the Group through the Acquisition, the characteristics of the appraised assets and the technical valuation requirements involved; (ii) has inspected the exterior and, where possible, the interior of the Property on 30 May 2023; (iii) relied on the legal opinions prepared by the Company's legal advisor as to PRC laws regarding the title to the Property; and (iv) obtained and analysed information from independent market sources to form the basis of the Valuation.
- (c) Having discussed with the Valuer and reviewed the Valuation Report, the Directors also understand the assumptions adopted by the Valuer in the Valuation Report and noted certain limiting conditions of the Valuation Report.

Having considered the above factors and the assumptions made by the Valuer, the Directors agree with the Valuer's view that the bases, valuation approach and assumptions adopted in the Valuation Report are appropriate under the current circumstances.

Having considered the Valuation, the above factors and the Net Indebtedness Amount, the Directors are of the view that the Consideration is fair and reasonable as a whole.

INFORMATION ON THE PROJECT

As disclosed in the Announcement, the Group will be able to acquire and develop the Property owned by the Target Group through the Acquisition. The Property will be developed into a leisure and wellness resort (the “**Resort**”), known as the Taishan Beidouwan Project (the “**Project**”).

Business and operating model

The Project under the Target Group focuses on the concept of diversification and aims to create a leisure and health tourist resort featuring a range of amenities. Leveraging on the natural geographic advantages of the Property, different theme parks will be constructed, incorporating elements of land, sea, and air, as well as business and commerce, leisure and entertainment, and gaming and competition. In particular, the Group will: (a) establish a unique brand image and intellectual property for Beidouwan; (b) segment the target market to establish closer connections with customers through different themes including business, leisure, sports, and healthcare; and (c) utilise multiple channels, including online social media platforms and offline word-of-mouth marketing and event planning.

Development plan and operating scale

The development plan of the Project includes: (a) linking with nearby ports and regional towns to develop in coordination with the city; (b) coordinating development with the natural environment, such as the ecological wetlands and nature reserves; and (c) developing multiple industrial sectors to create differentiated development.

Early-stage development

During the establishment period, Beidouwan aims to become a well-known coastal resort in the southern region, with the introduction of luxury hotels and cliff tourism projects. The main functions of the project include hotel development, commercial apartment development, commercial villa development, leisure and holiday facilities, etc. The total planned land area is approximately 16.81 hectares.

Mid-term development

The mid-term development includes sports challenges, theme entertainment, leisure and holiday facilities, and commercial apartment development. The total planned land area is approximately 18.09 hectares.

Late-stage development

The late-stage development includes seaside activities, ecological nature, leisure and holiday facilities, commercial apartment development, commercial villa development, themed homestay groups, star-rated resort hotels, villa gardens, etc. The total planned land development area is approximately 31.59 hectares.

Development schedule

The total land area of the Resort is approximately 534,191.36 sq. m. After deducting the coastline concession area, the actual land area available for construction and sales is approximately 248,772.28 sq. m., with a capacity for construction and sales of 416,547.13 sq. m., of which approximately 99,815.61 sq. m. of land cannot be used for real estate development but can be used for tourism development and related construction.

After completion of the Acquisition, the Group plans to develop the Project according to the following schedule:

Time	Expected development
From 2023 to 2024	Develop and construct two parcels of lands with total land area of approximately 101,175.97 sq. m., construction area of approximately 66,994.64 sq. m. and planned capacity for construction of approximately 154,087.67 sq. m. It is expected to build hotels, apartments, and commercial properties for sale in the market.
From 2024 to 2025	Develop and construct another two parcels of lands with total land area of approximately 99,815.61 sq. m. These lands will be used for tourism development and construction. The Group also plans to build an animal park, a sea park, and a tourism project on this land, which would serve as a value-added support for the entire Project.
From 2025 to 2026	Develop and construct another two parcels of lands with total land area of approximately 133,280.02 sq. m., construction area of approximately 84,520.27 sq. m., and planned capacity for construction of approximately 194,396.62 sq. m. It is expected to build apartments and commercial properties for sale in the market.
From 2026 to 2027	Develop and construct another two parcels of lands with total land area of approximately 199,919.76 sq. m., construction area of approximately 97,257.37 sq. m., and planned capacity for construction of approximately 68,062.84 sq. m. It is expected to build apartments and commercial properties for sale in the market.

Development plan of the subsidiaries

Regarding the development plan of the subsidiaries,

- (a) China Cultural Tourism Group (Overseas) Limited (中國文旅集團(海外)有限公司) will continue to remain as an investment holding company.
- (b) Zhuhai Hengqin Lidong Tourism Development Co., Ltd.* (珠海橫琴利東旅遊發展有限公司), with registered capital of RMB500,000, will continue to seek for and identify suitable opportunities to acquire cultural and tourism projects in the PRC.
- (c) Jiangmen Quanlin Outdoor Sports Development Co., Ltd.* (江門市泉林戶外運動發展有限公司), with registered capital of RMB5,000,000, will organise sporting events such as water sports, land sports and other sporting competitions in Beidouwan as part of the Project.
- (d) Taishan Nanfang Property Investment and Development Co., Ltd.* (台山市南方房地產投資開發有限公司), with registered capital of RMB100,000,000, will continue to develop and construct the Project.

Expected development cost and funding

Based on the construction plan of the Project, the initial investment is expected to be no less than RMB20 million, and the total investment for the whole Project is expected to be no less than RMB620 million. Arrangements of the initial investment and subsequent funding of the development cost by the Group include: (a) obtaining project loans by pledging the original land certificate of the Project to relevant financial institutions; (b) reinvesting the sales revenue into the Project; and (c) borrowing from other independent third parties.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Target Group has obtained the business license and real estate development permit for development of the Project. No other permits for operation of the Resort are required to be obtained. The Group will update the scope of business operation in the business licences of the relevant members of the Group and/or Target Group on or after completion of the relevant phases of the Project.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Project is a large-scale coastal project that integrates commercial, residential, leisure and tourism facilities. The Acquisition is a strategic decision for the Company's further development, as it provides a significant opportunity for the Group to develop its business in the cultural and tourism industry.

The Acquisition would enable the Group to make new breakthroughs in its business, tap into the cultural and tourism markets in the region, seize relevant development opportunities and expand the Group's business scope, thereby improving the Group's profitability and market competitiveness. With the Project, the Company's business model would be more diversified, its operation quality would be further improved, thereby bringing positive impact on the company's profitability.

After the Acquisition, the Group would be able to generate synergies in operations and expand the Group's market scale in the Greater Bay Area. With the aim to achieving economies of scale, the Group would be able to integrate and utilise existing resources more efficiently.

Furthermore, as a profitable project of the Target Group, the Acquisition allows the Company to participate in the development of the Project and allocate its resources to more attractive investment opportunities, thereby improving the Company's capital utilisation rate and enhancing the Company's financial strength.

Having considered that: (a) the reasons for and benefits of the Acquisition as disclosed in the Announcement and this announcement; (b) after offsetting the ZT Debt, the Acquisition will only add extra burden to the Group with cash commitment of RMB305,000,000; (c) the Group will accelerate the sale of completed properties and the return of sales proceeds from existing projects to ensure the normal daily operation of the Group; (d) external fundraising will be conducted by pledging the original land certificate of the Project to relevant financial institutions; (e) the Acquisition will benefit the Company and enhance the Group's profitability; and (f) the Valuation and the Consideration are fair and reasonable, the Board is of the view that the Acquisition is fair and reasonable and in the interest of the Company and Shareholders as a whole.

In this announcement, if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of names or any descriptions in Chinese which are marked with "" is for identification purpose only.*

By order of the Board
TFG International Group Limited
YANG Lijun
Chairman

Hong Kong, 5 July 2023

As at the date of this announcement, the Board comprises Mr. YANG Lijun (Chairman), Mr. GAO Jingyao and Mr. TAM Ka Wai being the executive Directors, Mr. WONG Yuk Lun, Alan being the non-executive Director, and Ms. CHAN Chu Hoi, Ms. CHAN Hoi Ling and Ms. SO Wai Lam being the independent non-executive Directors.