八方金融有限公司
OCTAL Capital Limited

3 July 2024

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO SALE AND PURCHASE OF THE SALE SHARE AND THE SALE LOAN OF THE TARGET COMPANY**

**INTRODUCTION**

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the SP Agreement, particulars of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 3 July 2024 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

Pursuant to the SP Agreement, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Share and the Sale Loan.

The Independent Board Committee comprising all of the independent non-executive Directors, namely Ms. Kwan Shin Luen, Susanna, Ms. Lai Ka Fung, May and Mr. Yeung Man Sun, has been formed to advise the Independent Shareholders on the terms of the Transaction contemplated thereunder. We, Octal Capital Limited, have been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee in accordance with the Listing Rules to advise the Independent Board Committee and the Independent Shareholders in these regards and to give our opinion for the Independent Board Committee's consideration when making recommendations to the Independent Shareholders.

As at the Latest Practicable Date, we are not connected with the Group and the Target Group, or where applicable, any of the respective substantial shareholders, directors or chief executives, or any of their respective subsidiaries or associates pursuant to Rule 13.84 of the Listing Rules.

During the last two years, we were engaged by Emperor International, which wholly owns the Vendor, as the independent financial adviser in respect of the major and connected transaction in relation to the disposal of entire equity interest in the target company which holds a property interest in Hong Kong (the "**Previous Engagement**"), where the details of the transaction can be referred to the circular dated 10 February 2023 published by Emperor International. Under the Previous Engagement, we were required to express our opinion on and give recommendation to the independent board committee and the independent shareholders of Emperor International in respect of the transaction.

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Apart from normal professional fees payable to us by Emperor International and the Company in connection with these appointments, no arrangement exists whereby we will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company, the Group or the Target Group or any of their respective subsidiaries or associates. Despite the Previous Engagement, we consider our independence is unaffected due to the facts that (i) under the Previous Engagement, we were entitled to receive normal professional fee that was comparable to market rates and the fee did not form a significant portion to our overall income; (ii) we had discharged our responsibilities with due care and skill and performed our duties with impartiality in respect of our engagement with Emperor International; and (iii) the engagement was handled independently as an individual task. Therefore, we consider ourselves eligible to act as the Independent Financial Adviser to the Company pursuant to Rule 13.84 of the Listing Rules.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the Directors and management of the Company regarding the Group and the SP Agreement, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice, among other things, (i) the SP Agreement; (ii) the Valuation Report; (iii) the Market Consultant's Report; (iv) the annual report of the Company for the year ended 31 March 2023 ("**FY2022/23**") (the "**2022/23 Annual Report**") and the annual results announcement for the year ended 31 March 2024 ("**FY2023/24**") (the "**2023/24 Annual Results Announcement**"); and (v) other information as set out in the Circular. We have no reason to neither suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group and the Target Group and their respective subsidiaries or associates nor have we carried out any independent verification of the information supplied.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the SP Agreement, we have considered the following principal factors and reasons:

### 1. Information of the Company and the Purchaser

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of hospitality services in Hong Kong and Macau. The Group currently operates one hotel and three serviced apartments in Hong Kong and two hotels in Macau.

Set out below is a summary of the consolidated financial information of the Group for the year ended 31 March 2022 ("**FY2021/22**"), FY2022/23 and FY2023/24 as extracted from the 2022/23 Annual Report and the 2023/24 Annual Results Announcement.

#### *(a) Financial performance of the Group*

| *Expressed in HK$' million* | **FY2021/22** (audited) | **FY2022/23** (audited) | **FY2023/24** (audited) |
|---|---|---|---|
| ***Revenue*** | | | |
| Gaming operation | 261 | 88 | 459 |
| Hotel operation | 131 | 173 | 282 |
| Lease of properties | 24 | 30 | 48 |
| **Total revenue** | **416** | **291** | **789** |
| **Gross (loss)/profit** | **(83)** | **(116)** | **308** |
| **(Loss)/profit before taxation** | **(725)** | **(181)** | **35** |
| **(Loss)/profit attributable to owners of the Company** | **(528)** | **(98)** | **61** |

*Comparison between FY2021/22 and FY2022/23*

Revenue of the Group decreased by approximately 30.0% from approximately HK$416 million for FY2021/22 to approximately HK$291 million for FY2022/23. Such decrease was primarily due to the decrease of approximately 66.3% or approximately HK$173 million in revenue from gaming operation, due to the fact that the Group's gaming operation in Grand Emperor Hotel was taken up and run by SJM Resorts, S.A. ("**SJM**") under the arrangements between the Group and SJM with effect from 27 June 2022 to 31 December 2022. For details, please refer to the joint announcement of the Company and Emperor International dated 15 June 2022.

Gross loss of the Group increased by approximately 39.8% from HK$83 million for FY2021/22 to HK$116 million for FY2022/23. The increase in gross loss was mainly due to continued weak performance in the gaming operation segment during FY2022/23.

The Group's loss before taxation declined from approximately HK$725 million for FY2021/22 to approximately HK$181 million for FY2022/23. Such decrease was mainly due to the reversal of impairment losses of assets and the fair value gain of investment properties in FY2022/23, compared to substantial impairment losses of assets and fair value loss of investment of properties in FY2021/22.

*Comparison between FY2022/23 and FY2023/24*

Revenue of the Group increased by approximately 171.1% from approximately HK$291 million for FY2022/23 to approximately HK$789 million for FY2023/24. Such decrease was primarily due to the significant growth of approximately 421.6% or approximately HK$371 million in revenue from gaming operation. This substantial increase in gaming operation revenue was due to the rebound in consumption sentiment and entertainment demand during FY2023/24.

Gross profit of the Group improved from a loss of approximately HK$116 million for FY2022/23 to a profit of approximately HK$308 million for FY2023/24. The shift in gross profit was mainly due to the strong performance in the gaming operation segment during FY2023/24.

The Group's profit before taxation improved from a loss of approximately HK$181 million for FY2022/23 to a profit of approximately HK$35 million for FY2023/24. Such improvement was mainly due to the significant increase in revenue together with the shift from gross loss to gross profit for FY2023/24.

### (b) *Financial position of the Group*

| | As at 31 March 2024 (audited) *HK$' million* |
|---|---|
| Investment properties | 1,486 |
| Property, plant and equipment | 2,254 |
| Pledged bank deposit | 31 |
| Other non-current assets | 386 |
| **Total non-current assets** | **4,157** |
| Trade and other receivables | 78 |
| Cash, bank balances and short-term bank deposits | 615 |
| Other current assets | 12 |
| **Total current assets** | **705** |
| **Total assets** | **4,862** |
| Lease liabilities | 26 |
| Deferred taxation | 63 |
| **Total non-current liabilities** | **89** |
| Trade and other payables | 102 |
| Amounts due to related companies | 6 |
| Amounts due to non-controlling interests of subsidiaries | 40 |
| Taxation payable | 52 |
| Lease liabilities | 1 |
| **Total current liabilities** | **201** |
| **Total liabilities** | **290** |
| **Net assets** | **4,572** |

Total assets of the Group amounted to approximately HK$4,862 million as at 31 March 2024, which were mainly comprised of (i) property, plant and equipment of approximately HK$2,254 million, representing approximately 46.4% of the total assets; and (ii) investment properties of approximately HK$1,486 million, representing approximately 30.6% of the total assets.

Total liabilities of the Group amounted to approximately HK$290 million as at 31 March 2024, which were mainly comprised of (i) trade and other payables of approximately HK$102 million, representing approximately 35.2% of the total liabilities; (ii) deferred taxation payable of HK$63 million representing approximately 21.7% of the total liabilities; and (iii) taxation payable of HK$52 million representing approximately 17.9% of the total liabilities.

The Group was in a positive net cash position as at 31 March 2024, and hence had a zero net gearing ratio, being (i) amounts due to non-controlling interests of subsidiaries of approximately HK$40 million less (ii) total amount of approximately HK$615 million of cash, bank balances and short-term bank deposits, and divided by (iii) the net assets of approximately HK$4,572 million.

**2. Information of the Purchaser**

The Purchaser, Poly Keen, is a company incorporated in the BVI with principal business of investment holding and an indirect subsidiary which is owned as to 80% by the Company.

**3. Information of the Target Group and the Property**

The Target Company is a company incorporated in the BVI and an indirectly wholly-owned subsidiary of Emperor International. The principal business of the Target Group is property investment holding and engaged in holding the Property for development.

Pursuant to Appendix IV to the Circular and assuming the Target Group had been formed since 1 April 2022, the audited combined financial information of the Target Group for the two years ended 31 March 2023 and 2024 is set out below:

| | **For the year ended 31 March 2023** (audited) *HK$'000* | **For the year ended 31 March 2024** (audited) *HK$'000* |
|---|---|---|
| Loss before taxation | 96,774 | 12,865 |
| Loss after taxation | 96,774 | 12,865 |

As the Property was under-construction during the two years ended 31 March 2023 and 2024, there was no revenue recognised during the respective periods. The above losses are mainly attributable to diminution in value of the Property during the two years ended 31 March 2023 and 2024.

The audited combined total asset value and net liabilities of the Target Group as at 31 March 2024 were approximately HK$706.0 million and HK$243.2 million respectively. As at 31 March 2024, the valuation of the Property as assessed by Vincorn Consulting and Appraisal Limited (the "**Valuer**") was HK$705.0 million which is same as the valuation as at 24 May 2024. The Sale Loan amounted to approximately HK$637.8 million as at 31 March 2024.

The Property is a 25-storey apartment building situated at Nos. 20-26 Old Bailey Street & No. 11 Chancery Lane, Central, Hong Kong, with 69 units with saleable area ranging from approximately 213 sq.ft. to 389 sq.ft.. As per approved building plans dated 12 April 2024, the Property has a site area and a gross floor area of approximately 3,298.75 sq.ft. and 29,685.58 sq.ft. respectively. The subject lots of the Property, Inland Lot No. 4417 and The Remaining Portion of Inland Lot No. 4418, are held under Government leases for a common term of 999 years commencing from 1 February 1855.

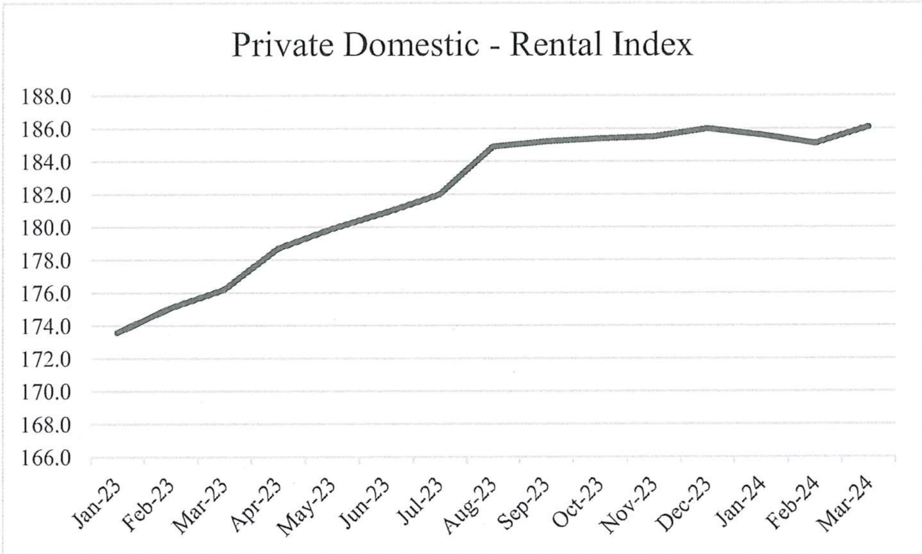
The construction of the Property has been completed and the occupation permit is expected to be received in the third quarter of 2024. Subsequently, the Group plans to kick off pre-leasing of the Property as a serviced apartment in the third quarter of 2024 after Completion, if the Transaction is approved by the Independent Shareholders.

**4. Background of and the reasons for entering into the SP Agreement**

As set out in Appendix II to the Circular, Savills (Hong Kong) Limited (the "**Market Consultant**") considers the competitive landscape of the Property to remain relatively stable given all the six existing serviced apartments near the Property are completed before 2020 with no new supply nearby over the past three years, whilst the demand for serviced apartments driven by young people from the PRC is likely to rise in future years. The Property also enjoys locational advantage as renting apartments in Central has always been popular among young professional and expatriates given its proximity to area where Grade A office buildings are located and where further large scale commercial projects are to completed over the next few years. The Directors concur with the Market Consultant that the market outlook of the serviced apartment industry in Hong Kong is positive in long term.

According to the 2023/24 Annual Results Announcement, benefiting from the revival in visitor arrivals and a recovery in hospitality and entertainment demand, the Group's revenue from hotels and serviced apartments (the "**Hotels and Serviced Apartments Revenue**") increased by approximately 62.3% in FY2023/24 comparing with that of FY2022/23. The Hotels and Serviced Apartments Revenue accounted for a substantial proportion of 41.8% in the Group's total revenue in FY2023/24. The Group's fast-growing Hotels and Serviced Apartments Revenue included room revenue, food and beverage revenue, and rental income and other revenue generated from a total of six hotels and serviced apartments. The existing three serviced apartments located in Wanchai, Causeway Bay and Kenndy Town, thus the Property, as a serviced apartment located in Central, could enrich the Group's portfolio of serviced apartments in the vibrant commercial districts and residential neighborhoods.

The commercial rationale for the Transaction is also supported by the rising rental prices in Hong Kong. As mentioned in the Market Consultant's Report, the rental prices in Hong Kong have been rebounding since 2023 onwards due to the full border reopening together with the influx of talents from various admission schemes. This trend is supported by the rental index for private residential properties released by the Rating and Valuation Department under the Government of Hong Kong (the "**Rental Index**"), as presented in the chart below. The Rental Index showed consecutive increases throughout the period starting from January 2023 to March 2024. The management of the Company considers the rising rental prices, as indicated by both the Market Consultant's Report and the Rental Index, could suggest a recovering demand for residential properties and a potentially favourable outlook for the rental income to be generated from the Property, providing a basis for the commercial rationale of the Transaction.




*Note:* According to the Rating and Valuation Department under the Government of Hong Kong, "private domestic" units are defined as independent dwellings with exclusive cooking facilities, bathroom and toilet, and the selected rental index incorporates rental prices of all unit classes of saleable area sizes under the department's classification.

*Source:* Data series – "Private Domestic – Rental Indices By Class (Territory-wide)" from the Rating and Valuation Department under the Government of Hong Kong

Having considered that (i) the market outlook of the serviced apartment industry in Hong Kong from the Market Consultant's Report; (ii) the serviced apartment rental index and the serviced apartment occupancy rates have shown an increasing trend since 2023 as shown in the Market Consultant's Report; and (iii) the Group's assets portfolio, revenue base and market presence could further be expanded, we are of the view that the Transaction is commercially justifiable.

## 5. The SP Agreement

On 24 May 2024 (after trading hours), the Purchaser entered into the SP Agreement with the Vendor, which is a connected party, in relation to the sale and purchase of the Sale Share and the Sale Loan at a consideration of approximately HK$655.2 million (subject to adjustments).

### *5.1. Consideration*

The Consideration payable (subject to adjustments) by the Purchaser to the Vendor shall be determined by the following formula:

Consideration = A + B – C

where:

"A" means HK$700.0 million, being the agreed value of the Property;

"B" means the carrying value/book value of the tangible assets of the Target Group (but excluding the Property and the fittings and equipment, if any) as at the Completion Date as shown in the Pro-forma Completion Account; and

"C" means the amount of all liabilities of the Target Group, including actual or contingent, accrued and deferred liabilities but excluding the Sale Loan, as at the Completion Date as shown in the Pro-forma Completion Account.

The Consideration (subject to adjustments) is illustrated below for reference:

*Summary of the estimated Consideration*

| | | ***Approximately HK$' million*** |
|---|---|---|
| The agreed value of the Property (A) | | 700.0 |
| Add: | The book value of the tangible assets of the Target Group (excluding the Property) as at 31 March 2024 as per Appendix IV to the Circular [Note 1] (B) | 1.0 |
| Less: | The amount of all liabilities of the Target Group (excluding the Sale Loan and the secured bank borrowings) as at 31 March 2024 as per Appendix IV to the Circular [Note 2] (C) | (45.8) |
| | **The estimated Consideration** | **655.2** |

*Note 1: Breakdown of the estimated item (B) in the formula:*

| | | Approximately HK$' million |
|---|---|---|
| The carrying value/book value of the tangible assets of the Target Group as at 31 March 2024 as per Appendix IV to the Circular | | 706.0 |
| Less: | The valuation of the Property as per Appendix IV to the Circular | (705.0) |
| | **The estimated item (B) in the formula** | **1.0** |

*Note 2: Breakdown of the estimated item (C) in the formula:*

| | | Approximately HK$' million |
|---|---|---|
| The amount of all liabilities of the Target Group as at 31 March 2024 as per Appendix IV to the Circular | | 949.2 |
| Less: | The Sale Loan | (637.8) |
| Less: | The secured bank borrowings as at 31 March 2024, which shall be fully repaid by the Vendor on or before Completion | (265.6) |
| | **The estimated item (C) in the formula** | **45.8** |

*Valuation Report*

Given that as at the Latest Practicable Date, the Target Company and its subsidiaries, including but not limited to the Property Holding Company, principally serve as investment holding vehicles and that their only property interest is the Property, in assessing the fairness and reasonableness of the Consideration (subject to adjustments), we have reviewed the Valuation Report.

We have performed the works with reference to Note 1(d) to Rule 13.80 of the Listing Rules and paragraph 5.3 of the Corporate Finance Adviser Code of Conduct in respect of the Valuation Report, which included (i) inquiry on the Valuer's current and prior relationship with the Group and the Vendor; (ii) review of the terms of the Valuer's engagement, in particular its scope of work, for the assessment of the Valuation Report; (iii) assessment of the Valuer's experiences in valuing properties in Hong Kong similar to the Property; (iv) obtaining information on the Valuer's track records on other property valuations; and (v) discussion with the Valuer regarding the bases, methodology and assumptions adopted in the Valuation Report.

a) The Valuer

We have conducted a telephone interview with the Valuer to enquire its experience in valuing similar property interests in Hong Kong. We noted that the Valuer had acted as valuer for a wide range of public companies listed in Hong Kong for similar transactions, including sale and purchase transactions of properties situated in Hong Kong. In addition, we understand that Mr. Vincent Cheung ("**Mr. Cheung**"), the managing director of the Valuer and the signor of the Valuation Report, is a fellow of the Hong Kong Institute of Surveyors, a fellow of the Royal Institution of Chartered Surveyors, a Registered Professional Surveyor (General Practice) under the Surveyors Registration Ordinance (Cap. 417) in Hong Kong, a member of China Institute of Real Estate Appraisers and Agents, a Registered Valuer of the Royal Institution of Chartered Surveyors and a Registered Real Estate Appraiser and Agent PRC. He has over 26 years' experience in valuation of fixed and intangible assets of this magnitude and nature in the subject region. As such, we are of the view that the Valuer and Mr. Cheung are qualified, experienced and competent in performing the valuation of the Property.

We have also enquired with the Valuer as to its independence from the Company and the Vendor and were given to understand that the Valuer is an independent third party of the Company and its connected persons. The Valuer confirmed to us that it was not aware of any relationship or interest between itself and the Company or any other parties that would reasonably be considered to affect its independence to act as an independent valuer for the Company. Apart from normal professional fees payable to it in connection with its engagement for the valuation, the Valuer confirmed that no arrangements exist whereby it will receive any fee or benefit from the Company and its associates. Given the above, we are of the view that the Valuer is independent from the Company in respect of the valuation of the Property.

Furthermore, we have reviewed the terms of engagement of the Valuer, in particular to its scope of work. We noted that its scope of work is appropriate to form the opinion required to be given and there are no limitations on the scope of work which might adversely impact on the degree of assurance given by the Valuer in the Valuation Report. We have also performed work as required under note (1)(d) to the Listing Rule 13.80 in relation to the Valuer and its work as regards the valuation of the Property.

b) Valuation basis

As stated in the Valuation Report, the valuation is conducted in compliance with Chapter 5 of the Listing Rules and the HKIS Valuation Standards 2020 published by the Hong Kong Institute of Surveyors. Based on our discussion with the Valuer, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal basis and assumptions used in arriving at the valuation of the Property. The Valuer carried out inspections, made relevant enquiries and searches for the purpose of the valuation of the Property. We have reviewed and discussed with the Valuer the basis and assumptions adopted in arriving at the value of the Property. Taking into consideration of the nature of the Property and that the valuation is conducted in accordance with the aforesaid requirements, we consider that the basis and assumptions adopted by the Valuer for determining the market value of the Property are appropriate.

c) Valuation methodology

As disclosed in the Valuation Report, the Valuer adopts market approach in valuing the Property.

According to our discussion with the Valuer, valuations of completed properties are normally conducted in market approach and income approach. We understand that given data on comparable premises/properties in the Hong Kong property market are mostly publicly available, the Valuer considered the adoption of the market approach as the most appropriate as it would provide a more objective result. In fact, the market approach is universally considered as the most accepted valuation approach for valuing most forms of properties. Given that Hong Kong has an active and well-publicised property market and that there already exists sufficient samples of comparable premises/properties available for analysis, we are of the view that these comparable premises/ properties provide good and objective benchmarks for the valuation of the Property. Accordingly, we agree with the Valuer that the market approach is appropriate for the valuation of the Property.

On the other hand, we are advised by the Valuer that the income approach is less appropriate for the valuation of the Property as it is subject to substantial assumptions and estimations, mainly including discount rate, occupancy rate, rental income and its growth rate. Therefore, we concur with the view of the Valuer that income approach is less appropriate for the valuation of the Property.

The Property mainly comprises residential units. As stated in the Valuation Report, during the course of the valuation of the Property under the market approach, the Valuer considered and analysed the residential sale comparables in the vicinity. 6 residential sale transactions (the "**Comparables**") are adopted as they are considered relevant to the Property in terms of physical and locational attributes.

The following table sets forth the details of the Comparables:

| | Comparable 1 | Comparable 2 | Comparable 3 | Comparable 4 | Comparable 5 | Comparable 6 |
|---|---|---|---|---|---|---|
| **Development** | The Richmond | The Richmond | Caine Hill | Alassio | Central 8 | The Richmond |
| **Address** | No. 62C Robinson Road | No. 62C Robinson Road | No. 73 Caine Road | No. 100 Caine Road | No. 8 Mosque Street | No. 62C Robinson Road |
| **District** | Mid-levels | Mid-levels | Mid-levels | Mid-levels | Mid-levels | Mid-levels |
| **Year of Completion** | 2021 | 2021 | 2023 | 2016 | 2020 | 2021 |
| **Floor** | 30/F | 27/F | 29/F | 5/F | 3/F | 6/F |
| **Unit** | B | B | A | C | D | A |
| **Effective Saleable Area** *(sq.ft.)* | 462 | 462 | 289 | 544 | 196 | 304 |
| **Date of Instrument** | 22 Mar 2024 | 12 Jan 2024 | 18 Sep 2023 | 31 Mar 2023 | 13 Mar 2023 | 7 Mar 2023 |
| **Consideration** *(HK$)* | 17,746,000 | 16,535,000 | 9,705,800 | 19,500,000 | 5,810,000 | 10,000,000 |
| **Effective Saleable Unit Rate** *(HK$/sq.ft.)* | 38,411 | 35,790 | 33,584 | 35,846 | 29,681 | 32,895 |

Based on the above table, all the Comparables are high-rise residential units located in Mid-levels of Hong Kong, being the same district as the Property. The Comparables are relatively new buildings, of which their construction has been completed within the past 10 years. The sales transactions took place within 18 months before the valuation date. The Comparables are generally small size units with effective saleable areas ranging from 196 sq.ft. to 544 sq.ft., being similar to the average saleable area of units in the Property. Taking into these similarities, we consider that the Comparables are relevant of the Property in terms of physical attributes. The effective saleable unit rates of the adopted Comparables range from HK$29,681 to HK$38,411 per sq.ft. on the basis of effective saleable area, with an average effective saleable unit rate of approximately HK$34,368 per sq.ft..

The unit rate adopted in the valuation is within the range of the effective saleable unit rates of the relevant Comparables after due adjustments on the effective unit saleable rates of the Comparables in terms of their different attributes such as timing of sale transactions, location, building age, floor level, size and view. The adopted unit rate is HK$34,000 per sq.ft. for the benchmark unit (the "**Benchmark Unit Rate**") on the basis of effective saleable area. We understand that the Valuer multiplied the Benchmark Unit Rate with the corresponding area of all units of the Property after adjustments on the Benchmark Unit Rate to reflect the variations of different units of the Property, including their floor level, size and view. We consider that the rationale behind these adjustments is fair and reasonable.

Through our discussion with the Valuer, we also understand that data and information about the comparable premises/properties were mostly obtained from online public domains, which included the websites of the Land Registry under the Government of Hong Kong. As confirmed by the Valuer, the Comparables represent an exhaustive list to the best of their knowledge. Accordingly, we considered that the selection of the comparable premises/properties used in the valuation of the Property is fair and reasonable.

d) Valuation assumptions

According to the Valuation Report, the valuation of the Property was made on the assumption that the seller sells the Property in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the valuation of the Property. In addition, the Valuer assumed that no allowances have been made for any charges, mortgages or amounts owing in relation to the Property, nor for any expenses or taxations which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect the values of the Property. As the Property is held under long term leasehold interests, the Valuer also assumed that the owner has free and uninterrupted rights to use the Property for the whole of the unexpired term of the leasehold interests. In this regard, we noted from the Valuer that these assumptions are commonly adopted in the valuation of properties. Given that we consider it objective and appropriate to appraise the Property the same way as other similar properties on the open market, we are of the view that these valuation assumptions are fair and reasonable.

On the other hand, it is noted that the Consideration, which is approximately HK$655.2 million (subject to adjustments), includes both the Sale Share and the Sale Loan. The Sale Loan amounts to around HK$637.8 million and will be settled on a dollar-for-dollar basis. In other words, the consideration of the Sale Share is approximately HK$17.4 million. Taking into consideration the Target Company's net liabilities of about HK$243.2 million as at 31 March 2024, and the secured bank borrowings of approximately HK$265.6 million as at 31 March 2024, which will be fully repaid by the Vendor on or before Completion, the adjusted net asset value of the Target Group as at 31 March 2024 stands at approximately HK$22.4 million. Thus, the consideration of HK$17.4 million for the Sale Share represents a discount of approximately 22.3% to the adjusted net assets value of the Target Group.

*Conclusion*

Given that (i) the Property represents the only property interests and the core asset of the Target Group and hence we consider the Valuation Report an appropriate reference for determining its valuation; (ii) the consideration of the Sale Loan is equal to the face value of the Sale Loan on a dollar-for-dollar basis; and (iii) the Consideration is subject to adjustments as set out in the paragraphs headed "5.1 Consideration" in this letter above and as such adjustment mechanism is designed to reflect the changes of the net assets value of the Target Group (apart from the Property, the Sale Loan and the secured bank borrowings that shall be fully repaid by the Vendor on or before Completion), the final Consideration as at the Completion Date for the Transaction as determined with reference to the fair market value is fair and reasonable.

***5.2. Settlement of consideration***

Pursuant to the SP Agreement, the Consideration (subject to adjustments) shall be settled as follows:

(a) the Initial Deposit was paid by the Purchaser to the Vendor within 10 Business Days after signing of the SP Agreement;

(b) the Second Payment shall be paid by the Purchaser to the Vendor upon Completion; and

(c) subject to the adjustments with reference to the Completion Account, the Balance shall be payable to the Vendor after the Completion Date by seven equal quarterly installments, and the first quarterly installment will be paid on the date falling which numerically corresponds to the date of Completion in the third calendar month after the Completion Date.

The Consideration (or any part thereof) shall be settled by the Purchaser by cash transfer to the designated bank account(s) of the Vendor or such other method as mutually agreed by the Vendor and the Purchaser from time to time.

Having considered that (i) the transfer of the ownership title of the Sale Share and Sale Loan from the Vendor to the Purchaser shall take place on the Completion Date, and (ii) the Consideration (subject to adjustments) is to be paid by the Purchaser to the Vendor's designated account(s) by instalments, consisting of the Initial Deposit, the Second Payment upon Completion, and seven subsequent instalments following the Completion Date, this payment structure provides a balanced arrangement that ensures cashflow of the Consideration (subject to adjustments) to the Vendor while allowing the Company to have less financial burden by spreading the payment obligations over a period of time, thus, we are of the view that the payment terms are fair and reasonable.

## 6. Possible financial effects of the Transaction

Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company.

The financial effects of the Transaction on the Group's earnings, working capital and net asset value are set out below. However, it should be noted that the analysis below is for illustrative purposes only and does not purport to represent how the financial position of the Group would be upon Completion.

### *6.1. Earnings*

As set out in the "Letter from the Board" to the Circular, no revenue was generated from the Target Group for each of the two years ended 31 March 2023 and 2024. Following the Completion, the financial results of the Target Group will be consolidated into the Group. The Property is to be held by the Group to earn rentals and hence is classified as investment property, which is initially measured at cost and subsequently measured at fair value. Changes in fair value of investment property will be recognised in profit or loss. As of the Latest Practicable Date, the construction of the Property has been completed and the leasing of the serviced apartments within the Property has not yet commenced. After Completion, the Target Group could contribute rental income to the Group subject to the initiation of the leasing operation of the Property.

### *6.2. Working capital*

The working capital position of the Group is expected to decrease gradually after Completion as the Consideration (subject to adjustments) will be settled in cash by instalments in two years after the date of Completion. According to the 2023/24 Annual Results Announcement, the Group had short-term bank deposits and bank balances and cash in aggregate of approximately HK$615.0 million as at 31 March 2024. We have also reviewed the working capital forecast covering the next twelve months after the Latest Practicable Date prepared by the management of the Company and noted that the working capital of the Group is sufficient for its ordinary operation after settlements of the Consideration (subject to adjustments). Based on the above and our discussion with the management of the Company, the Group's working capital and liquidity position is expected to remain ample after Completion.

### *6.3. Net assets value*

As extracted from the 2023/24 Annual Results Announcement, the consolidated net assets value of the Group was approximately HK$4.6 billion. Based on the unaudited pro forma financial information of the Enlarged Group as set in Appendix V to the Circular, the unaudited pro forma net assets of the Enlarged Group as at 31 March 2024 would maintain at approximately HK$4.6 billion assuming Completion had taken place on 31 March 2024.

Having considered the reasons and benefits of the Transaction, the fairness and reasonableness of the Consideration (subject to adjustments) and the potential rental revenue to be generated from the Target Group, we are of the view that the short-term adverse financial impacts of the Transaction on the Enlarged Group's working capital position are commercially justifiable.

**RECOMMENDATION**

Based on the above, we consider that the SP Agreement and the Transaction contemplated thereunder are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the SP Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Independent Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the SP Agreement and the Transaction contemplated thereunder.

Yours faithfully,
For and on behalf of
Octal Capital Limited

**Alan Fung**
*Managing Director*

**Wong Wai Leung**
*Executive Director*

*Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 28 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Mr. Wong Wai Leung has been a responsible officer of Type 1 (dealing in securities), Type 6 (advising on corporate finance) regulated activities since 2008 and is also a responsible officer of Type 9 (asset management) regulated activities. Mr. Wong has accumulated decades of experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Listing Rules and the Takeovers Code.*