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Hong Kong

7 November 2024

To: The Independent Board Committee and the Independent Shareholders of China Wantian Holdings Limited

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS
IN RELATION TO
(1) PROPOSED DISPOSAL OF SUBSIDIARIES; AND
(2) PROPOSED LEASEBACK OF PROPERTIES**

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the terms of the Share Purchase Agreement and the Leaseback Agreement and the transactions contemplated thereunder, details 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 7 November 2024 (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 otherwise requires.

On 27 September 2024, the Vendor and the Purchaser entered into the Share Purchase Agreement, pursuant to which (i) the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Sale Shares, representing the entire issued shares of the Target Company, which in turn indirectly holds the entire interest of the Properties; and (ii) the Vendor conditionally agreed to procure C.Y. Food Trading to sell and assign, and the Purchaser conditionally agreed to purchase and accept the assignment of, the Sale Loan, at the total consideration of HK\$56,320,000.

Pursuant to the Share Purchase Agreement, it is a condition to the Completion that Healthy Cheer and C.Y. Food Trading or another subsidiary of the Company as nominated by the Vendor shall enter into the Leaseback Agreement on or before the Completion Date for the lease of the Properties to the Group (excluding the Target Group) for a period of two (2) calendar years commencing from the Completion Date at the aggregate monthly rental of HK\$200,000.

As at the Latest Practicable Date, Mr. Liu, being the Purchaser, is an executive Director, a shareholder of the Company indirectly interested in approximately 9.60% of the issued share capital of the Company and the sole director of each company of the Target Group. As such, Mr. Liu is a connected person of the Company and pursuant to the Share Purchase Agreement, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

In accordance with HKFRS 16 “*Leases*”, the lease contemplated under the Leaseback Agreement (the “**Leaseback**”) will be recognised as right-of-use assets in relation to such agreement (with fixed lease payments) and will be regarded as an acquisition of assets by the Group under Rule 14A.24(1) of the Listing Rules. Upon execution of the Leaseback Agreement, the Group will recognise the value of the right-of-use assets in the aggregate amount of approximately HK\$4,518,000 in connection with the lease of the Properties on its consolidated statement of financial position. Upon the Completion, Healthy Cheer will be wholly and ultimately beneficially owned by Mr. Liu and thus Healthy Cheer will be a connected person of the Company. Accordingly, the entering into of the Leaseback Agreement will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

Since (i) the execution of the Leaseback Agreement is a condition to the Completion pursuant to the Share Purchase Agreement; (ii) the underlying subject of the Share Purchase Agreement and the Leaseback Agreement is the Properties; and (iii) the Share Purchase Agreement and the Leaseback Agreement are/will be entered into between the Group and the same connected person of the Company, the transactions contemplated under the Leaseback Agreement and the Share Purchase Agreement are regarded as one transaction involving both an acquisition and a disposal. For the purpose of Rule 14.24 of the Listing Rules, the disclosure obligation that would apply to the transaction should be determined by the larger of (i) the acquisition contemplated under the Leaseback Agreement; and (ii) the Disposal contemplated under the Share Purchase Agreement.

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Disposal under the Share Purchase Agreement, being the larger transaction compared with the value of the right-of-use assets to be recognised by the Group under the Leaseback Agreement, exceeds 5% but is less than 25%, the transactions contemplated under the Leaseback Agreement and the Share Purchase Agreement constitute discloseable and connected transactions of the Company and are subject to the reporting, announcement and Independent Shareholders’ approval requirements under the Listing Rules.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Ms. Lui Choi Yiu Angela, Mr. Siu Chun Pong Raymond and Mr. Lam Chi Wing (all being independent non-executive Directors) has been formed to advise the Independent Shareholders on whether the terms of the Share Purchase Agreement and the Leaseback Agreement and the transactions contemplated thereunder are in the interests of the Company and the Independent Shareholders as a whole and to advise the Independent Shareholders on how to vote. We, Zijing Capital Limited, have been appointed as

the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we do not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees in connection with this appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. We have not acted as an independent financial adviser or financial adviser to the Company's other transactions in the last two years prior to the date of our appointment, and accordingly, we are independent from the Company pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the information and facts provided by the Company and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and the management of the Company for which they are solely responsible, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading.

In formulating our opinion, we consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion, and we have discussed with the management of the Company so as to assess the fairness and reasonableness of the entering into the Share Purchase Agreement and the Leaseback Agreement. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted any independent investigation into the business and affairs of the Company, the Target Group or their respective subsidiaries or associates. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein,

which may come or be brought to our attention after the Latest Practicable Date. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions and recommendations, we have considered the following principal factors and reasons:

1. Background of and reasons for the Disposal and the Leaseback

1.1 Background information of the Group and the Vendor

The Group is principally engaged in three business segments, namely (i) food supply; (ii) catering services; and (iii) environmental protection and technology services.

The Vendor is a direct wholly-owned subsidiary of the Company and is engaged in investment holding.

1.2 Background information of the Purchaser

Mr. Liu, being the Purchaser, is (i) an executive Director; (ii) a shareholder of the Company indirectly interested in approximately 9.60% of the issued share capital of the Company; and (iii) the sole director of each company of the Target Group as at the Latest Practicable Date. Upon the Completion, Mr. Liu will become the sole beneficial owner of the Target Group.

1.3 Financial performance of the Group

Set out below is a summary of the consolidated statement of comprehensive income of the Group for the year ended 31 March 2023 and for the nine months ended 31 December 2023, which are extracted from the Group's annual report for the nine months ended 31 December 2023 (the "**2023 Annual Report**"), and for the six months ended 30 September 2023 and 30 June 2024 respectively as extracted from the Group's interim report for the six months ended 30 June 2024 (the "**2024 Interim Report**").

As stated in the 2023 Annual Report, the Board resolved to change the financial year end date of the Company from 31 March to 31 December to align the financial year end date of the Company with that of the subsidiaries of the Company which were incorporated and are operating in the PRC with the financial year end date of 31 December in accordance with the relevant statutory requirements. Although the current financial period covers the period of nine months from 1 April 2023 to 31 December 2023 (the "**Period**") only, the results of which may not be fully comparable to those

of the previous full financial year of 2022/2023 covering a period of twelve months, we consider that the 2023 Annual Report is the latest available audited financial information of the Group, together with the 2024 Interim Report, to reflect its current financial status and financial position for illustrative purposes.

Consolidated statement of comprehensive income of the Group

	For the six months ended 30 June 2024	For the six months ended 30 September 2023	For the period from 1 April 2023 to 31 December 2023	For the year ended 31 March 2023
	(unaudited)	(unaudited)	(audited)	(audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	251,763	128,734	194,109	202,136
Gross profit	33,818	20,709	28,995	35,885
Operating loss	(16,133)	(15,322)	(75,041)	(17,850)
Loss for the period/year	(17,216)	(16,253)	(45,622)	(27,728)

As stated in the 2023 Annual Report, the Group's operating results for the Period were contributed by its three businesses, namely (i) food supply; (ii) catering services; and (iii) environmental protection and technology services. The revenue of the Group slightly decreased from approximately HK\$202.1 million for the year ended 31 March 2023 to approximately HK\$194.1 million for the Period, representing a slight decrease of approximately 4.0% which was mainly attributable to a decrease of 7.8% against the year ended 31 March 2023 in the food supply business of the Group, since the food supply business remains to be the main revenue stream of the Group and the revenue from this business segment amounted to approximately HK\$181.1 million for the Period, accounting for approximately 93.3% of the total revenue of the Group as compared with approximately HK\$196.5 million for the year ended 31 March 2023, accounting for approximately 97.2% of the total revenue of the Group.

The Group vigorously developed its food supply chain business by establishing its presence in the Guangdong-Hong Kong-Macau Greater Bay Area (the "GBA") with a global perspective. The Group persisted in the development of the three principal segments of food supply, catering and environmental protection and technology with a strong emphasis on the fulfilment of the dream to enhance people's livelihood and environmental protection in further consolidation of its leading position in the food supply chain of the GBA. Therefore, during the Period, the revenue derived from the GBA market was approximately HK\$80.7 million and accounted for approximately 44.6% of the revenue from the food supply segment, representing an increase of approximately 40.8% when compared with that for the year ended 31 March 2023 of

approximately HK\$57.3 million. The increase in the Group's segment revenue was mainly attributable to the revenue derived from the PRC market contributed by the new fresh food supply of trading of eggs and pork. Revenue derived from the Hong Kong market, which was mainly the provision of vegetables and fruits in Hong Kong, amounted to approximately HK\$100.3 million of the segment revenue for the Period, representing a decrease of approximately 27.9% when compared with that of the segment revenue of approximately HK\$139.2 million for the year ended 31 March 2023.

However, the decrease of the food supply business of the Group was partly offset by the increase of the catering services business and the environmental protection and technology services business of the Group. For the catering services business of the Group, which mainly comprised the operation of various restaurants in the city of Zhongshan, contributed a revenue of approximately HK\$12.2 million for the Period, representing a substantial increase of approximately 149.0% when compared with that of approximately HK\$4.9 million for the year ended 31 March 2023. For the environmental protection and technology services business of the Group, which mainly comprised the provision of services for building a comprehensive practice base to promote the ideas of green, environmental protection and low-carbon concepts, recorded a revenue of approximately HK\$0.9 million during the Period, representing an increase of approximately 25.6% when compared with that of approximately HK\$0.7 million for the year ended 31 March 2023.

As a result of the foregoing, and because of the substantial increase in the selling expenses and administrative expenses for the Period of approximately 76.9% and approximately 101.6% respectively as compared with that for the year ended 31 March 2023, the Group recorded a loss for the Period of approximately HK\$45.6 million as compared with the loss for the year ended 31 March 2023 of approximately HK\$27.7 million, representing an increase in the loss of approximately 64.6%.

As stated in the 2024 Interim Report, the Group's revenue for the six months ended 30 June 2024 was approximately HK\$251.8 million, representing an increase of approximately 95.6% as compared with that for the six months ended 30 September 2023, which was mainly attributed to the increase in the revenue derived from the food supply business of the Group from approximately HK\$119.9 million for the six months ended 30 September 2023 to approximately HK\$239.5 million for the six months ended 30 June 2024, representing an increase of approximately 99.7%.

The Group's gross profit for the six months ended 30 June 2024 was approximately HK\$33.8 million, representing a gross profit margin of approximately 13.4%, while the Group's gross profit for the six months ended 30 September 2023 was approximately HK\$20.7 million, representing a gross profit margin of approximately 16.1%. Although the Group's gross profit was increased by approximately 63.3% as compared to the previous period, the gross profit margin of the Group was decreased by approximately 2.7%, due to the decrease in the gross

profit margin derived from the food supply business of the Group from approximately 14.8% for the six months ended 30 September 2023 to approximately 12.1% for the six months ended 30 June 2024. The main reason for such decrease was that the Group had to spend time securing new customers and new sales orders when faced with a different and competitive environment with the change in the product mix of the food supply business in the PRC, which had impacted on its profitability for the six months ended 30 June 2024.

As a result of the foregoing, and because of the substantial increase in the selling expenses and administrative expenses for the six months ended 30 June 2024 of over 10 times and approximately 16.1% respectively when compared with that for the six months ended 30 September 2023, the Group recorded a loss for the six months ended 30 June 2024 of approximately HK\$17.2 million as compared with a loss for the six months ended 30 September 2023 of approximately HK\$16.3 million, representing an increase in a loss of approximately 5.5%.

Meanwhile, the unaudited condensed consolidated assets and liabilities of the Group as at 30 June 2024 and the audited condensed consolidated assets and liabilities of the Group as at 31 December 2023 as extracted from the 2024 Interim Report, are summarised as follows:

	As at 30 June 2024 (unaudited) HK\$'000	As at 31 December 2023 (audited) HK\$'000
Non-current Assets	98,813	98,421
Current Assets	156,222	139,360
– Bank deposits	5,121	16,605
– Cash and cash equivalents	33,826	61,627
Non-current Liabilities	3,280	6,641
Current Liabilities	58,557	34,431
Net Assets	193,198	196,709

It is noted that the net asset value of the Group as at 30 June 2024 slightly decreased by approximately 1.8% as compared to that as at 31 December 2023, while the cash level of the Group, comprising the bank deposits and cash and cash equivalents, decreased from approximately HK\$78.2 million as at 31 December 2023 to approximately HK\$38.9 million as at 30 June 2024, representing a decrease of approximately 50.3%.

1.4 Background information of the Target Group

The Target Group comprises the Target Company and its subsidiary, namely Healthy Cheer. The Target Company, namely Lion Metro, is a company incorporated in the BVI with limited liability and is principally engaged in investment holding. The Target Company is an indirect wholly-owned subsidiary of the Company.

Healthy Cheer is a company incorporated in Hong Kong with limited liability and is engaged in property holding and investment. Healthy Cheer is a direct wholly-owned subsidiary of the Target Company. As at the Latest Practicable Date, Healthy Cheer legally and beneficially owns the Properties, which are the principal assets of the Target Group.

Based on the management accounts of the Target Group, a summary of the unaudited consolidated financial information of the Target Group is set out below:

	For the year ended 31 March 2023 (unaudited) HK\$	For the nine months ended 31 December 2023 (unaudited) HK\$
Profit before tax	510,000	387,000
Profit after tax	387,000	328,000
		As at 30 June 2024 (unaudited) HK\$
Total asset		16,149,000
Net liability		383,000

1.5 Reasons for and benefits of the Disposal and the Leaseback

As stated in the Letter from the Board, the Directors have been assessing the property market in Hong Kong and reviewing the Group's options over the Properties held by the Group. Taking into account (i) the nature and quality of the Properties (including their location, age, condition and the facilities in the vicinity); (ii) the recent market conditions and the prevailing market prices for industrial properties in Hong Kong; (iii) the overall economy in Hong Kong; and (iv) the holding of the Properties being not essential for the Group's long-term development, the Board is of the view that the Disposal will not have a material adverse effect on the Group's business operations. The Directors believe that the Disposal represents a good

opportunity to realise the value of the Properties at a premium, which allows the Group to deploy the proceeds from the Disposal for the development of the Group's higher growth segments including its food supply and catering businesses in the GBA.

In assessment of the Group's reasons for and benefits of the Disposal, we have discussed with the management of the Company and are given to understand that the Group has owned the Properties for over 10 years and there have been no sale transactions for similar properties which are located in the same industrial building (i.e. Sunking Factory Building) since 2021. We have obtained the information provided by the Company in relation to the industrial price index in Hong Kong for the latest three years from September 2021 to August 2024 which the Directors had assessed, the industrial price index was fluctuating and showing a decreasing trend for the latest three years. As such, the Directors are of the view that the disposal of the Properties is still profitable after deducting the purchase cost and the relevant depreciation charges of the Properties and is a good opportunity for the Group to realise the value of the Properties at a premium under the recent worse market conditions and overall relatively weak economy in Hong Kong. We have independently cross-checked the price index obtained from the Company, according to the information published by the Rating and Valuation Department of the Government of Hong Kong, the price index for Hong Kong property market in relation to the flatted factories (分層工廠大廈) reached the highest in 2019 and has been showing a decreasing trend in the latest three years. Thus, we concur with the Directors' view that the recent property market in Hong Kong is worse than the previous years.

In addition, we are advised by the management of the Company that the purchase of the Properties in 2010 was made for the Group's business development purposes and the holding of the Properties is not essential for the Group's long-term development given the expansion of its business into the GBA market since 2022. We note from the 2023 Annual Report that the Group will continue to explore new development opportunities and expects to achieve a higher level of performance in 2024 in terms of service quality and the revenue generated from the catering segment, as well as a further expansion of its restaurant network into other regions in the GBA. As such, the Directors confirmed that the proceeds from the Disposal can be used for the further development of the Group's higher growth segments, including approximately 60% of the net proceeds for its fresh food supply business and approximately 20% of the net proceeds for its catering business in the GBA on or before 30 June 2025, which is in line with the Group's business strategy. For the remaining approximately 20% of the net proceeds, the Group intends to use the amount for its general working capital, including but not limited to, staff costs, rental, professional fees and other overhead expenses of the Group, on or before 30 June 2025. As mentioned in the above sub-section headed "*1.3 Financial performance of the Group*" of this letter, we also note from the 2023 Annual Report that the cash level of the Group, comprising the bank deposits and cash and cash equivalents, decreased from approximately HK\$78.2 million as at 31 December 2023 to approximately HK\$38.9 million as at 30 June 2024, representing a decrease of approximately 50.3%.

As such, it is expected that the working capital of the Group will be enhanced and the cash level of the Group will be improved upon the Completion.

As set out in the Letter from the Board, it is in the interests of the Group to realise its investments in the Properties. To ensure the continuity of the operation of the Group's food supply business in Hong Kong on or after the Completion, the Group has agreed to enter into the Leaseback Agreement on or before the Completion. We have obtained and reviewed the Share Purchase Agreement and note that the form of the Leaseback Agreement is attached to the Share Purchase Agreement and the execution of the Leaseback Agreement with a lease term of two calendar years commencing from the Completion Date is one of the conditions precedent to the Disposal being fulfilled on or before the Completion Date. Due to such leaseback arrangement, we concur with the Directors' view that the Disposal will not have a material adverse effect on the Group's business operations for the next two calendar years commencing from the Completion Date.

1.6 Financial impact of the Disposal and the Leaseback

As stated in the Letter from the Board, upon the Completion, the Target Group will cease to be subsidiaries of the Company and the financial results of the Target Group will no longer be consolidated into the financial statements of the Group.

Based on the unaudited consolidated financial information of the Target Group as at 30 June 2024 and the Consideration of HK\$56,320,000, we note that the Company is expected to recognise a gain (before transaction costs) of approximately HK\$42,337,000 from the Disposal following the Completion. Such gain is estimated based on the Consideration plus HK\$383,000, being the consolidated net liabilities of the Target Group as at 30 June 2024, and minus HK\$14,366,000, being the balance of the Sale Loan as at the Latest Practicable Date.

Under HKFRS 16 "Leases" and upon the execution of the Leaseback Agreement, it is expected that the Group as the tenant shall recognise a lease as a right-of-use asset and a lease liability, both of approximately HK\$4,518,000, in the consolidated statement of financial position of the Group, while the Group shall recognise (i) depreciation charges over the life of the right-of-use asset; and (ii) interest expenses amortised from the lease liability over the lease term in the consolidated statement of comprehensive income of the Group.

Our analysis on the financial impact of the Disposal and the Leaseback on the Group's earnings, working capital and net asset value are set out below. However, it should be noted that the below analysis is for illustrative purposes only and does not purport to represent how the financial position of the Group would be upon the Completion. In addition, as stated in the Letter from the Board, the expected gain on the Disposal and the financial impact of the Leaseback, which are both estimated based on the information currently available, are for illustrative purposes only. The

actual amount of the gain as a result of the Disposal to be recognised in the consolidated financial statements of the Group will have to be ascertained at the time when the Group's consolidated financial statements are prepared, and is subject to audit.

(a) Earnings

According to the 2023 Annual Report, the loss of the period of the Group for the nine months ended 31 December 2023 was approximately HK\$45.6 million, while based on the unaudited consolidated financial information of the Target Group, the unaudited profit after tax of the Target Group for the nine months ended 31 December 2023 was approximately HK\$0.3 million. As advised by the management of the Company, the revenue of the Target Group will be offset after the intra-group transaction during the consolidation at the Group's level and therefore, the Disposal is expected to have no material adverse impact on the net profit level of the Group upon the Completion.

As set out in our analysis in the above sub-section headed “1.5 Reasons for and benefits of the Disposal and the Leaseback” of this letter, the net proceeds from the Disposal will allow the Group to focus on the development of its higher growth segments including its food supply and catering businesses in the GBA and hence the revenue contribution of these business segments is expected to improve upon the Completion.

In respect of the Leaseback, as stated in the Letter from the Board, the Group shall recognise (i) depreciation charge over the life of the right-of-use asset of the Properties; and (ii) interest expenses amortised from the lease liability over the lease term, which will negatively affect the earnings of the Group.

(b) Working capital

The working capital position of the Group is expected to (i) increase of HK\$56,320,000 immediately upon the Completion, when the Consideration shall be settled in cash by the Purchaser to the Company according to the payment terms of the Share Purchase Agreement; and (ii) decrease with the monthly lease payments as the rental payable under the Leaseback Agreement, which is expected to be financed by the internal resources of the Group.

(c) Net asset value

According to the unaudited consolidated financial information of the Target Group as at 30 June 2024, the Target Group had a net liability value of approximately HK\$383,000, which was attributable to the Group. However, as advised by the management of the Company, the Target Group will have a net

asset value of approximately HK\$14,814,000 after the intra-group balance being offset during the consolidation at the Group's level as at 30 June 2024. In addition, the Consideration of HK\$56,320,000, which will immediately increase the Group's cash position upon the Completion as discussed above, is expected to allow the Group to recognise a gain of approximately HK\$42,337,000 in net assets before transaction costs from the Disposal upon the Completion according to the payment terms of the Share Purchase Agreement, taking into account the net liability value of the Target Group and the Sale Loan.

In respect of the Leaseback, as confirmed by the management of the Company, there will be no effect on the net asset value upon the Completion since the total assets and the total liabilities of the Group will be simultaneously increased approximately HK\$4,518,000 as a right-of use asset and a lease liability respectively.

Based on the above analysis, we note that, although the Leaseback would have a temporary negative effect on the Group's earnings and the working capital, the Disposal would have a positive effect on the Group's working capital position and net asset value. Furthermore, the Group shall record an immediate gain on the disposal of subsidiaries upon the Completion. Therefore, having considered the reasons for and benefits of the Disposal and the Leaseback as discussed above, we are of the view that the short-term adverse impacts of the Leaseback to the Group's earnings and working capital are commercially justifiable.

In view of the above, in particular, (i) the disposal of the Properties is still profitable after deducting the purchase cost and the relevant depreciation charges of the Properties and is a good opportunity for the Group to realise the value of the Properties at a premium under the recent worse property market conditions in Hong Kong; (ii) the Disposal is in line with the Group's business strategy; (iii) the Disposal will not have a material adverse effect on the Group's business operations as the continuity of the operation of the Group's food supply business in Hong Kong is ensured under the Leaseback; (iv) the form of the Leaseback Agreement is attached with the Share Purchase Agreement and the execution of the Leaseback Agreement is one of the conditions precedent to the Disposal being fulfilled on or before the Completion Date; and (v) the Disposal would have a positive effect on the Group's working capital position and net asset value, we consider that the entering into of the Share Purchase Agreement and the Leaseback Agreement is fair and reasonable and in the interests of the Company and the Shareholders as a whole, and the entering into of the Leaseback Agreement is in the ordinary and usual course of business of the Group, although the entering into of the Share Purchase Agreement is not in the ordinary and usual course of business of the Group.

2. Principal terms of the Share Purchase Agreement and the Leaseback Agreement

2.1 Principal terms of the Share Purchase Agreement

Principal terms of the Share Purchase Agreement are set out below:

Date 27 September 2024

Parties (i) Eminent Ace as Vendor; and
(ii) Mr. Liu as Purchaser

Assets to be disposed of The assets to be disposed of pursuant to the Share Purchase Agreement comprise (i) the Sale Shares; and (ii) the Sale Loan. For further details, please refer to the section headed “The Share Purchase Agreement” in the Letter from the Board.

Consideration The consideration for the disposal of the Sale Shares and the Sale Loan in aggregate is HK\$56,320,000.

The Consideration shall be payable by the Purchaser to the Vendor in the following manner: (a) the deposit of HK\$5,632,000 shall be paid within ten (10) Business Days of signing of the Share Purchase Agreement; and (b) the balance of HK\$50,688,000 shall be paid upon the Completion.

Pursuant to the Share Purchase Agreement, if the amount of the Sale Loan as at the Completion Date is greater than HK\$14,366,000, the balance of the Consideration shall be adjusted upward by such difference and the amount of the Consideration shall be increased accordingly.

Leaseback arrangement Pursuant to the Share Purchase Agreement, it is a condition to the Completion that Healthy Cheer and C.Y. Food Trading or another subsidiary of the Company as nominated by the Vendor shall enter into the Leaseback Agreement on or before the Completion Date for the lease of the Properties to the Group (excluding the Target Group) for a period of two (2) calendar years commencing from the Completion Date at the aggregate monthly rental of HK\$200,000.

The details of the principal terms of the Share Purchase Agreement are set out in the Letter from the Board and the Completion is conditional upon the following conditions being fulfilled (or waived, if applicable) on or before the Long Stop Date:

- (a) all necessary authorisations and approvals required of the Vendor and/or the Company in relation to the Share Purchase Agreement and the Leaseback Agreement and the transactions contemplated thereunder having been obtained by the Vendor and/or the Company (as the case may be), including but not limited to the approval by the Independent Shareholders as required under the Listing Rules;
- (b) the Vendor's warranties remaining true and accurate and not misleading in all material respects as at the Completion Date;
- (c) the Purchaser's warranties remaining true and accurate and not misleading in all material respects as at the Completion Date; and
- (d) the Leaseback Agreement having been executed on or before the Completion Date.

If any of the above conditions is not either fulfilled or waived by the Purchaser and/or the Vendor (other than conditions (a) and (d), which may not be waived) on or before the Long Stop Date, the deposit of HK\$5,632,000 shall be refunded to the Purchaser without interest within five (5) Business Days from the Long Stop Date.

2.1.1 Assessment of the Consideration

The consideration for the disposal of the Sale Shares and the Sale Loan in aggregate is HK\$56,320,000, which has been arrived at after arm's length negotiations between the Vendor and the Purchaser with reference to (i) the unaudited net liability value of the Target Group based on its management accounts as at 30 June 2024 of approximately HK\$383,000, which mainly includes the Sale Loan, property, plant and equipment and leasehold lands in right-of-use assets of approximately HK\$15,196,000, HK\$9,455,000 and HK\$5,965,000 respectively; (ii) the prevailing market prices of properties of similar nature within the same area; and (iii) the valuation of the Properties as at 31 August 2024 as appraised by the Independent Valuer at HK\$51,200,000. The Consideration represents a premium of 10% to the aforesaid valuation.

In assessing the fairness and reasonableness of the Consideration, we have obtained and reviewed (i) the unaudited consolidated management accounts of the Target Group for the year ended 31 March 2023, for the nine months ended 31 December 2023 and for the six months ended 30 June 2024 (collectively the “**Management Accounts**”); (ii) the list of sale comparables with prevailing average market unit rate in the vicinity of the Properties; and (iii) the valuation report prepared by the Independent Valuer as at 31 August 2024 (the “**Valuation Report**”).

(i) Management Accounts of the Target Group

We note from the Management Accounts that the unaudited net liability value of the Target Group as at 30 June 2024 was approximately HK\$383,000, which mainly includes the Sale Loan, property, plant and equipment and leasehold lands in right-of-use assets of approximately HK\$15,196,000, HK\$9,455,000 and HK\$5,965,000 respectively. As confirmed by the management of the Company, the Properties were presented in net book value as at 30 June 2024 when preparing the management accounts of the Target Group for the six months ended 30 June 2024. We have obtained the calculation provided by the management of the Company, and are given to understand that if the Properties were treated at current market value instead of the net book value, with reference to the valuation appraised by the Independent Valuer as at 31 August 2024 of HK\$51,200,000, an upward adjustment in relation to the book value of the property, plant and equipment and leasehold lands in right-of-use assets of total approximately HK\$35,780,000 has been made, and hence the adjusted unaudited net asset value of the Target Group would be HK\$35,397,000. As such, the Consideration represents a premium of approximately 16.2% or HK\$5,727,000 to the adjusted unaudited net asset value of the Target Group after deduction of the Sale Loan.

(ii) Prevailing market prices of properties of similar nature

We have obtained a list of four industrial properties with prevailing average market unit rates located in Tai Wai and Fo Tan, Sha Tin, being the sale comparables of similar nature located in the vicinity of the Properties, as at 31 August 2024 from the Independent Valuer (the “**Sale Comparables**”) for the valuation of the Properties. As confirmed by the Independent Valuer, the Sale Comparables adopted for the valuation of the Properties are exhaustive based on the selection criteria including (i) reference to sale comparables in the vicinity of the Properties, i.e. sale comparables located in Tai Wai and Fo Tan, Sha Tin; (ii) sale comparables being properties with the same uses of the Properties; and (iii) sale comparables transacted within 3 months from the Valuation Date. We have conducted independent search on publicly available sources to ascertain the

list of Sale Comparables based on the abovementioned selection criteria and no material inconsistencies were noted, thus, we concur with the view of the Independent Valuer that the Sale Comparables adopted are exhaustive. We note that the prevailing market unit rates of Sale Comparables range from approximately HK\$3,809 to HK\$5,333 per sq.ft. while the average market unit rate adopted by the Independent Valuer for the Properties is approximately HK\$4,044 per sq.ft. on saleable area basis. As such, the average market unit rate of the Properties is within the range of the prevailing market unit rates of the Sale Comparables, and hence we consider that the Consideration, which has been arrived with reference to the prevailing market prices of properties of similar nature within the same area, is justifiable.

(iii) The Valuation Report

According to the Valuation Report as set out in Appendix I to the Circular, the market value of the Properties amounted to HK\$51,200,000 (the “**Valuation**”) as at 31 August 2024 (the “**Valuation Date**”). To assess the fairness and reasonableness of the Valuation, we have obtained and reviewed the Valuation Report and the engagement letter entered into between the Company and the Independent Valuer, and we have independently performed the work in respect of the Valuation Report, which included (a) assessment of the Independent Valuer’s experience in valuing properties in Hong Kong similar to the Properties; (b) assessment of the Independent Valuer’s qualifications by obtaining information on the Independent Valuer’s track records on other valuations and the resume of the signor of the Independent Valuer; (c) inquiry on the Independent Valuer’s current and prior relationship with the Group and other parties to the Share Purchase Agreement; (d) review of the terms of the Independent Valuer’s engagement, in particular its scope of work, for the assessment of the valuation of the Properties; and (e) discussion with the Independent Valuer regarding the bases, assumptions and methodology adopted in the Valuation Report.

Independent Valuer

From the information provided by the Independent Valuer and based on our discussion with it, we understand that the signor of the Independent Valuer for the Valuation is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors, a Registered Professional Surveyor, a RICS Registered Valuer and a member of the China Institute of Real Estate Appraisers, who has over 20 years of experience in valuation of tangible assets, intangible assets and business enterprises in Hong Kong and overseas countries. Furthermore, we note from the information on the Independent Valuer’s track records on other valuations,

the Independent Valuer has provided a wide range of valuation services to numerous companies, including companies listed in Hong Kong and Singapore. In particular, the Independent Valuer has provided valuation services in respect of a number of properties in Hong Kong, the PRC, the United Kingdom and Cambodia in the past three years. Therefore, we are satisfied with the Independent Valuer's qualifications and experience for preparation of the Valuation Report.

We have also enquired with the Independent Valuer as to its independence from the Company and the parties to the Share Purchase Agreement and we are given to understand that the Independent Valuer is an independent third party of the Company and its connected persons. As confirmed by the Independent Valuer, 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 provide a reliable opinion in respect of the valuation of the Properties. The Independent Valuer also confirmed that apart from the normal professional fees payable to it in connection with its engagement for the valuation of the Properties, no arrangements exist whereby it will receive any fee or benefit from the Company and its associates.

Furthermore, we note from the engagement letter entered into between the Company and the Independent Valuer that there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Independent Valuer in the Valuation Report. The Independent Valuer also confirmed that the scope of work stated in its engagement letter was appropriate and common for its services to form the opinion required to be given in the Valuation Report.

Valuation Basis

We note from the Valuation Report and understand from the Independent Valuer that the Valuation was prepared in accordance with the requirements set out in Chapter 5 of the Listing Rules, the HKIS Valuation Standards 2020 published by the Hong Kong Institute of Surveyors and the International Valuation Standards (Effective 31 January 2022) published by the International Valuation Standards Council.

According to the Valuation Report, market value is defined to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion". In this regard, we note that the Share Purchase Agreement was entered into by the parties thereto on normal commercial terms following arm's length

negotiations on the Consideration. Based on our discussion with the Independent Valuer, since no unusual matters had come to our attention that led us to believe that the Valuation Report was not prepared on a reasonable basis, we therefore consider that the basis adopted by the Independent Valuer is fair and reasonable.

Valuation Assumptions

We have discussed with the Independent Valuer and note from the Valuation Report that the Independent Valuer has made various assumptions for the valuation of the Properties, details of which are set out in the Valuation Report as set out in Appendix I to the Circular. We have reviewed those assumptions made by the Independent Valuer and as confirmed by the Independent Valuer, those assumptions are all general assumptions which are commonly adopted for all other similar valuations. As such, we consider that the principal assumptions adopted in the Valuation Report is justifiable.

Valuation Methodology

We note that the Independent Valuer adopted the direct comparison method in valuing the Properties, which provides an indication of value by comparing the asset with identical or similar assets for which price information is available. As confirmed by the Independent Valuer, the direct comparison method is the same as the market approach, and we have discussed with the Independent Valuer and are given to understand that the direct comparison method is generally considered to be the most accepted valuation approach for valuing most forms of property and such method is the first priority to consider to be adopted in the property valuation if the appropriate recent comparables to be identified and obtained are sufficient enough to derive an objective and reliable opinion of valuation. In this regard, we concur with the view of the Independent Valuer that the direct comparison method is appropriate for valuing the Properties, taking into account the availability of sufficient comparables with information publicly accessible for assessment.

Additionally, we have conducted independent desktop search on recent circulars published by companies listed on the Stock Exchange since 27 August 2024 (being the date one month prior to the publication date of the Company's announcement in relation to the Disposal, which reflects the latest market practice) and up to the Latest Practicable Date in relation to acquisition or disposal of assets involving property valuation conducted by independent valuers and, with our best endeavours and to our best knowledge, the relevant information is set out below which is an exhaustive list based on these criteria:

Date of circular	Listed company	Stock code	Valuation method	Subject	Factors of adjustments	Country/region of subject located
30 August 2024	Emperor International Holdings Limited	163	Market approach	Disposal of residential, industrial and commercial properties	Time, location, building age, floor level, size, frontage, headroom and layout	Hong Kong
30 August 2024	Fullshare Holdings Limited	607	Investment method	Disposal of commercial properties with car parks and land	Location, accessibility, building age, transaction status, environment, decoration standard, area, management, age & maintenance, size, building facilities, plot ratio and land use term	PRC
30 August 2024	Glory Sun Land Group Limited	299	Market approach	Disposal of commercial property	Discount on offer price, location, building age, size and land use rights term	PRC
30 August 2024	Renze Harvest International Limited	1282	Direct comparison method	Acquisition of commercial property	Asking discount, location, size, floor and condition	PRC
3 September 2024	Overseas Chinese Town (Asia) Holdings Limited	3366	Direct comparison method	Disposal of commercial property	Time, location, size, floor level, building age and building quality	PRC

Date of circular	Listed company	Stock code	Valuation method	Subject	Factors of adjustments	Country/region of subject located
17 September 2024	Chinese Estates Holdings Limited	127	Comparison approach	Disposal of commercial property	Location, floor, size, layout, building quality	United Kingdom
19 September 2024	Imperium Financial Group Limited	8029	Direct comparison approach	Disposal of lands	N/A	Australia
24 September 2024	ITC Properties Group Limited	199	Direct comparison method	Disposal of commercial property	Time, condition, location, facilities, age and size	Canada
30 September 2024	Goldstream Investment Limited	1328	Income approach	Acquisition of industrial property	Nature, location, floor level, size and building quality	PRC
7 October 2024	China Motor Bus Company, Limited	26	Residual method	Disposal of commercial property	N/A	United Kingdom
25 October 2024	China Zenith Chemical Group Limited	362	Market approach	Disposal of residential property	Date of transaction, building age, floor level, size, view, ancillary accommodation and flat type	Hong Kong

According to the above list, we note that eight out of 11 transactions involved the adoption of either market approach or comparison approach or direct comparison method or direct comparison approach. As advised by the Independent Valuer, all of these approaches and methods are the same. In addition, as confirmed by the Independent Valuer, the country or region where the subject properties located will not affect the adoption of the valuation methodology for evaluating the subject properties. However, as shown in the above list, location is one of the common factors of adjustment to reflect the dissimilarities between the subject properties and their respective comparables in different location for the valuation of subject properties in respect of the surrounding environment and transportation network of the subject properties when the market approach or comparison approach or direct comparison method or direct comparison approach is adopted. As such, we consider that the above list is representative to justify the valuation methodology adopted in the Valuation by the Independent

Valuer although most of the subject properties in the above list are located outside Hong Kong.

In addition, we note from the Valuation Report that the Independent Valuer had identified four Sale Comparables under the direct comparison method based on the selection criteria including (i) reference to sale comparables in the vicinity of the Properties, i.e. sale comparables located in Tai Wai and Fo Tan, Sha Tin; (ii) sale comparables being properties with the same uses of the Properties; and (iii) sale comparables transacted within 3 months from the Valuation Date. We also note that adjustments were made to reflect the differences in various aspects between the Properties and these identified sale comparables to arrive at the adopted unit rate of the property in valuing the Properties, including but not limited to the factors of floor, layout, time, size and location in arriving at the Independent Valuer's opinion of value.

In order to assess the fairness and representation of the selected Sale Comparables and the factors of adjustment adopted by the Independent Valuer, we have discussed with the Independent Valuer in relation to the selection criteria and the adjustments being made. As advised by the Independent Valuer, these selection criteria and factors of adjustments are common to be adopted in other similar valuation of properties. Furthermore, we are also advised by the Independent Valuer that comparables that are closer to the Valuation Date offer a more accurate reflection of current market conditions as at the Valuation Date, and the time frame of comparables depends on the availability of relevant comparables. Given that transactions occurred within 3 months from the Valuation Date are sufficient to derive an objective and reliable opinion of value, the Independent Valuer is of the view that the 3-month time frame is reasonable. We have also conducted independent search on publicly available sources to obtain the available information of the Sale Comparables and no material inconsistencies were noted. As such, we concur with the view of the Independent Valuer that the Sale Comparables are deemed sufficient, appropriate and reasonable to derive a reliable opinion of value of the Properties as at the Valuation Date, and thus are representative of and comparable to the Properties.

In addition, we have obtained and reviewed the HKIS Valuation Standards 2020 published by the Hong Kong Institute of Surveyors and the International Valuation Standards (Effective 31 January 2022) published by the International Valuation Standards Council from the Independent Valuer. It is noted that it will often be necessary to make adjustments to the valuation based on a comparative analysis of qualitative and quantitative similarities and differences between the comparable assets and the subject asset under the market approach when comparable market information does

not relate to the exact or substantially the same asset and it is one of the key steps in the comparable transactions method. A valuer should analyse and make adjustments for any material differences between the comparable transactions and the subject asset. Examples of common differences that could warrant adjustments may include, but are not limited to, age, size, specifications and geographical location of the assets. In addition, according to the above list, we note that among all eight transactions which adopted the market approach or an equivalent approach or method, the respective independent valuers had adjusted the comparables for their valuation based on a variety of factors, which in general, are largely in line with the practice of the Independent Valuer when conducting the valuation on the Properties. As such, we are of the view that the adoption of direct comparison method for the valuation of the Properties by the Independent Valuer as well as the adjustments adopted by the Independent Valuer are in line with the market practice.

Based on the above, taking into account that (i) the Independent Valuer has sufficient qualification and experience to undertake the valuation of the Properties; and (ii) the valuation basis, valuation assumptions and valuation methodology which have been adopted in the Valuation are commonly adopted for assessing the similar valuation of properties and in line with the market practice, we are of the view that the valuation of the Properties is determined on a fair and reasonable basis.

As stated in the Letter from the Board, we note that the Consideration represents a premium of 10% to the Valuation. In this regard, we have discussed with the management of the Company and are given to understand the Purchaser has taken into account that the leaseback arrangement of the Properties, which provides a term of two (2) years commencing on the Completion Date under the Leaseback Agreement, helps save the Purchaser's time and cost in looking for a tenant in the market as well as secures his capital return immediately following the Completion. On the other hand, given the decreasing trend of the industrial price index in Hong Kong for the latest three years, the 10% premium is a term favourable to the Group. Therefore, we concur with the view of the Directors that the premium of 10% to the Valuation is reasonably determined.

Having considered (i) the reasons for and benefits of the Disposal as discussed in the above sub-section headed "*1.5 Reasons for and benefits of the Disposal and the Leaseback*" of this letter; (ii) the Consideration representing a premium of approximately 16.2% or HK\$5,727,000 to the adjusted unaudited net asset value of the Target Group after deduction of the Sale Loan; (iii) the average market unit rate of the Properties being within the range of the prevailing market unit rates of properties of similar nature in the vicinity of the Properties; (iv) the Valuation of the Properties as

valued by the Independent Valuer at HK\$51,200,000 being determined on a fair and reasonable basis; and (v) the Consideration representing a premium of 10% to the Valuation which is reasonably determined, we consider that the terms of the Share Purchase Agreement, including the Consideration, are on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole.

2.2 Principal terms of the Leaseback Agreement

Pursuant to the Share Purchase Agreement, it is a condition to the Completion that Healthy Cheer shall enter into the Leaseback Agreement with C.Y. Food Trading or another subsidiary of the Company as nominated by the Vendor on or before the Completion Date, pursuant to which the Group shall lease back the Properties for its business use. The principal terms of the Leaseback Agreement are set out below:

Parties	(i) C.Y. Food Trading or another subsidiary of the Company as nominated by the Vendor as tenant; and (ii) Healthy Cheer as landlord
Properties	The Properties
Lease term	Two (2) calendar years commencing from the Completion Date
Monthly rental	HK\$200,000 (exclusive of management fees and government rent and rates) (the “ Monthly Rental ”)
Break clause	After the expiration of eleven (11) months from the commencement of the term of the lease, the tenant shall have the right to terminate the Leaseback Agreement by giving a not less than one month’s written notice to the landlord.

2.2.1 Assessment of the Monthly Rental

As stated in the Letter from the Board, the monthly rental payable under the Leaseback Agreement was determined after arm’s length negotiations between the parties thereto, taking into account (i) the prevailing market conditions and the prevailing market rent for similar premises in the vicinity of the Properties; and (ii) the market rent report prepared by the Independent Valuer. The rental payable under the Leaseback Agreement in respect of the Properties is expected to be financed by the internal resources of the Group.

In assessing the fairness and reasonableness of the Monthly Rental, we have obtained and reviewed (i) the list of rental comparables with prevailing average market rent in the vicinity of the Properties; and (ii) the market rent report prepared by the Independent Valuer as at 31 August 2024 (the “**Market Rent Report**”).

- (i) The prevailing market rent for similar premises in the vicinity of the Properties

We have obtained a list of nine industrial properties with prevailing rental unit rate located in Tai Wai and Fo Tan, Sha Tin, being the rental comparables of similar nature located in the vicinity of the Properties, as at 31 August 2024 from the Independent Valuer (the “**Rental Comparables**”) for the valuation of the market rent of the Properties. As confirmed by the Independent Valuer, the Rental Comparables adopted for the valuation of the market rent of the Properties are exhaustive based on the selection criteria including (i) references to rental comparables in the vicinity of the Properties, i.e. rental comparables located in Tai Wai and Fo Tan, Sha Tin; (ii) rental comparables being properties with the same uses of the Properties; and (iii) rental comparables transacted within 3 months from the Valuation Date. We have conducted independent search on publicly available sources to ascertain the list of Rental Comparables based on the abovementioned selection criteria and no material inconsistencies were noted, thus, we concur with the view of the Independent Valuer that the Rental Comparables adopted are exhaustive. We note that the prevailing rental unit rates of Rental Comparables range from approximately HK\$14.0 to HK\$18.6 per sq.ft. per month while the average market rent adopted by the Independent Valuer for the Properties is approximately HK\$15.8 per sq.ft. per month on saleable area basis. As such, the average market rent of the Properties is within the range of the prevailing rental unit rates of Rental Comparables, and hence we consider that the Monthly Rental was determined with reference to the prevailing market rent for similar premises in the vicinity of the Properties is justifiable.

- (ii) The Market Rent Report

According to the Market Rent Report as set out in Appendix II to the Circular, the market rent of the Properties amounted to HK\$200,000 per month, exclusive of government rent, rates, management fees and all other outgoings, as at the Valuation Date (the “**Market Rent Valuation**”). To assess the fairness and reasonableness of the Market Rent Valuation, we have obtained and reviewed the Market Rent Report and have independently performed the work included (a) assessment of the Independent Valuer’s experience in valuing the market rent of the properties in Hong Kong similar to the Properties; (b) assessment of the Independent Valuer’s

qualifications by obtaining information on the Independent Valuer's track records on other valuations and the resume of the signor of the Independent Valuer; (c) inquiry on the Independent Valuer's current and prior relationship with the Group and other parties to the Leaseback Agreement; (d) review of the terms of the Independent Valuer's engagement, in particular its scope of work, for the assessment of the valuation of the market rent of the Properties; and (e) discussion with the Independent Valuer regarding the bases, assumptions and methodology adopted in the Market Rent Report.

Independent Valuer

We note that the Market Rent Report is prepared by the Independent Valuer which is the same as the Valuation Report with the same signor. Therefore, regarding our independent work performed on the Independent Valuer and the signor of the Independent Valuer, please take reference to those we have performed with respect to the Valuation Report as stated in the above paragraph headed "*(iii) The Valuation Report*" of the sub-section headed "*2.1.1 Assessment of the Consideration*" of this letter.

In particular, we note from the information on the Independent Valuer's track records on other valuations, the Independent Valuer has provided a wide range of market rent valuation services to numerous companies, including companies listed in Hong Kong. Therefore, we are satisfied with the Independent Valuer's qualifications and experience for preparation of the Market Rent Report.

Similar to our inquiry on the Independent Valuer's current and prior relationship with the Group and other parties to the Share Purchase Agreement, the Independent Valuer confirmed that it was not aware of any relationship or interest between itself and the Company or any other parties to the Leaseback Agreement that would reasonably be considered to affect its independence to provide a reliable opinion in respect of the Market Rent Valuation.

Furthermore, as discussed before, there were no limitations on the scope of work in the engagement letter between the Company and the Independent Valuer which might adversely impact the degree of assurance given by the Independent Valuer and the Independent Valuer also confirmed that the scope of work stated in its engagement letter was appropriate and common for its services to form the opinion required to be given in the Market Rent Report.

Valuation Basis

We note from the Market Rent Report and understand from the Independent Valuer that the Market Rent Valuation was prepared in accordance with the requirements set out in Chapter 5 of the Listing Rules, the HKIS Valuation Standards 2020 published by the Hong Kong Institute of Surveyors and the International Valuation Standards (Effective 31 January 2022) published by the International Valuation Standards Council, which are the same as those for the Valuation as discussed before.

According to the Market Rent Report, market rent is defined to mean “the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm’s-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”. In this regard, we note that the entering into of the Leaseback Agreement by the parties thereto is on normal commercial terms following arm’s length negotiations on the Monthly Rental. Based on our discussion with the Independent Valuer, since no unusual matters had come to our attention that led us to believe that the Market Rent Report was not prepared on a reasonable basis, we therefore consider that the basis adopted by the Independent Valuer is fair and reasonable.

Valuation Assumptions

We have discussed with the Independent Valuer and note from the Market Rent Report that the Independent Valuer has made various assumptions for the Market Rent Valuation, details of which are set out in the Market Rent Report as set out in Appendix II to the Circular. We have reviewed those assumptions made by the Independent Valuer and as confirmed by the Independent Valuer, those assumptions are all general assumptions which are commonly adopted for all other similar valuations of the market rent. As such, we consider that the principal assumptions adopted in the Market Rent Report is justifiable.

Valuation Methodology

We note that the Independent Valuer adopted the direct comparison method in valuing the market rent of the Properties, which assumes that the property is capable of being leased in its existing state with the benefit of vacant possession and by making reference to comparables letting evidence as available in the relevant market. As discussed in relation to the Valuation Report before, and confirmed by the Independent Valuer, the direct comparison method is generally considered to be the most accepted valuation approach for valuing most forms of property including the

respective market rent and such method is the first priority to consider to be adopted in the property valuation if the appropriate recent comparables to be identified and obtained are sufficient enough to derive an objective and reliable opinion of valuation. In this regard, we concur with the view of the Independent Valuer that the direct comparison method is appropriate for valuing the market rent of the Properties, taking into account the availability of sufficient comparables with information publicly accessible for assessment.

Additionally, we have conducted independent desktop search on recent circulars published by companies listed on the Stock Exchange since 1 January 2024 and up to the Latest Practicable Date in relation to the entering into of lease agreements or tenancy agreements involving property valuation on market rent or right-of-use assets conducted by independent valuers. Since we note that there is not much acquisition of right-of-use assets by companies listed on the Stock Exchange which was constituted a notifiable transaction subject to the circular with the involving of property valuation requirements under the Listing Rules within one month prior to the publication date of the Company's announcement in relation to the Disposal as we have performed in relation to the Valuation as abovementioned, we have extended the time frame of our desktop search to the whole year 2024 which reflects the latest market practice. Hence, with our best endeavours and to our best knowledge, the relevant information is set out below which is an exhaustive list based on these criteria:

Date of circular	Listed company	Stock code	Valuation method	Subject	Factors of adjustments	Country/region of subject located
15 January 2024	AEON Stores (Hong Kong) Co., Limited	984	Market comparison method	Commercial property	Location & environment, transportation & accessibility, size, floor level and age	PRC
3 May 2024	A & S Group (Holdings) Limited	1737	Income approach	Industrial properties	Risk-free rate and borrowing rate according to the type of underlying assets	Hong Kong
28 May 2024	Town Ray Holdings Limited	1692	Direct comparison approach	Industrial property	N/A	PRC

Date of circular	Listed company	Stock code	Valuation method	Subject	Factors of adjustments	Country/region of subject located
7 June 2024	北京京客隆商業集團股份有限公司 (Beijing Jingkelong Company Limited*)	814	Market comparison method	Commercial properties	Degree of business prosperity, street frontage condition, location, year of construction, decoration, lease area and floor level	PRC
17 July 2024	Deson Development International Holdings Limited	262	Direct comparison method	Commercial and residential properties	Time, location, floor, size, layout and condition	PRC
26 July 2024	World-Link Logistics (Asia) Holding Limited	6083	Income approach	Commercial properties	Credit spread, security pledging status, duration, country risk premium and liquidity risk premium	Hong Kong
26 July 2024	Parkson Retail Group Limited	3368	Market comparison method	Commercial properties	Transaction status, location & environment, accessibility, age & maintenance, size, building facilities, decoration standard and level	PRC
27 August 2024	China Wantian Holdings Limited	1854	Direct comparison method	Commercial properties	Time, location, floor, size, layout and condition	PRC
23 September 2024	Cirtek Holdings Limited	1433	Market approach	Industrial properties	Transaction and/or asking time, size, usage and locality	PRC
23 September 2024	Jiahua Stores Holdings Limited	602	Market comparison method	Commercial property	Quoted price, size and floor level	PRC

* For identification purposes only

Date of circular	Listed company	Stock code	Valuation method	Subject	Factors of adjustments	Country/region of subject located
23 October 2024	EDICO Holdings Limited	8450	Comparison method	Commercial property	Age, time, location and floor level	Hong Kong

According to the above list, we note that nine out of 11 transactions involved the adoption of either market approach or direct comparison method or market comparison method or comparison method for the valuation of market rent of properties. As advised by the Independent Valuer, all of these approaches and methods are the same. In addition, as confirmed by the Independent Valuer, the country or region where the subject properties located will not affect the adoption of the valuation methodology for evaluating the market rent or right-of-use assets of the subject properties. However, as shown in the above list, location is one of the common factors of adjustment to reflect the dissimilarities between the subject properties and their respective comparables in different location for the valuation of the market rent of subject properties in respect of the surrounding environment and transportation network of the subject properties when the market approach or direct comparison method or market comparison method or comparison method is adopted. As such, we consider that the above list is representative to justify the valuation methodology adopted in the Market Rent Valuation by the Independent Valuer although most of the subject properties in the above list are located outside Hong Kong.

In addition, we note from the Market Rent Report that the Independent Valuer had identified nine Rental Comparables under the direct comparison method based on the selection criteria including (i) references to rental comparables in the vicinity of the Properties, i.e. rental comparables located in Tai Wai and Fo Tan, Sha Tin; (ii) rental comparables being properties with the same uses of the Properties; and (iii) rental comparables transacted within 3 months from the Valuation Date. We also note that adjustments were made to reflect the differences in various aspects between the Properties and these identified rental comparables to arrive at the adopted unit rate of the property in valuing the market rent of the Properties, including but not limited to the factors of floor, layout, time, size and location in arriving at the Independent Valuer's opinion of market rent.

In order to assess the fairness and representation of the selected Rental Comparables and the factors of adjustment adopted by the Independent Valuer, we have discussed with the Independent Valuer in relation to the selection criteria and the adjustments being made, as advised by the Independent Valuer, similar to those for the Valuation as abovementioned,

these selection criteria and factors of adjustments are common to be adopted in other similar valuations of the market rent of properties. Furthermore, as discussed in the above paragraph headed “(iii) *The Valuation Report*” of the sub-section headed “2.1.1 *Assessment of the Consideration*” of this letter, the Independent Valuer is of the view that the 3-month time frame is reasonable. We have also conducted independent search on publicly available sources to obtain the available information of the Rental Comparables and no material inconsistencies were noted. As such, we concur with the view of the Independent Valuer that the Rental Comparables are deemed sufficient, appropriate and reasonable to derive a reliable opinion of market rent of the Properties as at the Valuation Date, and thus are representative of and comparable to the Properties.

In addition, similar to our analysis on the review of the HKIS Valuation Standards 2020 published by the Hong Kong Institute of Surveyors and the International Valuation Standards (Effective 31 January 2022) published by the International Valuation Standards Council as stated in the above paragraph headed “(iii) *The Valuation Report*” of the sub-section headed “2.1.1 *Assessment of the Consideration*” of this letter, we are of the view that the adoption of direct comparison method for the valuation of market rent of the Properties by the Independent Valuer as well as the adjustments applied by the Independent Valuer are in line with the market practice.

Based on the above, taking into account that (i) the Independent Valuer has sufficient qualification and experience to undertake the valuation of market rent of the Properties; and (ii) the valuation basis, valuation assumptions and valuation methodology which have been adopted in the Market Rent Valuation are commonly adopted for assessing the similar valuation of market rent of properties and in line with the market practice, we are of the view that the Market Rent Valuation is determined on a fair and reasonable basis.

Having considered (i) the reasons for and benefits of the Leaseback as discussed in the above sub-section headed “1.5 *Reasons for and benefits of the Disposal and the Leaseback*” of this letter; (ii) the average monthly market rent per sq.ft. of the Properties being within the range of the rental unit rate for similar premises in the vicinity of the Properties; and (iii) the Market Rent Valuation being determined on a fair and reasonable basis, and the Monthly Rental being exactly the same as the Market Rent Valuation, we consider that the terms of the Leaseback Agreement, including the Monthly Rental, are on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole.

RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the view that, although the entering into of the Share Purchase Agreement is not in the ordinary and usual course of business of the Group, (i) the entering into of the Share Purchase Agreement and the Leaseback Agreement is fair and reasonable and in the interests of the Group and the Shareholders as a whole; (ii) the entering into of the Leaseback Agreement is in the ordinary and usual course of business of the Group; and (iii) the terms of the Share Purchase Agreement and the transactions contemplated thereunder including the Leaseback Agreement, are on normal commercial terms, are fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders and recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to approve the Share Purchase Agreement and the Leaseback Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Zijing Capital Limited



Lu Ting Pong Johnny
Executive Director

Mr. Lu Ting Pong Johnny is a licensed person and the responsible officer of Zijing Capital Limited registered with the SFC to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 15 years of experience in corporate finance industry.