25 February 2022

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Disposal, details of which are contained in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 25 February 2022 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 5 November 2021 (after trading hours of the Stock Exchange), the Company, the Purchaser and the Guarantor entered into the Disposal Agreement, pursuant to which the Purchaser has conditionally agreed to purchase and the Company has conditionally agreed to sell the Sale Shares at the Consideration of HK$282,000,000 which shall be payable by the Purchaser in cash.

Upon Completion, the Group will cease to own any interest in the Disposal Group and the financial results, assets and liabilities of the Disposal Group will no longer be included in the consolidated financial statements of the Group.

As one of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Disposal exceeds 25% but all applicable percentage ratios are less than 75%, the Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules. Accordingly, the Disposal Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Guarantor was an executive Director, the chairman of the Company and a controlling Shareholder, and the entire issued share capital of the Purchaser is indirectly wholly-owned by the Guarantor. Therefore, the Purchaser is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Disposal also

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constitutes a connected transaction of the Company which is subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The EGM will be convened to consider and, if thought fit, approve the Disposal Agreement and the transactions contemplated thereunder by way of poll. The Guarantor, an executive Director and the chairman of the Company, is interested in 3,098,635,152 Shares, representing approximately 44.61% of the issued share capital of the Company as at the Latest Practicable Date. The Purchaser is indirectly wholly-owned by the Guarantor. Thus, the Purchaser, the Guarantor and their respective associates shall abstain from voting at the EGM to approve the Disposal Agreement and the transactions contemplated thereunder pursuant to Rule 14A.36 of the Listing Rules. Save as disclosed above, to the best knowledge of the Directors, no other Shareholder has a material interest in the Disposal and is required to abstain from voting at the EGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Ms. Chan Hoi Ling, Ms. So Wai Lam and Mr. Sung Yat Chun, has been established pursuant to the Listing Rules to advise the Independent Shareholders in respect of the Disposal Agreement and the transactions contemplated thereunder and to make a recommendation as to whether the terms of the Disposal Agreement are normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and as to voting in respect of the relevant resolution(s) at the EGM. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships with or interests in the Company that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. In the last two years, there was no engagement between the Group and Lego Corporate Finance Limited. Apart from normal professional fees paid or payable to us in connection with our appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Group. As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Group, the Purchaser, the Guarantor or any of their respective substantial shareholders, directors or chief executives, or their respective associates that could reasonably be regarded as relevant to our independence. We are independent under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser in connection with the Disposal Agreement and the transactions contemplated thereunder.

BASIS OF OUR ADVICE

In formulating our opinion and recommendation, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information provided by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group (the "**Management**"); and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date hereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the EGM and all such statements of belief, opinions and intention of the Directors and the Management and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, the Management, and/or the advisers of the Company. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and/or the Management are true, accurate, complete and not misleading in all material respects at the time they were made and continue to be so as at the Latest Practicable Date. The Company shall inform the Independent Shareholders as soon as possible if there is any material change to such information in accordance with the Listing Rules on or before the date of the EGM.

We consider that we have reviewed the relevant information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the Management, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or any of its respective subsidiaries or associates.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Disposal Agreement and the transactions contemplated thereunder. Except for its inclusion in the Circular, this letter shall not be quoted or referred to, in whole or in part, nor shall it be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions with respect to the Disposal Agreement and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

1. Background information of the Group

The Company is an investment holding company and the Group is principally engaged in property development and hotel business in the PRC. Set out in Table 1 below is a summary of the consolidated financial information of the Group for each of the three years ended 31 December 2018, 2019 and 2020, and the six months ended 30 June 2020 and 2021, as extracted from the annual reports of the Company for the year ended 31 December 2019 (the "**Annual Report 2019**"), the year ended 31 December 2020 (the "**Annual Report 2020**") and the interim report of the Company for the six months ended 30 June 2021 (the "**Interim Report 2021**"), respectively.

Table 1: Financial highlights of the Group

	For the six months ended 30 June		For the year ended 31 December		
	2021	2020	2020	2019	2018
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
Property Development	713	134,872	5,136	20,893	3,656
Hotel Business	7,189	6,584	13,465	13,573	14,430
Other Business	258	3,305	3,759	—	—
	8,160	144,761	22,360	34,466	18,086
(Loss) for the year/period attributable to owners of the Company	**(107,121)**	**(24,276)**	**(217,714)**	**(202,376)**	**(122,400)**

	As at 30 June	As at 31 December		
	2021	2020	2019	2018
	(unaudited)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	1,911,548	1,851,243	862,032	1,072,671
Current assets	2,506,903	2,159,710	914,024	448,593
Current liabilities	2,503,939	2,101,821	788,194	276,429
Net current assets	2,964	57,889	125,830	172,164
Non-current liabilities	1,814,507	1,701,665	593,544	619,121
Net assets	100,005	207,467	394,318	625,714

For the year ended 31 December 2019

For the year ended 31 December 2019, the Group recorded revenue of approximately HK$34.47 million, which had substantially increased by approximately 90.55% as compared to the revenue of approximately HK$18.09 million as recorded for the year ended 31 December 2018. With reference to the Annual Report 2019, such increase in revenue was mainly attributable to the launches of two new property projects, namely German City located in Zhuhai, the PRC and Fuyuan Junting located in Chengdu, the PRC, in the fourth quarter of 2019. For the year ended 31 December 2019, the Group recorded loss attributable to owners of the Company of approximately HK$202.38 million, representing an increase of approximately 65.34% as compared to the loss of approximately HK$122.40 million as recorded in the previous year. With reference to the Annual Report 2019, the increase in loss for 2019 was primarily resulting from the increase in (i) impairment of trade receivables of licensing rights, the collectability of which was doubtful; (ii) impairment of property, plant and equipment and licensing rights; (iii) selling expenses for promotional and marketing activities of the Group's new property development projects; and (iv) finance costs of certain loans and borrowings taken to finance new property development projects and the decline in property revaluation on investment properties.

As at 31 December 2019, the net current assets of the Group amounted to approximately HK$125.83 million, while net assets of the Group amounted to approximately HK$394.32 million, which had decreased from the net assets of approximately HK$625.71 million as at 31 December 2018 mainly due to the decrease in reserves as a result of the accumulated loss recognised during the same year.

For the year ended 31 December 2020

For the year ended 31 December 2020, the Group recorded revenue of approximately HK$22.36 million, representing a decrease of approximately 35.13% as compared to revenue of approximately HK$34.47 million for the year ended 31 December 2019. For the year ended 31 December 2020, the Group recorded loss attributable to owners of the Company of approximately HK$217.71 million, which has increased by approximately 7.57% from the loss of approximately HK$202.38 million as recorded for the previous year. According to the Annual Report 2020, the loss-making performance in 2020 was mainly attributable to the net effect of, among other things, (i) the consolidation of administrative and other expenses of certain subsidiaries acquired by the Company during the year; (ii) the increase in finance costs related to borrowings obtained for the finance of certain property development projects; (iii) other interest income received from a PRC government authority in respect of the termination of a land grant contract; (iv) gain on change of fair value of investment properties; and (v) decline in the impairment loss on property, plant and equipment.

As at 31 December 2020, the net current assets of the Group amounted to approximately HK$57.89 million while net assets of the Group amounted approximately HK$207.47 million, which had decreased from the net assets of approximately HK$394.32 million as at 31 December 2019 primarily due to the decrease in reserves as a result of the accumulated loss recognised during the same year.

For the six months ended 30 June 2021

For the six months ended 30 June 2021, the Group recorded revenue of approximately HK$8.16 million. For the six months ended 30 June 2021, the Group recorded loss attributable to owners of the Company of approximately HK$107.12 million. With reference to the Interim Report 2021, it is noted that such loss was mainly attributable to, among other things, (i) the significant decrease in revenue as aforementioned which resulted in a decrease in gross profit; and (ii) the increase in finance costs related to borrowings obtained for the finance of certain property development projects.

As at 30 June 2021, the consolidated net current assets and net assets of the Group amounted to approximately HK$2.96 million and HK$100.00 million, respectively.

2. Background and financial information on the Disposal Group

2.1 Background information and property interests of the Disposal Group

The Disposal Company was incorporated in the BVI with limited liability on 17 June 1992 and is an investment holding company holding as to 100% and 55% of the issued share capitals of WF Limited and BP Limited, respectively. WF Limited was incorporated in the BVI on 21 September 2010 with limited liability which in turn is holding 55% of the issued share capital of JP Limited. The remaining 45% of the issued share capital of each of BP Limited and JP Limited is held by City-Prime Profit Ltd.. To the best knowledge of the Directors, having made reasonable enquiries, City-Prime Profit Ltd. and its beneficial owner(s) are third parties independent of and not connected with the Company and its connected persons.

BP Limited was incorporated in the BVI on 30 March 1994 with limited liability which in turn is the legal and beneficial owner of 100% equity interest of MS Plaza Limited. MS Plaza Limited was established in the PRC on 26 December 2001 with limited liability. MS Plaza Limited is entitled to be engaged in property development, property construction, and leasing and selling of commercial and residential properties in Zhongshan City, the PRC. JP Limited was established in the BVI on 6 July 1992 with limited liability which in turn is the legal and beneficial owner of 100% equity interest of each of MS Clubhouse Limited and MS Villa Limited. MS Clubhouse Limited was established in the PRC on 31 March 1997 with limited liability and is entitled to be engaged in food and beverage, operation of swimming pool, leasing of commercial units and office. MS Villa Limited was established in the PRC on 26 December 2001 with limited liability and entitled to be engaged in property development, property construction, and leasing and selling of commercial and residential properties in Zhongshan City, the PRC.

The Disposal Group has two development projects in Zhongshan City, Guangdong Province, the PRC, namely Morning Star Villa operated by MS Villa Limited and MS Clubhouse Limited, and Morning Star Plaza operated by MS Plaza Limited.

Morning Star Villa

Morning Star Villa is a large-scale residential development project with ancillary commercial and recreational facilities, including two clubhouses. It is located on the western side of Gangkou Town of Zhongshan City, the PRC. As at the Latest Practicable Date, all completed properties held for sale have been sold.

As at the Latest Practicable Date, the land and properties held by MS Villa Limited are being occupied as follows:

(a) The MSV Land Parcel

The MSV Land Parcel has a total land area of approximately 151,674.59 sq. m., of which the total developable site area is approximately 128,982.41 sq. m. and the remaining 22,692.18 sq. m. are for road construction and landscaping. It is currently vacant.

(i) Intended development

The initial intention was to develop the MSV Land Parcel into phases VIII and IX of the Morning Star Villa as follows:

(a) Phase VIII is comprised of three land parcels (hereinafter being referred to as Phase VIII Land Parcel 1, Phase VIII Land Parcel 2 and Phase VIII Land Parcel 3), with Phase VIII Land Parcels 1 and 2 already developed into properties and sold prior to 2010. Phase VIII Land Parcel 3 remains vacant; and

(b) Phase IX is comprised of four land parcels, all being vacant.

(ii) Land use rights

As the land use rights of the MSV Land Parcel were obtained in 2002, but Phase VIII Land Parcel 3 as well as all four land parcels of Phase IX have been vacant since 2002, these land parcels are considered as idle land. Supplemental agreements relating to the four parcels of land comprising Phase IX were signed on 27 October 2021 such that the Disposal Group shall commence construction works on or before 18 March 2022 with a construction period of 2 years (the "**Development Instruction**").

(iii) Planning control

Set out below is the planning control of the MSV Land Parcel:

Date	Name of planning control document	Details of planning control
13 July 1998	中山市建設項目選址意見書 (Zhongshan City Construction Project Site Selection Opinion*)	(a) plot ratio: 1.5, (b) building density: 30% (c) building height: 24m (d) green area ratio: 30%
3 July 2020	中山市港口鎮星晨花園片區控制性詳細規劃(2020) (the Controlled Detail Planning for the Morning Star Villa area of Gangkou Town, Zhongshan City (2020)*)	The property is to be classified as "Class II Residential Land" (a) plot ratio: 2.5 (b) building density: not more than 32% (c) building height: 60m–100m (d) green area ratio: not less than 30%

As disclosed in the Letter from the Board, since May 2021, the Disposal Group made various applications to Zhongshan City Natural Resources Bureau for adjustment of building height and consolidation of the land certificates with respect to certain land parcels comprising the MSV Land Parcel. Upon obtaining the required approval for adjustment of building height and/or consolidation of the land certificates for the relevant land parcels, the Disposal Group will make an application for planning and construction based on plot ratio of 1.5 for those land parcels. The Disposal Group can then commence construction work once obtained the approval for planning and construction.

If the MSV Land Parcel is to be developed in accordance with the latest plot ratio of 2.5, the Disposal Group will then need to take part in a plot ratio bidding which shall make reference to the current assessed land price. If the bidding is successful, the Disposal Group is required to pay additional land grant premium and shall sign a supplementary agreement to the Contract of Grant of State-owned Construction Land Use Rights with the Zhongshan City Natural Resources Bureau. It is expected that the additional land grant premium for the increase of plot ratio from 1.5 to 2.5 would be at least RMB4,000 (equivalent to approximately HK$4,802.80) per sq. m. after making reference to recent auction prices of the land parcels in the surrounding area, therefore resulting in additional land grant premium of approximately RMB400 million (equivalent to approximately HK$480.28 million).

(b) Phase II Clubhouse

Phase II Clubhouse is the unsold portion of a building, being the clubhouse of Phase II of Morning Star Villa. The total gross floor area of Phase II Clubhouse is approximately 5,938 sq. m.. It is currently leased under various tenancies with the latest due in May 2023.

(c) Phase VI Clubhouse

Phase VI Clubhouse is a block of clubhouse of phase VI of Morning Star Villa with total gross floor area of approximately 944.3 sq. m.. It is currently vacant.

(d) Sold properties

As at the date of the Disposal Agreement, MS Villa Limited held 13 commercial spaces in Phase V of Morning Star Villa with the total gross floor area of approximately 1,130.34 sq. m.. It is currently tenant-occupied as a kindergarten under a tenancy for a term of 15 years ending in April 2033. On 25 October 2021, these 13 commercial spaces were agreed to be sold to third parties in an auction at an aggregate consideration of RMB10,986,921 (equivalent to approximately HK$13,191,996). Such auction transactions ("**MSV Auction Transactions**") have not been completed, pending registration of the transfers with the relevant governmental authority. Upon completion of the MSV Auction Transactions, MS Villa Limited shall not have any interest in these commercial spaces.

Morning Star Plaza

Morning Star Plaza is a mixed commercial and residential development divided into different phases on a site located on the northwestern side of Gangkou Town of Zhongshan City, the PRC. It was completed by phases within 1999 to 2008. As at the Latest Practicable Date, 99.98% of completed properties held for sale have been sold.

As at the Latest Practicable Date, the land and properties held by MS Plaza Limited are being occupied as follows:

(a) The MSP Land Parcel

The MSP Land Parcel has a total site area of 7,343.08 sq. m. for commercial and residential use. It is currently vacant. The Group has no plan to develop the MSP Land Parcel as the plot ratio of the MSP Land Parcel has been achieved in the previous development.

(b) Unsold Mixed Units

As at the date of the Disposal Agreement, MS Plaza Limited holds 184 unsold units/items for sale, comprised one residential unit, two shop units, 49 bicycle rooms, six car parking spaces and 126 motor cycle parking spaces with the total gross floor area of approximately 1,295.53 sq. m.. On 23 September 2021, four car parking spaces and two bicycle rooms having respective total gross floor area of 41.06 sq. m and 22.07 sq.m. were agreed to be sold to third parties in an auction at an aggregate consideration of RMB285,304 (equivalent to approximately HK$342,565) and on 25 October 2021, four more of the bicycle rooms and two more of the car parking spaces having respective total gross floor area of 41.19 sq. m and 25.26 sq.m. were agreed to be sold to third parties in an auction at an aggregate consideration of RMB189,498 (equivalent to approximately HK$227,530). As at the Latest Practicable Date, the above auction transactions (the "**MSP Auction Transactions**") have not been completed, pending registration of the transfers with the relevant governmental authority. Upon completion of the MSP Auction Transactions, MS Plaza Limited shall own 172 unsold units/items comprising one residential unit, two shop units, 43 bicycle rooms and 126 motor cycle parking spaces with the total gross floor area of approximately 1,164.51 sq. m. (being the Unsold Mixed Units).

(c) Unsold Commercial Units

The Unsold Commercial Units comprised 23 unsold shop units of Morning Star Plaza with the total gross floor area of approximately 1,296.56 sq. m.. The Unsold Commercial Units are currently leased under various tenancies with the latest due in August 2030.

2.2 *Financial information of the Disposal Group*

Set out below is a summary of the unaudited consolidated financial information of the Disposal Group for the two years ended 31 December 2020 and the six months ended 30 June 2021, which was prepared in accordance with the Hong Kong Financial Reporting Standards:

	For the six months ended 30 June	**For the year ended 31 December**	
	2021	**2020**	**2019**
	HK$'000	*HK$'000*	*HK$'000*
	(approximately)	*(approximately)*	*(approximately)*
Revenue	455	—	1,619
Profit/(loss) before taxation	17	1,976	(29,123)
Profit/(loss) after taxation	17	1,177	(27,607)

For the year ended 31 December 2019, the Disposal Group recognised revenue of approximately HK$1.62 million which mainly comprised (i) revenue from the sales of properties held for sale of approximately HK$0.8 million; and (ii) income from clubhouse operation services of approximately HK$0.8 million. For the year ended 31 December 2020, no revenue had been recognised by the Disposal Group as (i) no sales of properties held for sale has taken place for the year; and (ii) there was no service income from the clubhouse operation as the clubhouse had suffered from prolonged losses for years. The clubhouse had ceased operation since January 2020.

For the year ended 31 December 2019, the Disposal Group incurred loss after taxation of approximately HK$27.6 million mainly due to loss on impairment of property, plant and equipment of approximately HK$12.5 million, loss on impairment of properties held for sale under development of approximately HK$8.8 million and loss on change in fair value of investment properties of approximately HK$6.1 million for the year. For the year ended 31 December 2020, the Disposal Group incurred profit after taxation of approximately HK$1.2 million due to a gain on change in fair value of investment properties of approximately HK$3.2 million.

The unaudited consolidated net assets of the Disposal Group as at 31 December 2019, 31 December 2020 and 30 June 2021 amounted to approximately HK$145.06 million, HK$152.98 million and HK$154.07 million, respectively. As at 30 June 2021, the unaudited consolidated net asset value of the Disposal Group attributable to the Group amounted to approximately HK$104.56 million.

As at the date of the Disposal Agreement, the Company is indebted to the Disposal Company the Company Loan in the amount of HK$43,132,094 which is non-interest bearing, unsecured and repayable on demand. Assuming the Company

Loan had been waived in connection with the Disposal, the unaudited consolidated net assets of the Disposal Group would have been approximately HK$110.94 million as at 30 June 2021.

Assuming the MSV Auction Transactions and the MSP Auction Transactions had been completed as at 30 June 2021, the unaudited consolidated net assets of the Disposal Group would have been approximately HK$415.71 million as at 30 June 2021.

3. Background of the Purchaser and the Guarantor

According to the Purchaser, its principal business is investment holding. The Guarantor, an executive Director and the chairman of the Company, was interested in 3,098,635,152 Shares, representing approximately 44.61% of the issued share capital of the Company as at the Latest Practicable Date. The Purchaser is indirectly wholly-owned by the Guarantor.

4. Reasons for and benefits of the Disposal and intended use of proceeds

In considering the Disposal Agreement, we have principally reviewed and taken into account (i) the status of the MSV Land Parcel being the largest land parcel among the Properties interested by the Disposal Group; (ii) the financial position of the Group; and (iii) the outlook of the Group's property development business.

4.1 Background and time constraint for development of the MSV Land Parcel

As stated in the Letter from the Board, the MSV Land Parcel is the largest land parcel among the Properties. Back in around 2017 and 2018, it was the intention of the Disposal Group to develop the MSV Land Parcel into premium residential apartments for sale/leasing. As such, in the following years, the Group had been seeking approvals relating to the regulatory adjustment on the planning and control proposals (控規編製) from relevant governmental authorities for the development of the MSV Land Parcel. One of the proposals, being the revision of plot ratio from 1.5 to 2.5, was submitted in early 2018. However, in 2019, while the Group was waiting for such plot ratio revision approval, the PRC economy took a downward turn and was faced with huge uncertainties such as the China-US trade wars. This was further exacerbated by the outbreak of COVID-19 in late 2019/early 2020. When the approval was finally granted in mid-2020, the social and economic environment differed hugely from when the application was first made in 2018. In addition, the plot ratio revision approval was conditional upon payment of additional land premium. Accordingly, while faced with external economic uncertainties, the Group is also faced with an increase in capital commitment regarding the development of the MSV Land Parcel. In addition, it is noted that the Disposal Group must commence work under the Development Instruction as regards part of the MSV Land Parcel by early 2022, being less than six-month's time from when the Development Instruction was imposed. According to the Company, the Group has approached several credible and reputable property developers in the PRC to see if they had any interest in investing in the Disposal Group. Given the time constraint for the development or construction of the MSV Land Parcel and the prevailing property market in the PRC, as advised by the Management, the Disposal Group did not receive any positive feedback from the aforesaid property developers and no potential interested purchaser other than the Purchaser could be identified with respect to the disposal of the Disposal Group with favourable terms.

4.2 Financial position of the Group

With reference to the Interim Report 2021, it is noted that as at 30 June 2021, the Group's total interest-bearing borrowings amounted to approximately HK$2,005.18 million, which comprised of borrowings from (i) financial institutions of approximately HK$425.21 million; (ii) independent third parties of approximately HK$1,436.20 million; and (iii) Directors of approximately HK$143.77 million, respectively. As a result, the Group's gearing ratio (which was calculated by dividing total interest-bearing borrowings by total equity) remained relatively high at 2,005.18% as at 30 June 2021. As at 30 June 2021, the cash level of the Group amounted to approximately HK$70.59 million. We understand from the Management that given the Group's existing cash level and constantly high gearing ratio, it may be difficult for the Group to obtain further external financing with favourable terms to satisfy the increased capital commitment for the development of the MSV Land Parcel in a short period of time.

4.3 Outlook of the Group's property development business

The Group is principally engaged in property development and hotel business in the PRC. We have primarily conducted research on the latest development of the property market in the PRC, including the "Three Red Lines" (三道紅線) guidance. According to the "Three Red Lines" which was introduced following a forum held in August 2020 by the Ministry of Housing and Urban-Rural Development (中華人民共和國住房和城鄉建設部), which is a government branch that provides housing services and regulates the state construction activities in the PRC, and the People's Bank of China (中國人民銀行), the guidance force deleverages the real estate developers by placing limits on their debt level in accordance with the extent of fulfilment of three criteria, namely (i) liability to asset ratio (excluding advanced receipts) of less than 70%; (ii) net gearing ratio of less than 100%; and (iii) cash to short-term debt ratio of more than 1. If the property developers are able to fulfil all of the aforementioned criteria, they would be allowed to increase their debt level by 15% annually. However, if one, two or three of the criteria are breached, the allowable annual growth rate in debt would descend to 10%, 5% or 0%, respectively. Notwithstanding that the "Three Red Lines" guidance required twelve large scale PRC pilot property developers to submit reports of their financing situation for evaluation by the regulators against certain key criteria at the first stage which may impose restrictions on such selected property developers on borrowings the next, as advised by the Company, as at the Latest Practicable Date, the Group was not requested by the regulators to submit any information regarding its financing situation nor had the Group received any official formal notice from the relevant PRC authority to comply with the "Three Red Lines" metrics. Further, according to the PRC legal adviser of the Company, there was no formal notice of the full text of the "Three Red Lines" guidance officially published by the PRC governmental authority and therefore, the PRC legal adviser is unable to form a view of whether the Company is subject to such guidance based on the latest information available. Considering that such guidance was one of the dominant real estate financial regulation guidance introduced by the central government which was influential to the overall property market sentiment in the PRC, we are of the view that the operating environment would be more challenging.

In addition, with reference to "2021 Asia Pacific Emerging Trends in Real Estate" co-published in September 2020 by PricewaterhouseCoopers (http://www.pwc.com/), which offers business advisory services such as auditing, accounting, taxation, strategy management, and human resource consulting services, and the Urban Land Institute (http://www.uli.org/), which is one of the oldest and largest global networks of cross-disciplinary real estate and land use experts, it is stated that the government policy initiatives, including the "Three Red Lines" guidelines and the bank funding cuts are aimed to tighten the extent of bank financing to developers including both small and large companies in order to improve the overall financial health of the real estate sector. According to the statistical report named 深圳統計月報 — 8月 (Shenzhen City Statistical Report — August*) published on 19 October 2021 by the Bureau of Statistics of Shenzhen City (http://tjj.sz.gov.cn/), which is a government body that regularly publishes statistical market data of Shenzhen City, there was a 15.3% decrease in the aggregate investment amount of real estate development projects from January to August 2021 in comparison to the corresponding period of 2020. The market sentiment of the property development business in the PRC was further dampened by the recent growing concerns over potential default of the debt-laden China Evergrande Group, a leading property developer in the PRC, due to its relatively heavy debt level. On the other side, it was noticed that in October 2021, an official news conference (國新辦舉行三季度銀行業保險業數據信息暨監管重點工作發佈會) between the banking and insurance sectors and government officials was held in relation to the recent performance of the banking and insurance industry, during the conference, the PRC government officials were supportive to first-home buyers in terms of down payment ratio and interest rate of mortgage, and stated that the government will continue to implement the long-term mechanism to maintain the steady development of the real estate market and the continuity and stability of real estate finance regulatory policies. Notwithstanding the aforesaid, the more stringent government regulation and ongoing supervision over the PRC property market in recent years has made the market condition susceptible to the everchanging regulatory environment, leading to a relatively uncertain market outlook of the property development market.

4.4 Intended use of proceeds

After deducting the estimated professional fees arising from the Disposal, it is expected that the net proceeds from the Disposal will amount to approximately HK$281,000,000, which will be applied as to (i) approximately HK$277,200,000 for repayment of loan borrowed by the Group and the accrued interest; and (ii) approximately HK$3,800,000 for general working capital of the Group. Accordingly, the net proceeds from the Disposal would enable the Group to (i) repay its borrowings so as to relieve the imminent cashflow pressure for repayment of its existing short-term borrowings; (ii) reduce its gearing ratio as well as interest expenses; and (iii) enhance its liquidity and provide financial flexibility for the Group to re-allocate its financial resources for any potential investments with higher revenue-generating potential when suitable opportunities arise.

Considering (i) the time constraint prescribed by the relevant PRC authority for satisfying the increased capital commitment for the development of the MSV Land Parcel and commencing development of the MSV Land Parcel by early 2022; (ii) that the Disposal provides an exit for the Group to realise its investment in the Disposal Group at a premium to the Adjusted NAV (as discussed in the below section headed "5. Principal terms of the Disposal Agreement"); (iii) that the Disposal would enable the Group to capture a gain (as discussed in the below section headed "6. Financial effects of the Disposal") from the Disposal amid the uncertain outlook of the PRC property market; and (v) majority of the proceeds from the Disposal would be applied as repayment of short-term borrowings thereby reduce the Group's gearing ratio and interests burden and improve its financial flexibility as a whole, we are of the view that the entering into of the Disposal Agreement and the transactions contemplated thereunder is in the interests of the Company and the Shareholders as a whole.

5. Principal terms of the Disposal Agreement

Pursuant to the Disposal Agreement, the Purchaser has conditionally agreed to purchase and the Company has conditionally agreed to sell the Sale Shares, being the entire issued share capital of the Disposal Company held by the Company as at the date of the Disposal Agreement, at the Consideration of HK$282,000,000 which shall be payable by the Purchaser in cash. For further details of the principal terms of the Disposal Agreement, please refer to the section headed "The Disposal Agreement" in the Letter from the Board.

With reference to the Letter from the Board, the Consideration was arrived at after arm's length negotiations between the Company and the Purchaser after taking into account (i) the waiver of the Company Loan; and (ii) the unaudited consolidated adjusted net asset value of the Disposal Group of approximately HK$415.71 million, being (a) the unaudited consolidated net asset value of the Disposal Group as at 30 June 2021 of approximately HK$154.07 million (assuming the MSV Auction Transactions and the MSP Auction Transactions had been completed as at 30 June 2021), prepared in accordance with the accounting principles generally accepted in Hong Kong, plus (b) the appreciation of the Properties in the amount of approximately HK$406.16 million, which is equivalent to the difference between the book value of the Properties as at 30 September 2021 in the amount of approximately HK$76.15 million and the appraised value of the Properties as at 30 September 2021 in the amount of approximately HK$482.31 million (based on the approximate exchange rate of RMB1.00 to HK$1.2007), less (c) the carrying amount of the Company Loan of approximately HK$43.13 million as at 30 June 2021 and less (d) the deferred tax liabilities arising from such appreciation of the Properties of approximately HK$101.59 million. The unaudited consolidated adjusted net asset value of the Disposal Group attributable to the Group (the "**Adjusted NAV**") as at 30 June 2021 amounted to approximately HK$228.64 million. As at 31 December 2021 (the "**Valuation Date**"), the appraised value of the Properties remained unchanged at approximately HK$482.31 million (based on the approximate exchange rate of RMB1.00 to HK$1.2007), as set out in the valuation report (the "**Valuation Report**") prepared by an independent valuer, B.I. Appraisals Limited (the "**Independent Valuer**") using direct comparison method, or, wherever appropriate, investment method, as set out in Appendix II to the circular.

Assessment of the Consideration

5.1 Valuation

In assessing the fairness and reasonableness of the Consideration, we have primarily made reference to the appraised value of the Properties, which formed the primary component in arriving at the Adjusted NAV, being the principal basis of the Consideration. As part of our due diligence, we have reviewed the Valuation Report and conducted interviews with the Independent Valuer regarding, among others, its relevant qualifications and experiences, independence and principal bases and assumptions adopted in the Valuation Report.

Valuer's experience and qualifications

According to the information provided by the Independent Valuer and our independent research conducted from the public domain, with a presence in Hong Kong for approximately 30 years, the Independent Valuer is a firm of professional surveyors and international valuation consultants offering one-stop valuation/appraisal and property related professional services in Hong Kong, the PRC and the Asia Pacific region. In particular, based on our interview with the Independent Valuer, we were given to understand that Mr. William Sham, being the professional responsible for signing off the Valuation Report, has approximately 38 years of experience in the real estate market and is a member of The Royal Institution of Chartered Surveyors, The Hong Kong Institute of Surveyors, China Institute of Real Estate Appraisers and The Hong Kong Institute of Financial Valuers.

The Independent Valuer confirmed that it is an independent third party to the Company, the Purchaser, the Guarantor and their respective connected persons as at the Latest Practicable Date. In addition, we have reviewed the terms of the engagement letter of the Independent Valuer with respect to the Valuation Report and noted that the scope of work is appropriate to the opinion required to be given and we are not aware of any limitation on the scope of work which might have an adverse impact on the degree of assurance given by the Valuation Report.

Valuation standards and assumptions

As confirmed by the Independent Valuer, during the course of the Valuation, it has complied with the reporting guidelines set by (i) The HKIS Valuation Standards 2020 and issued by the Hong Kong Institute of Surveyors; and (ii) Chapter 5 and Practice Note 12 of the Listing Rules.

During our review, we noted that the valuation on the Properties was conducted based on the major assumptions including that the Group sells the Properties on the open market in their existing states without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the values of such properties. Further, it is assumed that the Group has valid and enforceable title to the properties which are freely transferable, and has free and uninterrupted right to use the Properties, for the whole of the unexpired lease/land use terms granted subject to payment of annual government rent/land use fees and all requisite land premium/purchase consideration payable has been fully settled. In addition, no allowance has been made in the valuation for any charges, mortgages or amounts owing on the Properties nor for any expenses or taxation which may be incurred in effecting a sale. We have discussed with the Independent Valuer regarding the assumptions adopted in the Valuation Report and were given to understand that such assumptions are in line with the general market practice.

Valuation methodology

With reference to the Valuation Report, the Properties were broadly classified into four groups namely (i) the Unsold Mixed Units, being properties held for sale; (ii) the Unsold Commercial Units, being properties held for investment; (iii) the Phase II Clubhouse and Phase VI Clubhouse, being properties held and occupied by the Group; and (iv) the MSV Land Parcel and MSP Land Parcel, being properties held for future development, respectively.

We noted from the Valuation Report that the Independent Valuer has adopted the direct comparison method in valuing the Unsold Mixed Units and MSV Land Parcel. We were given to understand that direct comparison method has generally been considered by the valuation industry as the best approach for valuing properties if there are market evidences of property/land sales transactions or listings, as those market evidences are based on publicly available information which involve less assumptions. As advised by the Independent Valuer, apart from the direct comparison approach, the investment approach had also been considered. However, as no rents were received by the Unsold Mixed Units and MSV Land Parcel, and there were no tenancy agreements related to such properties as at the Valuation Date, the Independent Valuer considered the investment approach inappropriate. Considering the overall availability and sufficiency of market information on the identifiable comparable transactions, the Independent Valuer considered direct comparison method the most appropriate method and has adopted such approach for the purpose of valuing the Unsold Mixed Units and MSV Land Parcel. Based on our independent research, it is noted that the direct comparison method has been commonly adopted for valuing assets including properties of other listed companies in Hong Kong.

We noted from the Valuation Report that the Independent Valuer has adopted the investment method in valuing the Unsold Commercial Units and Phase VI Clubhouse, by taking into account the current rents passing and the reversionary income potential of such properties. As advised by the Independent Valuer, considering that (i) the investment approach is generally adopted for rent-generating properties and/or properties with tenancy agreements; and (ii) the Unsold Commercial Units are also currently generating rent and have existing tenancy agreements, and the likelihood of the Phase VI Clubhouse in generating rental payment given an active open leasing market, the Independent Valuer is of the view that the investment method is the most appropriate approach to appraise the Unsold Commercial Units and Phase VI Clubhouse. The Independent Valuer further advised that it is a normal market practice to value properties that have tenancy agreements and/or are capable of generating rent using the investment method.

The Properties

(i) Unsold Mixed Units and MSV Land Parcel using the direct comparison method

Unsold Mixed Units

In arriving at the appraised value of the Unsold Mixed Units, being an aggregate of 172 unsold mixed units/items of Morning Star Plaza comprising one residential unit, two shop units, 43 bicycle rooms and 126 motor cycle parking spaces, the Independent Valuer has made reference to the unit price of comparable offers of residential units (the "**Residential Comparables**"), retail units (the "**Retail Comparables**") and motor cycle spaces ("**Motor Cycle Comparables**") (collectively, the "**Asking Comparables**") in the market and the historical unit price of bicycle rooms under the MSP Auction Transactions. The adopted unit price was then multiplied by the area of the underlying properties to give the market value of the Unsold Mixed Units.

In relation to the Residential Comparables, the Independent Valuer has identified asking properties based on the selection criteria that (a) such residential premises are (i) located in Morning Star Plaza, being the same as the Unsold Mixed Units; and (ii) of comparable size in terms of gross floor area; and (b) the asking dates of the relevant properties were within 6 months immediately preceding the Valuation Date which we consider a reasonable search period. Certain adjustments were then made to the unit rates of the Residential Comparables to reflect the differences in the characteristics of the residential unit among the Unsold Mixed Units in terms of asking nature and size, which are common market practice for conducting similar valuation.

In relation to the Retail Comparables, the Independent Valuer has identified asking properties based on the selection criteria that (a) such retail premises are (i) located in the western parts of Zhongshan City, the PRC and close to the city centre in order to obtain a sufficient sample size; and (ii) of comparable size in terms of gross floor area; and (b) the asking date of the relevant properties were within 6 months immediately preceding the Valuation Date which we consider a reasonable search period. Certain adjustments were then made to the unit rates of the Retail Comparables to reflect the differences in the characteristics of the retail shop units among the Unsold Mixed Units in terms of asking nature, size and floor level, which are common market practice for conducting similar valuation.

In relation to the Motor Cycle Comparables, in obtaining the market asking rent, the Independent Valuer has identified asking properties based on the selection criteria that (a) such motor cycle spaces are located within the city centre of Zhongshan City; and (b) the asking date of the relevant motor cycle spaces were within 6 months immediately preceding the Valuation Date which we consider a reasonable search period. Certain adjustments were then made to the asking rents of the Motor Cycle Comparables to reflect the differences in the characteristics of the motor cycle spaces among the Unsold Mixed Units in terms of asking nature, which are common market practice for conducting similar valuation. The market yield for parking space property was computed by annualising the average asking rent of the Motor Cycle Comparables and divided by the average consideration of the motor cycle spaces sold under the MSP Auction Transactions. The Independent Valuer then applied the adopted market yield and the official rental rate of motor cycle parking spaces in car park in Zhongshan City to arrive at the market value of the motor cycle parking spaces comprising the Unsold Mixed Units.

The Independent Valuer has relied on (i) 58同城網 ("**58.com***") (https://zs.58.com/); and (ii) 安居客網 ("**Anjuke Website***") (https://zs.anjuke.com/) as the sources of askings in obtaining the Residential Comparables, the Retail Comparables and the Motor Cycle Comparables. Based on our independent search, 58.com is a conglomerate enterprise originally listed on the New York Stock Exchange (original ticker: WUBA) and one of the largest online property market places in the PRC. Anjuke Website was established in 2007 and focuses on property listing both residential and commercial properties of the PRC. As such, we are of the view that the sources of information in identifying the Asking Comparables are reliable and the Asking Comparables are fair and reasonable. As confirmed by the Independent Valuer, the Asking Comparables represent an exhaustive list of comparables to the best of their understanding.

The adopted unit price of the bicycle rooms among the Unsold Mixed Units was made with reference to the average unit price of the two bicycle rooms which were agreed to be sold to third parties under the MSP Auction Transactions on 23 September 2021, which we consider appropriate to reflect the recent market price.

MSV Land Parcel

In arriving at the appraised value of the MSV Land Parcel, the Independent Valuer has made reference to the comparable land sales transactions ("**Land Sales Comparables**") approved by the relevant local government as available from the China Land Market Website* (中國土地市場網) (http://landchina.com). Based on our independent search, we noted that the China Land Market Website is a website operated by the Real Estate Registration Centre, MNR, PRC (Law Center, MNR, PRC) (自然資源部不動產登記中心(自然資源部法律事務中心)), which is in turn an institution directly under the Ministry of Natural Resources of the PRC engaged in, among others, real estate registration in the PRC. The Independent Valuer has initially searched for comparable land sales transactions based on the selection criteria that (a) the underlying land parcels (i) were located in Gangkou Town, Zhongshan City which is the same as the MSV Land Parcel, or within close proximity from the MSV Land Parcel (i.e. within around 10 to 20 minutes driving distance); and (ii) have comparable land usage, being residential use; and (b) the land parcel underlying the transactions were delivered within 6 months preceding the Valuation Date. However, only one comparable land sales transaction was identified based on the aforesaid selection criteria. In order to obtain a reasonable sample size for the purpose of valuation, the Independent Valuer has extended the selection criteria (b) above to include land sales transactions of which the underlying land parcels were delivered within one year preceding the Valuation Date. Based on the extended selection criteria, a total of three Land Sales Comparables had been identified by the Independent Valuer, which we consider sufficient. Certain adjustments were then made to the unit price of the Land Sales Comparables to reflect the differences in the characteristics of the MSV Land Parcel in terms of class rating of site, time of transaction, scale of development in terms of total gross floor area, and remaining lease terms pursuant to the certificate of land use rights associated with the underlying land parcels, which are common market practice for conducting similar valuation. As confirmed by the Independent Valuer, the Land Sales Comparables represent an exhaustive list of comparable transactions to the best of their understanding. In light of the foregoing, we are of the view that the source of information of the Land Sales Comparables is reliable and the Land Sales Comparables are fair and reasonable.

(ii) Unsold Commercial Units and Phase VI Clubhouse using the investment method

Based on the investment method, the market value of property valued is derived by making reference to the current rents passing under existing tenancies and the reversionary income potential of the properties upon expiry of tenancies. The market value is therefore the sum of (i) the term value, being the present value of current rents during the term of existing tenancies by making reference to the predetermined rental rate as stated therein; and (ii) the reversionary value, being the present value of expected future rents upon expiry of existing tenancies by making reference to the asking rents and yields of comparable transactions in the market.

Unsold Commercial Units

Since there are existing tenancy agreements in respect of the Unsold Commercial Units as at the Valuation Date, the Independent Valuer has computed the term value of the Unsold Commercial Units based on the existing tenancies provided by the Company. We noted that the unit rents and tenancy terms used in arriving at the term value is consistent with those stated in the existing tenancy agreements of the Unsold Commercial Units. In arriving at the reversionary value, we noted the Independent Valuer has identified asking properties from 58.com based on the criteria that (a) such premises are (i) located in the western parts of Zhongshan City; (ii) of comparable size; and (iii) located on the ground floor; and (b) the asking date of the relevant properties were approximately within 6 months immediately preceding the Valuation Date which we consider such period to be reasonable. Certain adjustments were then made to the unit rates/rents of the comparable askings to reflect the differences in the characteristics of the Unsold Commercial Units in terms of (i) asking nature; (ii) size; and (iii) location, which are common market practice for conducting similar valuation. As confirmed by the Independent Valuer, the comparables askings being referenced to in the adoption of market rental rate and yield represent an exhaustive list to the best of their understanding.

Phase VI Clubhouse

Since the Phase VI Clubhouse was not leased as at the Valuation Date and therefore no existing tenancies are available, the Independent Valuer has computed the reversionary value as the market value of the Phase VI Clubhouse with reference to the comparables being referenced to in arriving at the market value of the Unsold Commercial Units. As advised by the Independent Valuer, the nature of clubhouse is similar to that of a retail nature and hence the same set of asking comparables was adopted in deriving the market value of the Phase VI Clubhouse. Nonetheless, considering the difference in clubhouse nature of the Phase VI Clubhouse in comparison to the retail nature of the Unsold Commercial Units, the Independent Valuer has made certain adjustments to the market yields of the comparables in arriving at the market value of the Phase VI Clubhouse, which are common market practice for conducting similar valuation.

(iii) Phase II Clubhouse and MSP Land Parcel

We noted from the Valuation Report that the Independent Valuer has ascribed no commercial value to the Phase II Clubhouse and the MSP Land Parcel. We have obtained from the management of the Company the respective book values of each of the Properties held by the Group as at 30 June 2021 and noted that the book values of the Phase II Clubhouse and the MSP Land Parcel were nil as at 30 June 2021. As advised by the Independent Valuer, we understand that in conducting the valuation of the Properties, they have primarily relied on the legal opinions of the PRC legal adviser of the Company with respect to the Properties to assess the transferability of and whether the Company is entitled to dispose of the Properties in the market, as well as the development potential of land parcels. In this regard, we have reviewed the legal opinions provided by the PRC legal adviser of the Company which has provided its view on legal matters such as planning approvals, statutory notices, easements, tenure, completion date of buildings, particulars of occupancy, tenancy details, site and floor areas and all other relevant matters in the identification of the Properties. Based on the conclusion of the PRC legal adviser, we noted that (i) the Company may not be able to freely transfer the Phase II Clubhouse primarily due to the absence of transferable legal title to the property as at the Valuation Date; and (ii) notwithstanding that the Company is in possession of the proper legal title to the MSP Land Parcel and is entitled to legally transfer, mortgage, lease or otherwise legally dispose of such land parcel, the Company is required to apply for an extension of validity period of the development qualification with the relevant authority before carrying out any future development of the MSP Land Parcel, rendering the Company unable to develop the MSP Land Parcel based on the status as at the Valuation Date.

During our review of the Valuation Report and discussions with the Independent Valuer, we have not identified any major factors that cause us to cast doubt on the fairness and reasonableness of the principal bases and assumptions adopted in arriving at the appraised value of the Properties.

Taking into account of the above, we consider that the valuation bases and assumptions adopted by the Independent Valuer in the Valuation Report are fair and reasonable. As set out in the Valuation Report, the appraised value of the Properties was approximately RMB401.69 million (equivalent to approximately HK$482.31 million) as at the Valuation Date. The appraised value of the Properties attributable to the Group amounted to approximately RMB220.93

million (equivalent to approximately HK$265.27 million). On the basis that the MSV Auction Transactions and the MSP Auction Transactions had been completed, the Adjusted NAV which has accounted for (i) the appraised value of the Properties; (ii) the waiver of the Company Loan; and (iii) the deferred tax liabilities arising from appreciation of the Properties, amounted to approximately HK$229.05 million as at 30 June 2021. The Consideration therefore represents a premium of about 23.12% over the Adjusted NAV, which is considered fair and reasonable.

5.2 Market comparable transactions

In further assessing the fairness and reasonableness of the Consideration, we have also searched for recent transactions conducted by companies listed on the Stock Exchange that (i) have conducted disposal of companies which owned property interests as major assets and/or are principally engaged in property investment/ development and the transactions of which constituted notifiable transactions as defined under the Listing Rules, excluding disposal through public tender; and (ii) have disclosed information on the respective net asset values of the subject disposal companies as adjusted by the latest valuation or market value of the underlying property interests in the relevant announcements which reflect the fair transaction value, during the three-month period preceding the date of the Disposal Agreement which we consider a reasonable period to reflect the recent market practice preceding the Disposal.

To the best of our knowledge and endeavour, we have identified five companies based on our selection criteria (the "**Comparable Transactions**"). We consider the Comparable Transactions to be exhaustive and in general forms a fair and representative sample for establishing our analysis below, taking into account that the Comparable Transactions also involved the disposal of companies with significant property interests. Set out below are our findings:

Date of announcement	Company name (Stock code)	Principal assets of the subject companies being disposed of	Consideration		Fair value of the transaction (i.e. after accounted for the net asset value of the subject company as adjusted by the latest valuation/ market value of property asset)	Premium/ (discount) of consideration over/to the adjusted net asset value of the subject company
			(million)	*(HK$ million)*	*(HK$ million)*	
24 October 2021	Yuexiu Property Company Limited (123)	An international grade A office property located in the core area of Guangzhou Zhujiang New Town, the PRC	RMB7,792.83	9,351.40[1,2]	9,627.40[1,3]	(2.87)%
21 October 2021	Neway Group Holdings Limited (55)	A 6-storey industrial building situated in Fanling, Hong Kong	HK$231.00	231.00	209.80	10.10%

Date of announcement	Company name (Stock code)	Principal assets of the subject companies being disposed of	Consideration *(million)*	*(HK$ million)*	Fair value of the transaction (i.e. after accounted for the net asset value of the subject company as adjusted by the latest valuation/ market value of property asset) *(HK$ million)*	Premium/ (discount) of consideration over/to the adjusted net asset value of the subject company
20 October 2021	Emperor International Holdings Limited (163)	A 12-storey industrial building located in Kwai Chung, Hong Kong	HK$585.00	585.00[4]	585.00[5]	0%
7 September 2021	Artgo Holdings Limited (3313)	Two residential properties situated in Shanghai, the PRC	RMB45.00	54.00[1]	57.47[1,6]	(6.04)%
16 August 2021	Sichuan Expressway Company Limited (107)	Properties located in Meishan City, the PRC	RMB1,858.20	2,229.84[1,7]	2,198.88[1,8]	1.41%
					Maximum:	10.10%
					Minimum:	(6.04)%
					Average:	0.52%
	The Disposal			282.00	229.05	23.12%

Source: The respective announcements of the Comparable Transactions as published on the website of the Stock Exchange (https://www.hkexnews.hk).

Notes:

1. The approximate exchange rate of RMB1 = HK$1.20 has been used.

2. The consideration is equal to the sum of consideration for the sale shares and the outstanding amounts due to the holding company of the vendor and its group company at completion.

3. The fair value of the transaction was computed by taking the sum of (i) the net asset value of the subject company of negative RMB7,797,636,000 (excluding the carrying value of the property) and adjusted by the appraised value of the property of RMB8,030.00 million; and (ii) the outstanding amounts payable of approximately RMB7,790.47 million.

4. The consideration represents the sum of consideration for (i) the sale shares; (ii) the sale loan; and (iii) repayment of existing bank loan.

5. The fair value of the transaction was computed by taking the sum of (i) the net asset value of the subject company as adjusted by the appraised value of the property of HK$163.9 million; (ii) the sale loan amount of approximately HK$304.60 million; and (iii) the repayment of existing bank loan which, for the purpose of this analysis, was assumed to be HK$116.50 million with reference to the difference between the consideration of HK$585.0 million and the estimated net proceeds after repayment of such bank loan of HK$468.4 million as disclosed in the relevant announcement.

6. The adjusted net asset value was based on RMB93.9 million as at 30 June 2021 as disclosed in the relevant announcement and multiplied by 51% to be disposed of by the vendor.

7. According to the relevant announcement, the consideration shall not exceed RMB1,858.2 million which comprised (i) the consideration for the sale shares (being 91% of the subject company to be disposed of) which shall not exceed RMB505.9 million; and (ii) sale loan which shall not exceed RMB1,352.3 million.

8. The fair value of the transaction was computed as the sum of (i) the appraised net asset value of RMB552.2 million as disclosed in the relevant announcement and multiplied by 91%; and (ii) the amount of sale loan of RMB1,329.9 million up to the date of the relevant announcement.

In light of the above, taking into account that the Consideration represents a premium of about 23.12% over the Adjusted NAV which is above the premium/discount represented by the consideration over/to the fair transaction value of all of the Comparable Transactions, we are of the view that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

In light of the above, we are of the view that the principal terms of the Disposal Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

6. Financial effects of the Disposal

With reference to the Letter from the Board, as at the Latest Practicable Date, the Disposal Company is a wholly-owned subsidiary of the Company. Upon Completion, the Group will cease to own any interest in the Disposal Group and the financial results, assets and liabilities of the Disposal Group will no longer be included in the consolidated financial statements of the Group.

Earnings

It is expected that the Group will recognise an estimated gain on Disposal (before taxation) in its consolidated profit and loss statement of approximately HK$219.58 million, which is derived from (i) the difference between (a) the Consideration of HK$282.00 million and (b) the unaudited net asset value of the Disposal Group attributable to the Group as at 30 June 2021 of approximately HK$104.56 million, which is the financial information of the Disposal Group available for the time being; (ii) the estimated gain on waiver of the Company Loan of HK$43.13 million; and (iii) the estimated expenses arising from the Disposal of approximately HK$1 million.

Gearing

According to the Interim Report 2021, the gearing ratio of the Group amounted to 2,005.18%, which was calculated on the basis of total interest-bearing borrowings over the total equity of the Group as at 30 June 2021. As stated in the Letter from the Board, the Group intended to apply the net proceeds from the Disposal as to HK$277,200,000 for repayment of loan borrowed by the Group and the accrued interest, hence the Disposal will reduce the outstanding borrowings of the Group and it is expected that the Group's gearing ratio will decrease to approximately 649.90% which is calculated on the basis of total interest-bearing borrowings as at 30 June 2021 (assuming that the intended loan repayment was completed on 30 June 2021) over the total equity of the Group (assuming that the Disposal were completed on 30 June 2021) as at 30 June 2021 as a result of the Disposal.

Liquidity

Based on the Interim Report 2021, the cash and cash equivalents of the Group was approximately HK$70.59 million as at 30 June 2021. As stated in the Letter from the Board, the net proceeds from the Disposal would be applied for loan repayment and serve as general working capital, which will improve the liquidity of the Group upon completion of the Disposal.

Net assets

As disclosed in the Letter from the Board, taking into account the net proceeds of the Disposal, the unaudited net asset value of the Disposal Group as at 30 June 2021 and the gain on waiver of the Company Loan on the part of the Company, it is estimated that upon Completion, the total assets of the Group will increase by approximately HK$163.65 million, while the total liabilities of the Group will decrease by approximately HK$6.41 million, therefore resulting in an overall increase in the net asset value of the Group.

Independent Shareholders should note that the above expected financial effects are for illustrative purposes only and do not purport to represent the financial position of the Group upon completion of the Disposal Agreement and the transactions contemplated thereunder.

RECOMMENDATIONS

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Disposal Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Disposal is conducted in the ordinary and usual course of business of the Group, and the entering into of the Disposal Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Disposal Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited

Billy Tang
Managing Director

Mr. Billy Tang is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in the accounting and investment banking industries.

* *For identification purpose only*