

17 February 2025

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**(1) STRATEGIC FUNDRAISING LED BY
THE CONTROLLING SHAREHOLDER AND
GAW CAPITAL (THROUGH ITS MANAGED FUNDS)
TO RAISE A TOTAL OF HK\$1,992 MILLION
BY WAY OF
(i) AN UNDERWRITTEN RIGHTS ISSUE OF HK\$1,492 MILLION
PRICED AT AN APPROX. 5.88% PREMIUM TO CLOSING PRICE; AND
(ii) ISSUE OF A HK\$500 MILLION 4-YEAR SENIOR UNSECURED NOTE;
(2) ISSUE OF BONUS WARRANTS TO SHAREHOLDERS;
(3) PROPOSED SHARE CONSOLIDATION,
(4) AUTHORISED SHARE CAPITAL INCREASE;
AND
(5) CHANGE IN BOARD LOT SIZE**

I INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue, the Note Subscription Agreement and the Facilitation Agreement, which are part and parcel of the Strategic Funding & Partnership Proposal. Details of the Strategic Funding & Partnership Proposal are set out in the letter from the Board (the “Board Letter”) contained in the circular of the Company to the Shareholders dated 17 February 2025 (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 otherwise specified.

On 2 February 2025, the Board announced, among other things, the Strategic Funding & Partnership Proposal, pursuant to which, Gaw Capital will, through its managed funds, become a new long-term strategic investor of the Company, and commit funding of approximately HK\$1.2 billion for the Company’s proposal to raise an aggregate of approximately HK\$1,992 million (before the discount on issue of the Senior Unsecured Note, and expenses) by way of (i) the Rights Issue of 8,288,810,708 Rights Shares on the basis of 18 Rights Shares for every 10 Consolidated Shares held on the Record Date at the Subscription Price of HK\$0.18 per Rights Share to raise approximately HK\$1,492 million; and (ii) the issuance of the Senior Unsecured Note by a wholly-owned subsidiary of the Company to the Note Subscriber (which is a special purpose vehicle owned by a consortium of institutional investors led by a subsidiary of Gaw Capital (as general partner of Gateway Real Estate Fund VII (Singapore) L.P.)) in the principal amount of HK\$500 million. In consideration of the Investor’s contributions to the Company under the Strategic Funding & Partnership Proposal and the funding commitment, the Company has agreed to pay an amount of HK\$22 million to the Investor upon the Strategic Funding & Partnership Proposal Completion Date (i.e. the later of (a) the date on which dealings in fully paid Rights Shares commence on the Stock Exchange; and (b) the date on which the Senior Unsecured Note is issued in accordance with the terms of the Note Subscription Agreement). The Strategic Funding & Partnership Proposal is for the main purpose of raising long-term capital amidst the headwinds in the real estate sector for the Group’s continuous business development and for optimising the financial position of the

Group. The reasons for the Strategic Funding & Partnership Proposal and details of the principal terms of the Rights Issue, the Note Subscription Agreement and the Facilitation Agreement are set out in the Board Letter and further discussed in the sections headed "Reasons for the Strategic Funding & Partnership Proposal", "The Rights Issue", "The Note Subscription Agreement" and "The Facilitation Agreement" below.

In connection with the Strategic Funding & Partnership Proposal, Digisino, the Investor and Newco entered into the Subscription Agreement and the Shareholders Agreement to, among other things, govern the shareholding structure of Newco and the capital contribution by the Investor and Mr. Chung (being the controlling Shareholder) to Newco for the purpose of funding its subscription of the Rights Shares. Newco has given the Irrevocable Undertaking in favour of the Company to, among other things, procure its subsidiaries or nominees to accept and take up in full a total of 4,661,272,854 nil-paid Rights Shares to be provisionally allotted or transferred to it/them, equivalent to approximately HK\$839 million, and apply (by way of excess application) for 1,774,724,996 Rights Shares, equivalent to approximately HK\$319 million. Digisino and the Investor have also agreed, subject to certain conditions, that during the term of the Shareholders Agreement, (i) the Investor and its affiliates shall not acquire or dispose of any Shares without the prior written consent of Digisino; and (ii) Digisino will make all decisions as to how votes attached to the Shares indirectly held by Newco are to be cast. The Shareholders Agreement further provides a lock-up period of five years from the date of the Shareholders Agreement, during which the Investor may request the disposal of all the Shares directly held by Golden Boost after four years. On the other hand, Digisino, Newco and the Company entered into a letter of undertaking in favour of the Investor to, among other things, procure and/or arrange the appointment by the Company of one individual to be nominated by the Investor as a non-executive Director on the Strategic Funding & Partnership Proposal Completion Date.

Alongside with the Strategic Funding & Partnership Proposal, the Board also announced on the same date the proposed grant of the Bonus Warrants by the Company to Qualifying Shareholders on the basis of one Bonus Warrant for every 10 Consolidated Shares held on the Record Date, and the proposed Share Consolidation, the Authorised Share Capital Increase and the Change in Board Lot Size, which are further detailed in the Board Letter.

In accordance with Rule 7.19A(1) and Rule 7.27A(1) of the Listing Rules, as the Rights Issue will increase the total number of the issued Shares by more than 50% within the 12 months period immediately preceding the date of the Announcement, the Rights Issue shall be conditional upon the Independent Shareholders' approval, and any controlling Shareholder and its associates are required to abstain from voting in favour of the relevant resolution(s) relating to the Rights Issue at the SGM. Further, as the Investor entered into the Subscription Agreement and the Shareholders Agreement with Digisino and Newco (both are connected persons of the Company), the Board considered that the Investor and the Note Subscriber are also connected persons of the Company. As such, the Note Subscription Agreement, the Facilitation Agreement and the transactions contemplated thereunder shall constitute connected transactions of the Company which are subject to the Independent Shareholders' approval under Chapter 14A of the Listing Rules. Any Shareholder who has a material interest must abstain from voting on the relevant resolution(s) at the SGM.

As at the Latest Practicable Date, Mr. Chung beneficially owned through Newco and its subsidiaries 5,179,192,062 Existing Shares, representing approximately 56.24% of the issued share

capital of the Company, and was the controlling Shareholder. Mr. Chung and his associate, Mr. Kan Sze Man, a Director, who held 23,790,500 Existing Shares, representing approximately 0.26% of the issued share capital of the Company as at the Latest Practicable Date, are required to abstain from voting on the relevant resolution(s) in relation to the Rights Issue, the Note Subscription Agreement, the Facilitation Agreement and the transactions contemplated thereunder to be proposed at the SGM. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save as disclosed above, there were no other Shareholders as at the Latest Practicable Date who are required to abstain from voting at the SGM.

The Independent Board Committee, comprising Mr. Cheng Yuk Wo, Mr. Shek Lai Him, Abraham, GBS, JP and Mr. Lo Wing Yan, William, JP, each being an independent non-executive Director, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue, the Note Subscription Agreement and the Facilitation Agreement are fair and reasonable, and whether the transactions contemplated under the Rights Issue, the Note Subscription Agreement and the Facilitation Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and to give a recommendation to the Independent Shareholders in respect of the voting on the relevant resolution(s) to be proposed at the SGM. We, Optima Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We are not associated or connected with the Company, Mr. Chung, the Investor, the Note Subscriber or their respective connected persons or associates. During the two years immediately prior to the date of our appointment, we have not (i) acted in the capacity as a financial adviser or independent financial adviser to the Company; (ii) provided any services to the Company; or (iii) had any relationship with the Company. We are therefore considered eligible to give independent advice in respect of the Rights Issue, the Note Subscription Agreement and the Facilitation Agreement. Apart from normal professional fees paid or payable to us in connection with our appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, Mr. Chung, the Investor, the Note Subscriber or their respective connected persons or associates. Accordingly, we consider that we are independent from the Company pursuant to Rule 13.84 of the Listing Rules.

II BASIS OF OUR OPINION

In formulating our advice and recommendations, we have relied on the information and facts supplied and the opinions expressed by the directors and management of the Company (together, the “Management”) and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respects at the time they were provided and expressed, and continue to be true, accurate and complete in all material respects up to the date hereof. We have sought and received confirmation from the Management that no material facts have been omitted from the information supplied and opinions expressed to us.

We have also reviewed, among other things, (i) the Announcement; (ii) the Subscription Agreement, the Shareholders Agreement, the Irrevocable Undertaking, the Rights Issue Underwriting Agreement, the Note Subscription Agreement and the Facilitation Agreement; (iii) the annual reports of the Company for the two years ended 31 March 2023 (the “2022/23 Annual Report”) and 2024 (the “2023/24 Annual Report”); (iv) the interim report of the Company for the six months ended 30 September 2024 (the “2024/25 Interim Report”); and (v) the information as set out in the Circular.

We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group, Newco, the Investor and/or the Note Subscriber, nor have we carried out any independent verification of the information supplied.

III PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have taken into consideration the following principal factors and reasons:

1. Businesses of the Group

The Group is principally engaged in the businesses of property development and investment, and securities investment.

For the property development and investment business, the Group engages in property projects by (i) acquisition of existing properties and refurbishing them for enhancement or re-developing them into commercial and/or residential properties; or (ii) acquisition of land parcels and developing them into commercial and/or residential properties, and generates revenue from sales of properties and/or rental income. In addition to the property projects owned by the Group, a number of the Group’s property projects are carried out through joint ventures, and some are through associates, whereby the Group will share the profits or loss of these joint ventures or associates in its consolidated financial statements.

For the securities investment business, the Group invests in listed and unlisted equity and debt securities mainly for generating interest income or dividend income for the Group.

Set out below is a summary of income from the Group's businesses for the three years ended 31 March 2022 ("FY2021/22"), 2023 ("FY2022/23") and 2024 ("FY2023/24") and the six months ended 30 September 2023 ("HY2023/24") and 2024 ("HY2024/25"), as extracted from the respective annual report and interim report of the Company:

	HY2024/25	HY2023/24	FY2023/24	FY2022/23	FY2021/22
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue of the Group					
• <i>Rental income</i>	119,904	120,685	235,834	258,391	249,374
• <i>Sales of properties held for sale</i>	<u>23,080</u>	<u>203,298</u>	<u>1,343,298</u>	<u>545,879</u>	<u>171,088</u>
	142,984	323,983	1,579,132	804,270	420,462
Share of revenue of joint ventures and associates (Note 1)					
• <i>Rental income</i>	36,984	50,916	94,372	100,751	87,769
• <i>Sales of properties held for sale</i>	<u>912,497</u>	<u>1,142,606</u>	<u>1,784,854</u>	<u>1,450,863</u>	<u>2,255,098</u>
	949,481	1,193,522	1,879,226	1,551,614	2,342,867
Income from investments (Note 2)	24,556	14,745	44,463	64,965	83,354

Notes:

1. *The share of revenue of joint ventures and associates are for information purpose only, as they were not recorded as the Group's revenue in its consolidated financial statements.*
2. *The income from investments comprised interest income and dividend income generated from the securities investment business of the Group. They were recorded as "income from investments", a separate line from the revenue of the Group, in its consolidated financial statements.*

As at 30 September 2024, the Group had 10 major property projects held for sale and development or refurbishment of these properties had already been completed. These comprised (i) seven commercial properties and two residential properties in Hong Kong; and (ii) remaining shops and car parks of one commercial property in Macau. The Group also had a property project held for sale in Hong Kong which was yet to be redeveloped and two commercial properties in the People's Republic of China (the "PRC") held for investment.

In addition, as at 30 September 2024, the Group had 22 major property projects through joint ventures and two major property projects through associates. Development or refurbishment of 14 of these projects had already been completed, seven were under construction and three were pending redevelopment. The projects which were under construction included (a) a mixed-use residential/commercial redevelopment project of "TOPSIDE RESIDENCES" at Nathan Road, Kowloon; (b) an

Urban Renewal Authority project of mixed-use commercial development at Gage Street/Graham Street, Central; (c) a commercial redevelopment project at Shelter Street, Causeway Bay; (d) a residential redevelopment project at No. 92 Repulse Bay; (e) a Yau Tong MTR residential project; (f) the Phase V development project of “THE SOUTHSIDE” at Wong Chuk Hang MTR Station; and (g) a residential redevelopment project at No. 24 Middle Gap Road, the Peak. As advised by the Management, continuous capital commitment to fund the refurbishment/construction of these property projects through joint ventures or associates would be required from the Group.

2. Financial results of the Group

Set out below is a summary of the consolidated statement of profit or loss of the Group for each of FY2021/22, FY2022/23, FY2023/24, HY2023/24 and HY2024/25, as extracted from the respective annual report and interim report of the Company:

	HY2024/25 HK\$'000 (Unaudited)	HY2023/24 HK\$'000 (Unaudited)	FY2023/24 HK\$'000 (Audited)	FY2022/23 HK\$'000 (Audited)	FY2021/22 HK\$'000 (Audited)
Revenue	142,984	323,983	1,579,132	804,270	420,462
Cost of sales and services	(107,530)	(132,019)	(793,039)	(400,343)	(389,130)
Gross profit	35,454	191,964	786,093	403,927	31,332
Income from investments	24,556	14,745	44,463	64,965	83,354
Gains/(losses) from investments	(32,950)	(118,686)	(126,312)	29,260	(570,943)
Other income	166,603	167,942	400,704	301,245	274,488
Fair value loss on investment properties	(51,010)	(27,244)	(36,069)	–	–
Fair value gain on transfer of properties held for sale to investment properties	–	–	–	–	1,281,287
Impairment loss recognised on amounts due from joint ventures	–	–	(554,926)	(29,913)	–
Other gains/(losses)	(61,407)	31,385	(114,291)	200,376	719,953
Administrative expenses	(95,611)	(115,553)	(231,469)	(281,079)	(267,095)
Finance costs	(298,510)	(323,748)	(663,740)	(495,558)	(310,469)
Share of results of joint ventures	(581,869)	269,387	62,263	239,251	116,003
Share of results of associates	(43,869)	(37,983)	(64,130)	(49,047)	(22,756)
Profit/(loss) before taxation	(938,613)	52,209	(497,414)	383,427	1,335,154
Income tax credit/(expense)	23,971	3,780	41,462	(18,327)	(97,096)
Profit/(loss) for the period attributable to					
• Owners of the Company	(904,102)	57,579	(425,605)	335,654	1,156,180
• Holders of perpetual capital securities	–	–	–	34,300	73,422
• Non-controlling interests	(10,540)	(1,590)	(30,347)	(4,854)	8,456
	<u>(914,642)</u>	<u>55,989</u>	<u>(455,952)</u>	<u>365,100</u>	<u>1,238,058</u>

2.1 FY2022/23 versus FY2021/22

Compared to the revenue for FY2021/22, when the Group was still experiencing the ongoing impact of the COVID-19 pandemic, revenue of the Group for FY2022/23 increased by approximately HK\$383.8 million, or approximately 91.3%. This growth was primarily driven by higher properties sales. While the COVID-19 pandemic had ended, recovery of the economies in Hong Kong and the Mainland China remained slow and weak. Additionally, rising market interest rates created further challenges for the Group during FY2022/23. Despite these market conditions, the Group actively marketed its property projects and successfully completed sales of its commercial properties, including the office units at Shelley Street in Central and retail shops and signages in COO Residence in Tuen Mun.

On the other hand, during FY2021/22, approximately half of the refurbished units of a joint venture, the prestigious renovation project namely “Knightsbridge” located in prime location in Beijing, were sold at premium prices. However, there were no comparable prominent sales from the joint venture projects for FY2022/23, resulting in a decrease in share of revenue of joint ventures. Nevertheless, share of profits of joint ventures for FY2022/23 increased by approximately HK\$123.2 million, or approximately 106.2%, compared to FY2021/22. This improvement was mainly due to the absence of provision made on commercial properties of joint ventures for FY2022/23 (FY2021/22: provision for impairment loss on commercial properties of joint ventures of HK\$198.4 million was made).

During FY2021/22, the Group reclassified two shopping malls in Shanghai from properties held for sale to investment properties from a strategic decision, considering that leasing them out for rental income would be more profitable given the then market condition in Shanghai. The Group’s properties held for sale are stated at the lower of cost and net realisable value. As a result of the reclassification, the Group recognised a fair value gain of approximately HK\$1,281.3 million from revaluation of these properties in FY2021/22. In contrast, no fair value gain of the same nature was recorded in FY2022/23.

During FY2022/23, the Group assessed the expected credit loss for the amounts due from joint ventures, and recognised an impairment of approximately HK\$29.9 million (FY2021/22: nil) for an aggregate amount of approximately HK\$562.6 million (out of a total of approximately HK\$6,612.5 million) due from joint ventures.

Other gain of the Group mainly comprised gain on disposals of equity interests in its subsidiaries. During FY2021/22, the Group disposed of its entire equity interest in a former subsidiary principally engaged in holding properties held for sale to a joint venture formed with two independent third parties, in which the Group held a 51% equity interest. This transaction resulted in a gain of approximately HK\$742.4 million. During FY2022/23, the Group similarly disposed of its entire equity interests in another former subsidiary, which was principally engaged in holding properties under development. This disposal was made to another joint venture, also formed with two independent third parties, in which the Group held a 51% equity interest. The transaction generated a gain of approximately HK\$163.3 million.

During FY2022/23, the Group recorded net fair value gain on its investments of approximately HK\$29.3 million, compared to a net fair value loss of approximately HK\$570.9 million in FY2021/22. This improvement was mainly due to a lower fair value loss on financial assets measured at fair value through profit or loss ("FVTPL"), which amounted to approximately HK\$59.9 million in FY2022/23 (FY2021/22: approximately HK\$678.4 million).

Despite a reduction in the aggregate amount of bank borrowings, the Group's finance costs increased due to rising market interest rates, as its bank borrowings were subject to floating interest rates. As a result, the total finance costs rose by approximately HK\$185.1 million, or approximately 59.6%.

2.2 FY2023/24 versus FY2022/23

For FY2023/24, the Group recorded a significant increase in revenue of approximately HK\$774.9 million, or approximately 96.3%, compared to FY2022/23. Despite the sluggish economic recovery and rising interest rates during the year, the Group remained proactive in its sales efforts and successfully sold its luxury residential project located at No. 45 Barker Road.

During FY2023/24, sales of properties of joint ventures also increased by approximately 23.0% compared to FY2022/23, primarily driven by increase in the number of sales at the luxury residential project "Infinity" at No. 8-12 Peak Road, which attracted buyers from both Hong Kong and the Mainland China. In addition, further sales were recorded for the joint venture projects "Knightsbridge" and "Dukes Place" during FY2023/24.

However, during FY2023/24, the Group recorded an amount of impairment loss on amounts due from joint ventures of approximately HK\$554.9 million (FY2022/23: HK\$29.9 million), which was mainly due to an impairment loss related to a joint venture project in Kwu Tung North/Fanling North New Development Areas. The impairment arose due to the failure to reach a consensus with the Lands Department of the Hong Kong Government within the prescribed time limit regarding the land premium payable for the project's land lots. Consequently, the Lands Department of the Hong Kong Government resumed the land lots in exchange for the release of ex-gratia land compensation. As the amount of ex-gratia land compensation was lower than the acquisition cost of the land, an impairment loss was made by the Group.

For FY2023/24, the Group recorded a net fair value loss on its investments of approximately HK\$126.3 million, compared to a net fair value gain of approximately HK\$29.3 million for FY2022/23 as mentioned above. Besides, for FY2023/24, the Group recognised a fair value loss on investment properties amounting to approximately HK\$36.1 million (FY2022/23: nil).

Despite the continued effort of the Group to reduce its indebtedness, finance costs for FY2023/24 increased by approximately HK\$168.2 million, or approximately 33.9%, compared to FY2022/23. The increase was due to higher finance costs on bank borrowings, driven by rising market interest rates.

Overall, the Group shifted from a profit position in FY2022/23 to a loss position in FY2023/24. For the first time since the year ended 31 March 2005, the Company did not propose a final dividend for FY2023/24.

2.3 HY2024/25 versus HY2023/24

During HY2024/25, the Group's turnover was impacted by a combination of factors, including the continued weakness in the Mainland China and Hong Kong economies, high interest rates and subdued demand for properties. The sales recognised during HY2024/25 was mainly attributable to the sales of several car parking spaces at COO Residence and the disposal of several units of Broadway Center in Macau. Revenue for HY2024/25 dropped by approximately HK\$181.0 million, or approximately 55.9%, compared to HY2023/24. In particular, the revenue from sales of properties fell sharply from approximately HK\$203.3 million for HY2023/24 to approximately HK\$23.1 million for HY2024/25, representing a decrease of approximately 88.6%.

Sales from joint venture property projects also decreased from approximately HK\$1,142.6 million for HY2023/24 to approximately HK\$912.5 million for HY2024/25, representing a decrease of approximately 20.1%. The Group shared a loss of joint ventures amounting to approximately HK\$581.9 million for HY2024/25, primarily due to provision on fair value loss of properties held for sale. This contrasts with a share of profit of joint ventures of approximately HK\$269.4 million for HY2023/24.

The Group continued to record net fair value losses of its investments amounting to approximately HK\$33.0 million for HY2024/25 (HY2023/24: approximately HK\$118.7 million), and fair value losses on investment properties totalling approximately HK\$51.0 million (HY2023/24: approximately HK\$27.2 million).

During HY2024/25, the Group recorded other losses mainly due to the amount of written off of loan receivable of approximately HK\$61.5 million (HY2023/24: nil) in respect of the mortgaged loans offered by the Group.

Despite these challenges, the continued efforts of the Group to reduce bank borrowings led to a decrease in finance costs for HY2024/25 by approximately HK\$25.2 million, or approximately 7.8%, compared to HY2023/24.

3. Financial position of the Group

Set out below is a summary of the consolidated statement of financial position of the Group as at 31 March 2024 and 30 September 2024, as extracted from the respective annual report and interim report of the Company:

	As at 30 September 2024 HK\$'000 (Unaudited)	As at 31 March 2024 HK\$'000 (Audited)
Non-current assets		
Property, plant and equipment	155,612	165,047
Investment properties	3,170,362	3,204,457
Financial assets at FVTPL	259,771	283,230
Club memberships	12,405	12,405
Interests in joint ventures	3,708,396	5,645,075
Amounts due from joint ventures	6,822,347	6,813,871
Interests in associates	508,908	503,086
Amounts due from associates	998,936	940,018
Loan receivables	70,688	72,792
	<u>15,707,425</u>	<u>17,639,981</u>
Current assets		
Loan receivables	6,782	115,399
Trade and other receivables	179,713	290,858
Properties held for sale	5,527,169	5,598,042
Financial assets at FVTPL	61,211	68,591
Taxation recoverable	838	1,560
Cash held by securities brokers	1,583	3,399
Bank balances and cash	1,969,874	2,520,518
	<u>7,747,170</u>	<u>8,598,367</u>
Current liabilities		
Other payables and accruals	207,410	229,605
Contract liabilities	1,766	620
Taxable payable	108,187	128,872
Amounts due to joint ventures	367,716	1,699,816
Amounts due to non-controlling shareholders of subsidiaries	104,513	123,254
Bank borrowings – due within one year	1,921,279	3,876,918
Guaranteed notes – due within one year	2,304,654	–
	<u>5,015,525</u>	<u>6,059,085</u>

	As at 30 September 2024 HK\$'000 (Unaudited)	As at 31 March 2024 HK\$'000 (Audited)
Non-current liabilities		
Bank borrowings – due after one year	5,469,057	4,005,930
Guaranteed notes – due after one year	–	2,301,660
Deferred tax liabilities	130,549	135,555
	<u>5,599,606</u>	<u>6,443,145</u>
Equity		
Equity attributable to owners of the Company (the “NAV”)	12,847,271	13,732,585
Non-controlling interests	(7,807)	3,533
	<u>12,839,464</u>	<u>13,736,118</u>

3.1 Assets of the Group

As at 30 September 2024, the Group had total assets of approximately HK\$23,454.6 million. The principal assets of the Group comprised (i) interests in joint ventures and amounts due from joint ventures; (ii) interests in associates and amounts due from associates; (iii) properties held for sale; (iv) investment properties; (v) bank balances and cash; and (vi) other assets.

As mentioned in the section headed “1. Businesses of the Group” above, many of the property projects were undertaken by the Group through joint ventures and associates. The Group contributed capital to these projects either through equity investments in joint ventures/associates, accounted for as “interests in joint ventures/associates”, or through shareholder’s loan, accounted for as “amounts due from joint ventures/associates”.

Interests in joint ventures decreased by approximately 34.3% from approximately HK\$5,645.1 million as at 31 March 2024 to approximately HK\$3,708.4 million as at 30 September 2024. This decline was mainly due to the dividend declared from joint ventures which were used to offset amounts due to joint ventures in current liabilities, as well as provisions on joint ventures’ properties. As at 30 September 2024, the amounts due from joint ventures comprised (i) approximately HK\$2,883.3 million in loans to joint ventures including principal and accrued interests. These loans are unsecured, bear interest at Hong Kong Prime Rate plus 1% to 3% and 4.875% per annum and are repayable after one year; (ii) approximately HK\$5,416.1 million in loans to joint ventures including principal and accrued interests. These loans are unsecured, non-interest bearing and have no fixed repayment terms; and (iii) approximately HK\$1,095.6 million in share of loss of joint ventures, representing the accumulated share of loss of joint ventures in excess of the cost of investment, to the extent of the Group’s legal or constructive obligations.

The amounts due from associates as at 30 September 2024 comprised (i) approximately HK\$1,256.5 million in loans to associates including principal and accrued interests. These loans are unsecured, bear interest at one-month Hong Kong Interbank Offered Rate (“HIBOR”) plus 1.5% per annum and have no fixed repayment terms; and (ii) approximately HK\$153.4 million in share of loss of associates, representing the accumulated share of loss of associates in excess of the cost of investment, to the extent of the Group’s legal or constructive obligations.

3.2 *Liabilities of the Group*

As at 30 September 2024, the Group had total liabilities of approximately HK\$10,615.1 million, which mainly comprised bank borrowings and the 2021 Guarantee Notes totalling approximately HK\$9,695.0 million.

The bank borrowings as at 30 September 2024 amounted to approximately HK\$7,390.3 million in aggregate, of which approximately HK\$1,921.3 million would be due within one year and approximately HK\$5,469.1 million would be due after one year. Of these bank borrowings, (i) approximately HK\$6,805.2 million bore interest at HIBOR plus 1.20% to 2.05% per annum; and (ii) approximately HK\$585.2 million bore interest at the quoted Loan Prime Rate by the National Interbank Funding Center or the Shanghai Interbank Offered Rate plus a fixed margin. Approximately HK\$4,096.7 million of these bank borrowings were secured by charges over the Group’s property, plant and equipment, investment properties and properties held for sale, and the remaining of approximately HK\$3,293.6 million were unsecured. As at 30 September 2024, the effective interest rates of the bank borrowings ranged from 4.71% to 6.86% per annum.

The 2021 Guaranteed Notes of approximately HK\$2,304.7 million as at 30 September 2024 are guaranteed notes in the aggregate principal amount of US\$300 million issued by Estate Sky Limited, a wholly-owned subsidiary of the Company, to institutional investors on 22 July 2021. The 2021 Guaranteed Notes carry interest at the rate of 5.45% per annum, with interest payable semi-annually in arrears and guaranteed by the Company. The 2021 Guaranteed Notes were listed on the Singapore Exchange with a fair value of approximately HK\$2,074.2 million based on the quoted price as at 30 September 2024. The 2021 Guaranteed Notes will mature on 21 July 2025. As the maturity period became less than one year, the 2021 Guaranteed Notes were therefore reclassified from non-current liabilities of the Group as at 31 March 2024 to current liabilities of the Group as at 30 September 2024.

As at 30 September 2024, the Group’s ratio of total debt to total assets (the “Debt/Assets Ratio”) (calculated by dividing (i) the total amount of bank borrowings and the 2021 Guaranteed Notes by (ii) the total assets of the Group) was approximately 41.3%.

We note that as set out in Appendix I to the Circular, the total amount of bank borrowings decreased slightly by about 2.4% to approximately HK\$7,212 million as at 31 December 2024. On this basis, the Debt/Asset Ratio as at 31 December 2024 would be approximately 40.6%.

3.3 Contingent liabilities of the Group

As disclosed in the 2024/25 Interim Report, as at 30 September 2024, the Group had contingent liabilities which refer to the financial guarantees provided by the Group to banking facilities granted to joint ventures and associates amounting to approximately HK\$8,752.5 million, comprising corporate guarantees of approximately HK\$7,531.9 million for joint ventures and approximately HK\$1,220.7 million for associates.

As set out in Appendix I to the Circular, as at 31 December 2024, such financial guarantees provided by the Group amounted to approximately HK\$8,640 million, of which approximately HK\$7,323 million was provided for joint ventures and approximately HK\$1,317 million was provided for associates.

3.4 NAV of the Group

As at 30 September 2024, the NAV amounted to approximately HK\$12,847.3 million. Based on the issued 9,209,789,676 Existing Shares, the NAV per Existing Share as at 30 September 2024 was approximately HK\$1.39. Based on the issued 4,604,894,838 Consolidated Shares upon completion of the Share Consolidation, the NAV per Consolidated Share as at 30 September 2024 would be approximately HK\$2.79.

We note that, in accordance with the Group's accounting policies, investment properties of the Group are stated at fair value in the consolidated statement of financial position of the Group, while properties held for sale are stated at the lower of cost and net realisable value on individual property basis. The same accounting treatment applies to the property assets of the Group's joint ventures. As such, should the properties held for sale of the Group and of the joint ventures were to be measured at fair market value, the NAV may need to be adjusted. Nevertheless, we understand from the Management that, as the interim results of the Group as at 30 September 2024 were unaudited, and given the Company's practice of assessing the fair value of the majority of its property assets during the annual audit, the Company only assessed the fair value of a limited number of property assets of the Group (including those held by joint ventures) rather than conducting a valuation of all property assets. This assessment was performed mainly for the purpose of impairment assessment for HY2024/25.

Despite this, we note that the Company disclosed in the 2023/24 Annual Report supplementary information on the Group's statement of net assets, based on the assumption that the properties held for sale were stated at their open market valuations as assessed by independent and qualified property valuers as at 31 March 2024, a summary of which is as follows:

As at 31 March 2024	
NAV (HK\$)	13,732,585,000
Number of issued Existing Shares	9,209,789,676
NAV per Existing Share (HK\$)	1.49
Number of issued Consolidated Shares	4,604,894,838
NAV per Consolidated Share (HK\$)	2.98
<i>Add:</i>	
Attributable revaluation surplus relating to the Group's properties held for sale (HK\$)	1,720,263,000
Attributable revaluation surplus relating to properties held for sale by joint ventures (HK\$)	1,885,077,000
Adjusted NAV (HK\$) (" <i>Adjusted 31 March NAV</i> ")	17,337,925,000
Adjusted 31 March NAV per Existing Share (HK\$)	1.88
Adjusted 31 March NAV per Consolidated Share (HK\$)	3.77

As advised by the Management, there were no material change in the property portfolio between 31 March 2024 and 30 September 2024. Additionally, the Management was of the view that the open market value of the property assets of the Group as at 30 September 2024 would not be materially higher than that as at 31 March 2024. As a result, the Management considered it unnecessary to conduct a separate valuation of the property assets as of 30 September 2024 for the purpose of assessing revaluation surplus or loss. Given the generally subdued market conditions as further discussed in the section headed "4.1 Capital need of the Group" below, we consider that taking the Adjusted 31 March NAV as a reference for assessing the market value of the property assets of the Group would be sufficient for the purpose of our analysis.

4. Reasons for the Strategic Funding & Partnership Proposal

4.1 Capital need of the Group

As mentioned in the Board Letter, the Company reported a consolidated loss for the 2024 financial year and the interim period ended 30 September 2024, being the Company's first reported annual and interim losses since Mr. Chung acquired control of the Company in 2004. Considering the uncertain capital markets environment and significant downturn of the real estate sector in Hong Kong, the Board has been actively seeking longer-term funding to reposition the Group's balance sheet and in particular, to provide a safety margin to the Group's upcoming debt due.

As advised by the Management, the Group requires continuous liquidity to support its property development and investment operation. The Group has historically financed its activities through proceeds from property sales and debt financing. However, the adverse market conditions, particularly weak post-COVID-19 economic recovery and prolonged high interest rates, have significantly slowed down the turnover of the Group's property sales. Consequently, the funding sources of the Group have become less stable and more costly.

According to a January 2025 article published on the website of Hong Kong Trade Development Council titled "Positive Momentum in Newly Built Prime Office Spaces" (the "HKTDC Article"), leasing activity has shown some positive momentum, particularly in the newly built office that offer high-quality amenities. However, the Hong Kong office market remains challenging, with a high vacancy rate of 13.1% on the Hong Kong Island in November 2024, while the Kowloon office market remained notably subdued. Despite a slowdown in new office completions, the market continued to struggle with an oversupply from previous years. This ongoing imbalance has kept rental rates under pressure and vacancy levels high. The outlook for the office market in 2025 remains uncertain. In the residential property sector, while the Hong Kong Government has relaxed various restrictive measures since early 2024, the impact has been mixed. Transaction volume have improved, yet pricing remains subdued due to continued buyer caution. For instance, we note that the Centa-City Index published by Centaline Property, which tracks Hong Kong housing price trends, has declined from the historical high of 185.62 in September 2021 to 138.53 in January 2025, reflecting on going downward pressure on property values.

Given this challenging market environment, the real estate sector as a whole has been adversely affected. Many listed property developers have recorded declining revenue and/or net loss in the past financial year. Additionally, publicly available data indicates that some real estate companies are facing liquidity crisis, struggling to manage high debt burdens and seeking new capital injections. Against this backdrop, and with the indebtedness of the Group set to mature in 2025, the Company has been actively exploring new capital sources. We agree that it would be in the interest of the Company to plan ahead, ensuring it can navigate the market volatility, manage rising finance costs, and address its maturing debt obligations. We concur with the view of the Management that the Strategic Funding & Partnership Proposal aligns with the Company's objectives to maintain a healthy financial position, optimise its capital structure and remains resilient in the face of ongoing economic challenge.

4.2 Rationale for the structure of the Strategic Funding & Partnership Proposal

As mentioned in the Board Letter, in arriving at the structure and terms of the Strategic Funding & Partnership Proposal, the Board has considered:

- (a) the Group's requirement of up to HK\$2,000 million to strengthen its liquidity and financial stability and enable it to repay the Group's maturing indebtedness and for working capital;

- (b) the formation of Newco and its related arrangements to anchor the commitment of the Investor while allowing sufficient capital from the Investor to be injected into the Company based on its Business Plans to deleverage and target HK\$9,000 million property sales to enhance Shareholders' value. This structure allows Mr. Chung to maintain control of the Company without requiring him to make a mandatory general offer under the Takeovers Code, while ensuring compliance with the covenants of its existing banking facilities, which require the Controlling Shareholder and his family to maintain a minimum of 30% beneficial interest in the issued share capital of the Company and remain the single largest shareholder of the Company;
- (c) the Rights Issue will allow the Shareholders to participate fairly pro-rata to their existing shareholding in the Company and avoid equity dilution by discounted share placements, or issue of equity or quasi-equity instruments to third parties;
- (d) to avoid value dilution for existing Shareholders through pricing the Rights Shares at a premium over the Closing Price; and
- (e) to structure the transaction such that funds to be raised through the Rights Issue and the Senior Unsecured Note address the objectives set out (a) to (d) above.

After discussion with the Management, we understand that the Company initially considered to raise HK\$2,000 million through debt financing, potentially borrowing the entire amount from Mr. Chung and/or the Investor. However, given the Group's objective of optimising its capital structure amid prolonged high interest rates and challenging market conditions, debt financing alone would not help deleverage the Group's financial position or reduce finance costs. Furthermore, securing a loan of such a significant amount for a property development and investment company in the current market conditions would likely be difficult or costly. As such, the Company considered that equity fundraising would be a more effective and sustainable approach. However, given the magnitude of the Group's capital need, a placing of new Shares under general mandate is not viable, as the amount of proceeds would be relatively small and market response uncertain, particularly due to the low trading volume of the Shares. While a private placement to the Investor could potentially meet the fundraising requirement, it was considered to be undesirable in the circumstances, as it would inevitably result in significant dilution of the existing Shareholders' stakes. More importantly, the Group's existing banking facilities contain covenants restricting changes of Mr. Chung's shareholding control in the Company. Accordingly, conducting a private placement with the Investor would not be feasible under these circumstances.

In view of the above, the Company was of the opinion that the Rights Issue was the best means for raising capital, considering the required fundraising amount, the pre-emptive nature of the Rights Issue, and the certainty of the Rights Issue provided by the Irrevocable Undertaking and the Underwriting Agreement. The Rights Issue ensures that all Qualifying Shareholders are offered an equal opportunity to maintain their proportionate interests in the Company and to participate in the future development of the Group. The Rights Issue also provides an opportunity for those Qualifying Shareholders who do not wish to take up their entitlements, to gain by selling their nil-paid rights. We agree that the Rights Issue represents an appropriate means to secure a substantial amount of capital while optimising the Group's financial position.

We also understand from the Management that Gaw Capital, which is a private equity fund management company focusing on real estate and private equity markets in Asia Pacific and other high barrier-to-entry markets globally, is optimistic about the Group's capability to navigate the current challenges and achieve future growth, given the Group's strong historical performance and the quality of its assets. As such, Gaw Capital (through its managed fund) considered an equity investment in the Group to be the preferred approach, allowing it to share the potential economic benefits generated by the Group's business in the longer run.

We note that a portion of the funds raised by the issue of the Senior Unsecured Note is debt financing. We further discussed with the Management and understand that, in light of the banking facilities' covenants restricting changes of Mr. Chung's shareholding control in the Company and the Company's objective of maximising the fundraising through equity financing, the Company came to the decision to allocate HK\$1,492 million through the Rights Issue and HK\$500 million (before the discount on issue of the Senior Unsecured Note, and expenses) through the Senior Unsecured Note. This structure enables the Company to raise the required HK\$2 billion to the greatest extent possible through equity investment while preserving Mr. Chung's control in the Company.

The Senior Unsecured Note was therefore structured with the Rights Issue to accommodate the constraint on shareholding control. Under this arrangement, Gaw Capital (through its managed fund), subject to conditions, committed a total of approximately HK\$1.2 billion, enabling the Company to achieve the targeted capital raise of HK\$2 billion in total. If the Strategic Funding & Partnership Proposal were not pursued, the Company might have had to resort to full debt financing, which, as discussed above, would not be a preferable option. As such, the Management is of the view that, and we concur, the structure of the Strategic Funding & Partnership Proposal is fair and reasonable.

Having considered the scale of capital required, the prevailing market conditions, alternative fundraising options and the reasons behind combining the Rights Issue with the Senior Unsecured Note, the Management is of the view, and we concur, that the rationale for the structure of the Strategic Funding & Partnership Proposal is well-considered and sound.

4.3 The Business Plans of the Group

As mentioned in the Board Letter, the Business Plans of the Company aim to improve and secure its liquidity and financial standing, so as to meet its maturing liabilities as they fall due and to provide working capital for future business initiatives. These plans include, but not limited to, the following:

- (i) to de-leverage the balance sheet of the Group to a more sustainable level;
- (ii) to continue with the Group's current sales programme, targeting to achieve at least HK\$9,000 million in sales (based on a gross asset value attributable to the Group) within the next four financial years ending 31 March 2029) to generate sufficient funds for debt repayment and to monetise its property portfolio, with the aim of reducing the disparity between the Group's NAV and the trading price of the Shares. In the event that the aforementioned sales target is not met, the Group will seek to increase its sales efforts to close the gap;

- (iii) to conduct business as usual but with a heightened strategic focus on exploring ways to reduce the discount of the trading price of the Shares to their attributable NAV, aiming to attract a market revaluation of the trading price of the Shares for the benefit of the Shareholders; and
- (iv) not to engage in new significant investments or acquisitions without first obtaining approval from an investment committee, which will be established subsequent to the completion of the Strategic Funding & Partnership Proposal. The Company has not contemplated any new significant investments or acquisitions as at the Latest Practicable Date.

4.4 The proposed use of proceeds

The gross proceeds from the Strategic Funding & Partnership Proposal is expected to amount to approximately HK\$1,992 million (or net proceeds of approximately HK\$1,919.5 million, after the discount on issue of the Senior Unsecured Note, and expenses). As at the Latest Practicable Date, the Company intended to apply the proceeds from the Strategic Funding & Partnership Proposal before 2027 in the allocation as follows:

- (i) approximately HK\$800 million (including all proceeds under the Senior Unsecured Note) to refinance and/or repay indebtedness falling due in 2025 (including the 2021 Guaranteed Notes falling due in July 2025 and the coupon payable thereunder); and
- (ii) the remaining balance of approximately HK\$1,119.5 million to be allocated to a cash reserves primarily for working capital requirements as a buffer to ensure a prudent level of liquidity. The Company currently expects (i) approximately 25% of this amount to be allocated for administrative expenses for the next two years; and (ii) approximately 75% of this amount to be designated for debt servicing and as a liquidity buffer for upcoming financial obligations.

As a property development and investment company, the Company believes it is imperative to maintain an adequate cash reserve to navigate ongoing market volatility and macroeconomic uncertainties. This approach was designed to safeguard operational continuity by covering near-term expenses and meeting financial obligations, including interest expenses as they arise.

We understand from the Company that the aforementioned allocation is dependent on prevailing market conditions and is based on the assumption that there will be no material adverse changes. This presupposes stability in economic conditions, the absence of unforeseen capital expenditures or bad debts, and the successful refinancing of the Group's bank loans upon their maturity.

We have discussed with the Management the Company's plans to settle the maturing indebtedness, which includes bank borrowings and the 2021 Guaranteed Notes that fall due in 2025. We understand that following the new capital raised through the Strategic Funding & Partnership Proposal, the Group would have enhanced financial flexibility and a stronger liquidity buffer to support its operations despite the relatively slow turnover of property assets. The Company has earmarked approximately HK\$800 million from the proceeds for repayment of indebtedness falling due in 2025 (including the 2021 Guaranteed Notes falling due in July 2025 and the coupon payable thereunder). The Company is currently exploring various means to finance or fund any remaining shortfall including but not limited to utilising its existing cash reserves, future sale proceeds and/or other potential refinancing options. For the bank borrowings that will be maturing in 2025, as over 90% of them are secured by the property assets of the Group, the Company plans to negotiate with the lender for renewal and/or refinancing of the majority of the relevant loans while settling part of such bank borrowings with its internal resources. The Group will continue to evaluate opportunities to monetise its property assets and optimise its capital structure, allowing it to continue to generate recurring income from its core businesses to address future obligations of repayment of indebtedness, and maintain a sufficient buffer to pay the maturing indebtedness as and when appropriate.

Given the significant capital requirements inherent in property development and investment, securing adequate funding is crucial for the Group's ongoing operations. With the proceeds from the Strategic Funding & Partnership Proposal, the Group will have flexibility to pursue business opportunities as they arise, facilitating asset sales and revenue generation to support debt repayment and/or negotiation with lenders. This strategic approach helps the Company avoid a vicious cycle where capital constraints hinder business growth while maturing indebtedness adds financial pressure. As such, we are of the view that the Company's plan is in the interest of the Company and the Shareholders as a whole.

5. The Rights Issue

5.1 *Principal terms of the Rights Issue*

The table below summarises the principal terms of the Rights Issue:

Basis of the Rights Issue:	18 Rights Shares for every 10 Consolidated Shares held by Qualifying Shareholders on the Record Date
Subscription Price:	HK\$0.18 per Rights Share
Number of Rights Shares to be issued under the Rights Issue:	8,288,810,708 Rights Shares
Right of excess application:	Qualifying Shareholders may apply for Rights Shares in excess of their provisional allotment

Number of Undertaken Shares: Pursuant to the Irrevocable Undertaking, a total of 6,435,997,850 Rights Shares (assuming there is no change in the number of Shares in issue on or before the Record Date other than the Share Consolidation) will be undertaken to be subscribed by Newco's subsidiaries, which comprising:

- (a) 4,661,272,854 nil-paid Rights Shares to be provisionally allotted to the relevant subsidiaries of NewCo; and
- (b) 1,774,724,996 Rights Shares to be applied for (by way of excess application) by Golden Boost as a Qualifying Shareholder following the completion of the Subscription Agreement.

Gross amount to be raised: Approximately HK\$1,492 million

Underwriter: VMS Securities Limited, a licensed corporation to carry out business in Type 1 (dealing in securities) regulated activity under the SFO

Number of Underwritten Shares: 1,852,812,858 Rights Shares (assuming no Shares will be issued or repurchased by the Company on or before the Record Date), being 8,288,810,708 Rights Shares minus 6,435,997,850 Undertaken Shares

Underwriting commission: 2% of the aggregate Subscription Price of the Underwritten Shares

For those Qualifying Shareholders who do not wish to participate in the Rights Issue, they are allowed to dispose of their nil-paid Rights Shares in the market. If the Shareholders are optimistic about the prospects of the Group, they may apply for excess Rights Shares and increase their shareholdings in the Company. The Company will allocate the Rights Shares in excess of the entitlement at its discretion on a fair and equitable basis to Qualifying Shareholders who have applied for excess Rights Shares.

The Rights Issue is conditional on, among others, (i) the approval of the Rights Issue, the Share Consolidation, the Authorised Share Capital Increase, the Facilitation Agreement and the transactions contemplated by them by those Shareholders (other than those who are required to abstain by the Listing Rules) at the SGM; and (ii) all of the Rights Issue Underwriting Agreement, the Note Subscription Agreement and the Facilitation Agreement having become unconditional, and not having been terminated.

The Rights Issue, other than all the Undertaken Shares to be taken up or subscribed for by Newco's subsidiaries, is fully underwritten by the Underwriter. The Underwriter will receive underwriting commission calculated at 2% of the total Subscription Price of the Underwritten Shares. We have conducted a search of rights issue exercises announced by companies listed on the Stock Exchange during the six-month period prior to the Last Trading Day, which we consider to be a sufficiently long period to

generate a reasonable and meaningful number of sample size for analysis, and identified an exhaustive list of 38 cases (the “Rights Issue Comparables”, and each a “Rights Issue Comparable”). We note that out of these Rights Issue Comparables, four of them had been underwritten, with (i) one was underwritten by the substantial shareholder of the issuer which charged no underwritten fee; and (ii) one was partially underwritten by the substantial shareholder of the issuer which also charged no underwritten fee and partially underwritten by an independent third party which charged a 2% underwriting commission. The underwriting commission in these four cases ranged from nil to 3%, with a simple average of approximately 1.75%. However, considering the Underwriter in our case is an Independent Third Party, we are of the view that the Rights Issue Comparable where a substantial shareholder acted as underwriter and charged no underwriting commission is not relevant for comparison. Excluding this case, the underwriting commission charged by the independent underwriters in the other three Rights Issue Comparables ranged from 2% to 3%, with a simple average of approximately 2.33%. The 2% commission charged by the Underwriter under the Rights Issue is in our view within market range and on normal commercial terms. While only three out of 38 cases involved appointment of independent underwriters, the Rights Issue Comparables cover all the Rights Issue cases within the six-month period prior to the Last Trading Day on a non-selective basis. Given that these three cases reflect the recent market rates charged by independent underwriters for rights issue, we consider the sample size and selection criteria to be fair and representative for assessing the underwriting commission. Further details of the Rights Issue Comparables are set out in the section headed “Comparison with recent rights issue exercises” below.

5.2 The Irrevocable Undertaking by Newco and the undertaking by Mr. Kan Sze Man

On 23 January 2025, Newco entered into the Irrevocable Undertaking, pursuant to which, Newco undertook in favour of the Company, among other things, that (i) it shall procure Newco’s subsidiaries or nominees (including the CCASS participant(s) holding any such Shares on behalf of any of them) to accept and take up in full a total of 4,661,272,854 nil-paid Rights Shares to be provisionally allotted or transferred to it/them at or before the Latest Acceptance Date (out of which 2,222,222,222 nil-paid Right Shares will be taken up by Earnest Equity, and 2,439,050,632 nil-paid Right Shares will be taken up by Golden Boost); and (ii) it shall procure Golden Boost to apply (by way of excess application) for 1,774,724,996 Right Shares.

On even date, Mr. Kan Sze Man, a Director, who beneficially owned 23,790,500 Existing Shares, representing approximately 0.26% of the issued share capital of the Company as at the Latest Practicable Date, irrevocably undertook in favour of the Company, among other things, that he shall not take up any of the 21,411,450 Rights Shares to be provisionally allotted to him or for his benefit under the PALs pursuant to the Rights Issue; and he shall not apply for any Rights Shares under the EAFs.

5.3 The Subscription Price

The Subscription Price of HK\$0.18 per Rights Share will be payable in full when a Qualifying Shareholder accepts the relevant provisional allotment of Rights Shares or, where applicable, applies for excess Rights Shares or when a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

- (i) a premium of approximately 5.88% over the theoretical Closing Price of HK\$0.1700 per Consolidated Share based on the closing price of HK\$0.0850 per Existing Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 5.14% over the average theoretical closing price of approximately HK\$0.1712 per Consolidated Share based on the average closing price of approximately HK\$0.0856 per Existing Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 5.26% over the average theoretical closing price of approximately HK\$0.1710 per Consolidated Share based on the average closing price of approximately HK\$0.0855 per Existing Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 2.04% over the theoretical ex-entitlement price of HK\$0.1764 per Consolidated Share derived from (a) theoretical closing price of HK\$0.1700 per Consolidated Share based on the Closing Price; (b) the gross proceeds of the Rights Issue of approximately HK\$1,492 million; and (c) the total number of theoretical Consolidated Shares upon completion of the Rights Issue;
- (v) a premium of approximately 5.88% over the theoretical closing price of HK\$0.1700 per Consolidated Share based on the closing price of HK\$0.0850 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (vi) a discount of approximately 93.96% to the published audited consolidated NAV of approximately HK\$2.9822 per Consolidated Share based on the audited consolidated NAV attributable to the Shareholders as at 31 March 2024 of approximately HK\$13,732.6 million as disclosed in the 2023/24 Annual Report and 4,604,894,838 Consolidated Shares;
- (vii) a discount of approximately 95.22% to the Adjusted 31 March NAV of approximately HK\$3.7651 per Consolidated Share as discussed in the section headed “3.4 NAV of the Group” above;
- (viii) a discount of approximately 93.55% to the published unaudited consolidated NAV of approximately HK\$2.7899 per Consolidated Share based on the unaudited consolidated NAV attributable to the Shareholders as at 30 September 2024 of approximately HK\$12,847.3 million as disclosed in the 2024/25 Interim Report and 4,604,894,838 Consolidated Shares; and

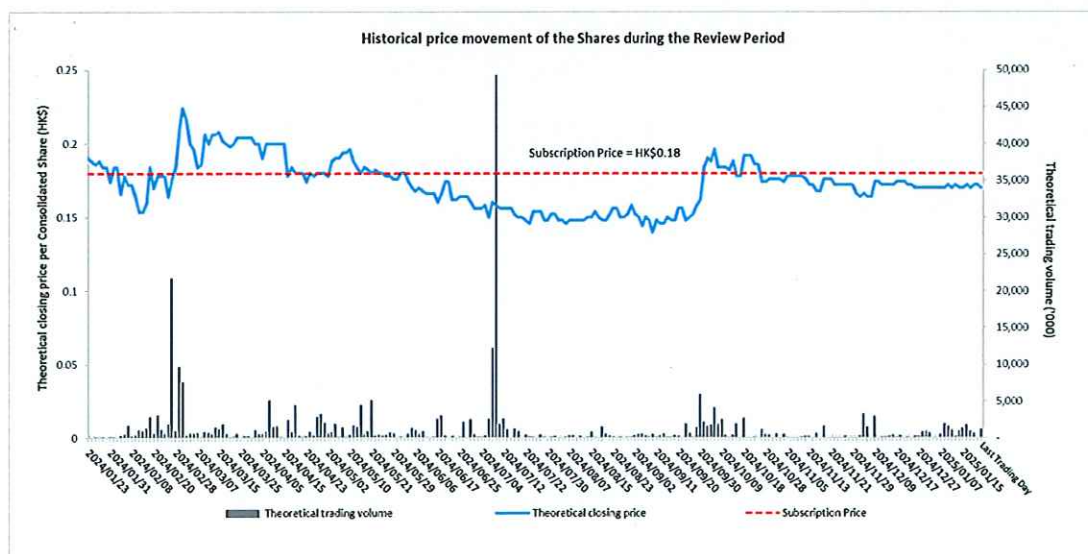
- (ix) no theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of the theoretical diluted price of approximately HK\$0.1769 per Consolidated Share to the benchmarked price of approximately HK\$0.1712 per Consolidated Share (as defined under Rule 7.27B of the Listing Rules, taking into account the Closing Price and the average of the closing prices as quoted on the Stock Exchange for the last five consecutive trading days prior to the Last Trading Day of approximately HK\$0.0856 per Existing Share).

The net price per Rights Share (i.e. the Subscription Price less costs and expenses incurred in the Rights Issue) upon full acceptance of the provisional allotments of Rights Shares is estimated to be approximately HK\$0.1766 (assuming no change in the total number of issued Existing Shares or Consolidated Shares on or before the Record Date).

5.4 Historical price movement of the Shares

In order to assess the fairness and reasonableness of the Subscription Price, we have performed a review on the daily closing prices and trading volume of the Shares from 23 January 2024 up to and including the Last Trading Day (the “Review Period”) (being a period of 12 months prior to and including the Last Trading Day) and compared with the Subscription Price. We are of the view that the Review Period is adequate and representative to illustrate the price movement of the Shares for conducting a reasonable comparison among the historical closing prices prior to the Announcement, and we consider that such comparison would be relevant for the assessment of the fairness and reasonableness of the Subscription Price, as the price of the Shares before the Announcement represented the fair value of the Shares conceived by the market and the Shareholders, while the price of the Shares after the Announcement may have been varied by the effect of the announcement by the Company of the Strategic Funding & Partnership Proposal.

The chart below illustrates, having adjusted with the effect of the Share Consolidation, the theoretical closing prices of the Consolidated Shares and the Subscription Price, and the theoretical trading volume of the Consolidated Shares as quoted on the Stock Exchange during the Review Period:



Source: Official website of the Stock Exchange

During the Review Period, the theoretical closing prices of the Consolidated Shares were fluctuated between the lowest theoretical closing price of HK\$0.140 and the highest theoretical closing price of HK\$0.224, with an average theoretical closing price of the Consolidated Shares of approximately HK\$0.173.

As shown in the above chart, the theoretical closing prices of the Consolidated Shares had a surge in mid-February 2024, peaking at HK\$0.224 on 1 March 2024. Since then, the prices generally trended downward, reaching a low of HK\$0.140 on 10 September 2024. Following this decline, the theoretical closing prices of the Consolidated Shares showed a brief rebound, rising to HK\$0.196 on 7 October 2024, before stabilising and moving sideways with minimal fluctuations until the Last Trading Day. We are not aware of any announcement made by the Company that could explain these price movements. We have enquired with the Management and understand that they are also not aware of any specific reasons for those fluctuation in the Share price.

The Subscription Price represents a discount of approximately 19.6% to the highest theoretical closing price of the Consolidated Shares but a premium of approximately 28.6% over the lowest theoretical closing price of the Consolidated Shares. It also reflects a slight premium of approximately 4.0% over the average theoretical closing price of the Consolidated Shares during the Review Period. We note that the Subscription Price, with its slight premium, is broadly in line with the prevailing market price, as reflected by the recent theoretical closing prices of the Consolidated Shares over the past few months.

It is also worth noting that the theoretical closing price of the Consolidated Shares had consistently traded at a deep discount of over 90% to the NAV per Consolidated Share as at 31 March 2024 or 30 September 2024 or the Adjusted 31 March NAV during the Review Period. Given that the persistent low level of trading price relative to the Group's NAV, setting the Subscription Price at a premium to the prevailing market price helps reinforce investor confidence and demonstrate the Company's commitment to preserving Shareholder value. We concur with the Management that it is in interest of the existing Shareholders by setting the Subscription Price at a premium over the Share price to avoid unnecessary value dilution.

5.5 Liquidity of the Shares

The following table sets out the trading volume of the Existing Shares during the period between the date falling one year preceding the Last Trading Day up to and including the Latest Practicable Date:

Month	Total trading volume of the Existing Shares during the month/period	Average daily trading volume of the Existing Shares during the month/period	% of average daily trading volume of the Existing Shares to the total issued Existing Shares (Note 1)	% of average daily trading volume of the Existing Shares to the total public (Note 2)
2024				
23-31 January	480,000	68,571	0.001%	0.002%
February	97,192,500	5,115,395	0.056%	0.128%
March	35,730,000	1,786,500	0.019%	0.045%
April	56,928,750	2,846,438	0.031%	0.071%
May	43,527,500	2,072,738	0.023%	0.052%
June	29,985,000	1,578,158	0.017%	0.039%
July	146,838,843	6,674,493	0.072%	0.167%
August	8,726,250	396,648	0.004%	0.010%
September	26,300,972	1,384,262	0.015%	0.035%
October	42,952,500	2,045,357	0.022%	0.051%
November	6,235,625	296,935	0.003%	0.007%
December	21,762,500	1,088,125	0.012%	0.027%
2025				
January (up to and including the Last Trading Day)	24,602,128	1,640,142	0.018%	0.041%
From the first trading day following the Announcement (up to and including the Latest Practicable Date)	120,150,025	12,015,003	0.130%	0.300%

Source: Official website of the Stock Exchange

Notes:

(1) Based on 9,209,789,676 Existing Shares in issue as at the Latest Practicable Date.

(2) Based on 4,006,807,114 Existing Shares held in public hands as at the Latest Practicable Date.

We note from the above table that trading volume of the Existing Shares was generally thin during the aforesaid period, where the percentages of average daily trading volume of the Existing Shares to the total issued Existing Shares and the total public float were below 0.2% and 0.3%, respectively. The relatively large trading volume in February 2024 coincided with the upsurge in the theoretical closing prices of the Consolidated Shares as mentioned above. We also note that the trading volume was significantly large in July 2024, which was mainly attributable to the trading day on 10 July 2024. We are not aware of any announcement made by the Company in respect of the sudden increase in the trading volume. We have also enquired with the Management and understand that they are not aware of any reason for such increase in the trading volume. Excluding the trading volume on that trading day, the percentages of average daily trading volume of the Existing Shares in July 2024 to the total issued Existing Shares and the total public float would have been only 0.025% and 0.057%, respectively. Given the thin liquidity of the Existing Shares, we agree that it would be difficult for the Company to pursue other sizeable equity financing alternatives in the market such as placing of Shares or convertible bonds.

5.6 Comparison with recent rights issue exercises

We have also made reference to the Rights Issue Comparables. Although the Rights Issue Comparables may be different from the Company in terms of business nature, financial performance and position and funding requirements, they can serve as fair and representative references of recent market practices in relation to rights issues in the prevailing market conditions. The list of the Rights Issue Comparables is set out below:

Date of announcement	Company name	Stock code	Basis of entitlement	Premium/(Discount) of subscription price over to the closing day on the last trading day %	Premium/(Discount) of subscription price over to the theoretical ex-rights price %	Premium/(Discount) of subscription price over to the net asset value per share %	Premium/(Discount) of theoretical dilution effect %	Fully or Partly Underwritten Yes/No	Underwriting commission %	Excess application Yes/No
17-Jan-25	Wan Kei Group Holdings Limited	1718	1 for 1	-29.92	-17.53	-75.00	-17.64	N	N/A	N
31-Dec-24	China Demeter Financial Investments Limited	8120	1 for 2	-23.00	-18.18	-59.08	-8.55	N	N/A	N
27-Dec-24	China Kingstone Mining Holdings Limited	1380	2 for 5	16.28	11.11	-65.60	-11.11	N	N/A	N
20-Dec-24	Manson International Holdings Limited	8456	4 for 1	-22.90	-5.50	N/A	-18.80	N	N/A	N
19-Dec-24	HSC Resources Group Limited	1850	4 for 1	-24.29	N/A	N/A	-19.43	N	N/A	N
13-Dec-24	China Energy Storage Technology Development Limited	1143	2 for 1	-36.36	-16.00	-90.5	-24.24	N	N/A	N
13-Dec-24	Royal Century Resources Holdings Limited	8125	3 for 1	-23.95	-7.30	-82.69	-17.96	N	N/A	N
10-Dec-24	KNT Holdings Limited	1025	3 for 1	-9.38	-2.52	-59.90	-8.08	N	N/A	N
6-Dec-24	Xinning China Holdings Limited	2699	4 for 1	-13.80	N/A	N/A	-16.90	N	N/A	N
3-Dec-24	Graphex Group Limited	6128	3 for 1	-32.00	-10.53	-51.51	-24.00	N	N/A	N
2-Dec-24	Luxu Group Limited	1327	1 for 1	-44.44	N/A	-82.10	-22.22	N	N/A	N
21-Nov-24	Legend Strategy International Holdings Group Company Limited	1355	1 for 1	-49.71	-33.08	N/A	-24.86	N	N/A	Y
21-Nov-24	Elite Holdings Limited	223	5 for 1	-6.54	-9.09	96.10	-0.61	N	N/A	Y
19-Nov-24	China Wood International Holdings Co., Limited	1822	1 for 1	-45.00	-29.10	N/A	-24.90	N	N/A	Y
15-Nov-24	Global Strategic Group Limited	8007	4 for 1	-12.50	-3.20	-91.60	-11.30	Y	3.00	N
12-Nov-24	HG Semiconductor Limited	6908	1 for 4	-36.00	-31.00	-44.20	-8.30	N	N/A	N
11-Nov-24	Far East Holdings International Limited	36	2 for 1	-35.77	-15.66	-80.59	-23.85	N	N/A	N
6-Nov-24	China Water Industry Group Limited	1129	1 for 1	-49.85	-33.20	-93.95	-24.92	N	N/A	N
31-Oct-24	Yuzhou Group Holdings Company Limited	1628	49 for 100	-73.68	-45.27	N/A	-24.23	N	N/A	Y
22-Oct-24	IBC Limited	1029	1 for 2	-15.00	-10.50	-67.30	-4.90	N	N/A	Y
21-Oct-24	China 33 Media Group Limited	8087	3 for 2	-7.41	-3.23	-55.62	-5.12	N	N/A	N
18-Oct-24	Kinekey Financial International (Holdings) Limited	1468	1 for 2	0.00	N/A	124.60	0.00	N	N/A	N
18-Oct-24	Gaodi Holdings Limited	1676	1 for 2	37.90	12.10	-65.50	12.10	N	N/A	N
15-Oct-24	Eminence Enterprise Limited	616	2 for 1	-8.00	-2.85	-98.98	-21.30	N	N/A	Y
8-Oct-24	V&V Technology Holdings Limited	8113	1 for 2	-31.51	-23.47	-32.23	-10.50	N	N/A	Y
4-Oct-24	Palinda Group Holdings Limited	8179	1 for 2	-18.70	-13.29	-66.10	-6.23	N	N/A	Y
2-Oct-24	China National Culture Group Limited	745	2 for 1	-31.97	N/A	N/A	-21.31	N	N/A	N
26-Sep-24	Innovax Holdings Limited	2680	1 for 2	-67.39	-59.02	-88.59	-27.78	N	N/A	N
23-Sep-24	Hatcher Group Limited	8365	3 for 1	-31.50	-10.40	-94.10	-23.60	Y	Nil	N
23-Sep-24	Shougang Fushan Resources Group Limited	639	1 for 30	1.96	1.90	-20.49	0.06	N	(Note 4)	Y
13-Sep-24	Dragon Rise Group Holdings Limited	6829	1 for 1	-48.70	-33.10	-89.20	-24.90	Y	Nil/2.00	N
13-Sep-24	Shougang Century Holdings Limited	103	1 for 5	10.00	8.20	-62.50	6.80	N	N/A	Y
9-Sep-24	Crown International Corporation Limited	727	1 for 2	0.00	0.00	156.52	0.00	N	N/A	Y
4-Sep-24	China New Consumption Group Limited	8275	1 for 2	-5.66	-4.76	-61.09	-2.47	N	N/A	N
2-Sep-24	Guangdong - Hong Kong Greater Bay Area Holdings Limited	1396	1 for 2	-22.03	-15.85	-90.50	-8.28	N	N/A	Y
22-Aug-24	Beijing West Industries International Limited	2339	1 for 2	-13.85	-9.68	-88.72	-4.62	N	N/A	Y
2-Aug-24	Asia Television Holdings Limited	707	1 for 2	-46.80	-37.00	31.25	-15.60	N	N/A	N
31-Jul-24	Emperor International Holdings Limited	163	1 for 2	-30.60	-23.60	-96.10	-10.50	Y	2.00	Y
			Maximum	37.90	12.10	156.52	12.10		3.00	
			Minimum	-73.68	-45.27	-98.98	-24.92		0.00	
			Average	-23.26	-15.47	-49.85	-12.61		1.75	
2-Feb-25	The Company	497	18 for 10	5.88	2.04	-93.55	3.33	Y	2.00	Y

Source: Official website of the Stock Exchange

Notes:

- Information has been extracted from the relevant announcements of the rights issue of the respective Rights Issue Comparable.
- "N/A" denotes that the announcement did not disclose such information.
- The theoretical dilution effect is calculated in accordance with Rule 7.27B of the Listing Rule or Rule 10.44A of the Rules Governing of the Listing of Securities on GEM, or extracted from announcement in respect of the relevant rights issue.
- The underwriters of these two Rights Issue Comparables which charged no underwriting commission were substantial shareholders of the issuer.

We note that, by reference to the Rights Issue Comparables, (i) the premium of the Subscription Price over the theoretical closing price per Consolidated Share on the Last Trading Day of approximately 5.88% falls within the range of that of the Rights Issue Comparables between a discount of approximately 73.68% and a premium of approximately 37.90%; and (ii) the discount of the Subscription Price to the NAV per Consolidated Share of approximately 93.55% also falls within the range of that of the Rights Issue Comparables between a discount of approximately 98.98% and a premium of approximately 156.52%. We did not exclude any Rights Issue Comparable as outlier as such exclusion would not affect our analysis. We also note that 32 of the Rights Issue Comparables were conducted at a discounted subscription price, leading to a theoretical dilution effect on their share price, whereas the Rights Issue will not result in such value dilution. Also, unlike 34 of the Rights Issue Comparables which were not underwritten, the Rights Issue is fully underwritten, factoring in the Irrevocable Undertaking, enhancing its certainty and credibility.

5.7 Our view

As mentioned in the Board Letter, the Subscription Price was determined by the Company with reference to, in principle, (i) the intention that the Rights Issue should be non-price dilutive; (ii) the amount of funds the Company intends to raise under the Rights Issue; (iii) the theoretical market price of the Consolidated Shares under the market conditions preceding and including the date of the Announcement; and (iv) the intention of the Board to issue at a premium to the theoretical market price of the Consolidated Shares which the Board considers will send a positive signal to the market and demonstrate the Investor's confidence in the Company, hence will be acceptable and welcomed by the Shareholders.

We note that, unlike majority of the Rights Issue Comparables, the Subscription Price for the Rights Issue was determined at a premium of approximately 5.9% over the theoretical closing price of the Consolidated Shares. As discussed in the section headed "4.2 Rationale for the structure of the Strategic Funding & Partnership Proposal" above, the Strategic Funding & Partnership Proposal was structured by the Company with the consideration of avoiding value dilution for existing Shareholders. Given the closing prices of the Shares have been at a very low level, in particular, the Shares have been trading at a substantial discount to the Group's NAV or the Adjusted 31 March NAV, it is not unreasonable to mitigate further value dilution.

As shown in the section headed "5.4 Historical price movement of the Shares" above, the Subscription Price falls within the range of the lowest and highest theoretical closing prices of the Consolidated Shares during the Review Period. It also only represents a slight premium of 4.0% over the closing prices of the Consolidated Shares during the Review Period, suggesting that the Subscription Price in fact aligns with the historical trading trend of the Shares. Unlike those Rights Issue Comparables where the subscription price was set at a discount to the closing prices to attract shareholder participation, Gaw Capital (through its managed funds) and Mr. Chung have demonstrated their confidence in the Company by committing approximately HK\$1.2 billion to subscribe for the Rights Shares at the Subscription Price. Furthermore, the Rights Issue, unlike the majority of the Rights Issue Comparables, is fully underwritten, mitigating the need for the Company to set a discounted price to encourage subscriptions. The willingness of Gaw Capital (through its managed funds) and Mr. Chung to subscribe the Rights Shares at a premium price over the theoretical closing price of the Consolidated Shares demonstrates their confidence in future prospects of the Company. While, as further discussed in the

section headed “10. Potential dilution effect on the existing shareholding” below, the maximum dilution effect on shareholding for Qualifying Shareholders who do not take up their entitlements could be approximately 64.3%, those who share the same vision as Gaw Capital and Mr. Chung and fully subscribe their entitlements will maintain their proportional shareholding interests without dilution.

In view of the fact that (i) the Shares had consistently traded at a very low level, with generally thin trading volume during the Review Period, as discussed in the sections headed “5.4 Historical price movement of the Shares” and “5.5 Liquidity of the Shares” above; (ii) the premium over the theoretical closing price of the Consolidated Shares represented by the Subscription Price falls within the range of the Rights Issue Comparables; (iii) the discount of the Subscription Price to the NAV per Consolidated Share is also in line with the Rights Issue Comparables; (iv) the Rights Issue is structured to be non-price dilutive, with no theoretical dilution effect to the price of the Shares; (v) all Qualifying Shareholders are entitled to participate, with the option to apply for excess Rights Shares via EAFs; (vi) the Rights Issue provides an opportunity for those Qualifying Shareholders who do not wish to take up their entitlements to gain by selling their nil-paid rights in the market for cash proceeds; and (vii) the Rights Issue is fully underwritten, ensuring higher fund-raising certainty, we consider that the principal terms of the Rights Issue (including the Subscription Price) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

6. The Note Subscription Agreement

6.1 Principal terms of the Note Subscription Agreement

As part and parcel of the Strategic Funding & Partnership Proposal, on 23 January 2025, the Note Issuer, the Company and the Note Subscriber entered into the Note Subscription Agreement, pursuant to which, the Note Issuer has conditionally agreed to issue, and the Note Subscriber has conditionally agreed to subscribe for, the Senior Unsecured Note with a principal amount of HK\$500 million, at a subscription price of 93% of its face amount with an interest of 8.22% per annum, payable semi-annually in arrears and on the Note Maturity Date or, if earlier, upon redemption of the Senior Unsecured Note.

Completion of the Note Subscription Agreement is conditional upon, among other things, the receipt by the Note Subscriber in form and substance satisfactory to it evidence of (i) the commencement of the dealings of fully-paid Rights Shares; and (ii) any waivers, consents, authorisations, clearances and approvals which are required under the Listing Rules and the Takeovers Code for the Note Subscription Agreement and the transactions contemplated thereunder have been granted, fulfilled or given (as applicable), and all such waivers, consents, authorisations, clearances and approvals have not been revoked or withdrawn.

6.2 Principal terms of the Senior Unsecured Note

The table below summarises the principal terms of the Senior Unsecured Note:

Note Issuer:	Affinity Ocean Limited, a wholly-owned subsidiary of the Company
Note Subscriber:	Kenton Harmony Limited, a company owned by a consortium of institutional investors led by a subsidiary of Gaw Capital (as general partner of Gateway Real Estate Fund VII (Singapore) L.P.)
Guarantor:	the Company
Principal amount:	HK\$500 million
Subscription price:	93% of the principal amount of the Senior Unsecured Note, being HK\$465,000,000
Interest rate:	8.22% per annum
	The Note Issuer shall pay accrued interest on the last day of each interest period. Each interest period shall have a duration of six months or such other period as may be agreed between the Note Issuer and the holder of the Senior Unsecured Note.
Maturity:	The fourth anniversary of the Note Issue Date
Redemption at the option of the Note Issuer:	<p>The Note Issuer shall be entitled to redeem in whole or in part of the outstanding principal amount of the Senior Unsecured Note at any time on or after the day immediately prior to the second anniversary of the Note Issue Date at the following redemption price, together with interest accrued to such date:</p> <ul style="list-style-type: none"> (i) on the day immediately prior to the second anniversary of the Note Issue Date: 95.4% of the principal amount of the Senior Unsecured Note; (ii) on or after the second anniversary of the Note Issue Date but before the third anniversary of the Note Issue Date: 97.8% of the principal amount of the Senior Unsecured Note; and (iii) on or after the third anniversary of the Note Issue Date but before the Note Maturity Date: 100.5% of the principal amount of the Senior Unsecured Note.

Redemption at maturity:	The Note Issuer shall on the Note Maturity Date redeem the Senior Unsecured Note at a price equal to 100.5% of its principal amount.
Extension fee:	An extension fee of 3% of the principal amount (if any) of the Senior Unsecured Note outstanding on the first, second, and third anniversaries of the Note Issue Date is payable by the Note Issuer to the Note Subscriber.
Status of the Senior Unsecured Note:	The Senior Unsecured Note will constitute an unsubordinated and unsecured obligation of the Note Issuer which ranks at least <i>pari passu</i> with all other existing and future unsecured and unsubordinated obligations of the Note Issuer, save for such obligations that may be preferred by provisions of law that are mandatory.
Transferability:	The prior written consent of the Note Issuer is required for any assignment or transfer by the holder unless the transfer is (i) to an affiliate of the holder; (ii) to a fund which is a related fund of the holder; or (iii) made at a time when an event of default is continuing.
Voting:	The Note Subscriber will not by reason only of being the holder of the Senior Unsecured Note be entitled to attend or vote at any general meeting of the Company or the Note Issuer
Listing:	No application shall be made for the listing of the Senior Unsecured Note on the Stock Exchange or in any other jurisdiction or quoted in any over-the-counter exchange.

6.3 Comparison with the 2021 Guaranteed Notes

As mentioned in the section headed “3.2 Liabilities of the Group” above, the Group issued the 2021 Guaranteed Notes in July 2021. For the purpose of assessing the terms of the Senior Unsecured Note, we have compared it with the 2021 Guaranteed Notes as the 2021 Guaranteed Notes remained outstanding as at the Latest Practicable Date and therefore a direct comparable.

The 2021 Guaranteed Notes were issued by a wholly-owned subsidiary of the Company to a number of institutional investors and were guaranteed by the Company. The aggregate principal amount of the 2021 Guaranteed Notes is US\$300 million, which carry an interest rate of 5.45% per annum, payable semi-annually in arrears, and shall mature in four years from the date of the issuance. The subscription price of the 2021 Guaranteed Notes was set at 100% of their principal amount. Unless previously redeemed, or purchased and cancelled, the 2021 Guaranteed Notes shall be redeemed at their principal amount. The Group also has the option to redeem the 2021 Guaranteed Notes, in whole or in part, at any time on or after 21 July 2024, at 101% of the principal amount together with accrued and unpaid interest. The 2021 Guaranteed Notes are unsubordinated and unsecured and rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the note issuer. The use of proceeds of the 2021 Guaranteed Notes were for the Group's working capital and for repayment of certain outstanding debt. Aside from differences in principal amount, interest rate, subscription price and redemption terms, we consider that the 2021 Guaranteed Notes and the Senior Unsecured Note are similar in nature given that both were issued/to be issued by the Group with the same principal businesses, and both are unsubordinated, unsecured and guaranteed by the Company, with same term to maturity. The features of the Senior Unsecured Note are customarily to this type of instrument.

We note that, in connection with the issuance of the 2021 Guaranteed Notes, the Group incurred certain fees, including an underwriting commission, to reimburse the joint lead managers (i.e. the subscribers) for expenses in connection with the initial sale and distribution of notes. The Group was required to indemnify the joint lead managers against certain liabilities in connection with the offering and sale of the 2021 Guaranteed Notes. In addition, the Group also paid commissions to certain private banks based on the principal amount of the 2021 Guaranteed Notes purchased by their clients.

The 2021 Guaranteed Notes are listed on the Singapore Exchange. We note that neither the 2021 Guaranteed Notes nor their issuer had credit rating. The yield to maturity of the 2021 Guaranteed Notes on the date of issue was 5.45%. On the Last Trading Day, the ask price of the 2021 Guaranteed Notes was US\$85.0 and the bid price was US\$83.0, representing an ask yield and bid yield of approximately 42.3% and 48.2%, respectively. We note that during the one-year period prior to the Last Trading Day, the yields of the 2021 Guaranteed Notes were generally on an upward trend, increasing from an ask yield and bid yield of approximately 16.8% and 18.0% on 23 January 2024, respectively, to over 40% on the Last Trading Day. The only exception was the period from 25 July 2024 to 26 August 2024, during which the ask yield and/or the bid yield fell below 14%. The lowest ask yield and bid yield were approximately 13.1% on 26 July 2024 and 13.7% on 25 July 2024, respectively. We further note that following the publishing of the Announcement by the Company on 3 February 2025, the ask yield and bid yield of the 2021 Guaranteed Notes dropped sharply to approximately 21.0% and 23.4%, respectively before gradually rising again, reaching at approximately 35.3% and 37.4% as at the Latest Practicable Date.

Based on the discussion with the Management, we understand that the yield to maturity of the Senior Unsecured Note would be approximately 13.3%, calculated using the following parameters: (i) the principal amount of HK\$500 million; (ii) the subscription price set at 93% of the principal amount; (iii) the interest rate of 8.22% per annum, payable semi-annually; (iv) the annual extension fee of 3%; and (v) the four-year term.

6.4 Our view

As set out in the Board Letter, the subscription price of the Senior Unsecured Note was determined after arm's length negotiations between the Company and the Note Subscriber having taken into account (i) the rate of return required by the Note Subscriber in light of the current high-interest rate economic environment; and (ii) the difficulties and uncertainties faced by the Group in securing substantial amounts of long-term funding in the current adverse market conditions.

As discussed in the section headed "4.1 Capital need of the Group" above, the economic recovery post-COVID-19 pandemic had been weak, with the real estate sector facing ongoing headwinds. In fact, the Group had turned from a profit making position to a loss making position for FY2023/24. Meanwhile, the interest rate has surged substantially. The 12-month HIBOR in July 2021 stood at approximately 0.3563% but had risen to approximately 3.9398% in January 2025. In the circumstances, we consider that the market situation faced by the Group has changed substantially. We are of the view that it would not be unreasonable for a potential financier to demand a higher yield compared to the time of issuance of the 2021 Guaranteed Notes for providing debt financing to the Group. Generally, bond yield reflects the return on the capital invested, with higher yields typically indicating higher perceived risk, as bond issuers with a perceived greater chance of default usually offer higher returns. We consider the surge of the yield of the 2021 Guaranteed Notes prior to the Last Trading Day to over 40% as mentioned above reflects the market perception of the Group's recent financial performance, financial position, as well as the evolving market environment as the notes approached maturity. The immediate drop in yields following the Announcement aligns with the risk mitigation brought by the Strategic Funding & Partnership Proposal. Despite this drop, the yields of the 2021 Guaranteed Notes remained above 30% as at the Latest Practicable Date. In comparison, we consider the yield of the Senior Unsecured Note of 13.3%, which has factored in the discounted subscription price, the coupon rate, the annual extension fee and the redemption price at maturity, to be reasonable in the circumstances, particularly as the yield is within the range of, and near the lower end of, the yields of the 2021 Guaranteed Notes and is lower than their yields on most days during the one-year period prior to the Last Trading Day up to the Latest Practicable Date.

For further analysis, we have also conducted a search for companies listed on the Stock Exchange that meet either of the following criteria: (i) more than 50% of their revenue in the last financial year was derived from property development in Hong Kong; or (ii) more than 50% of their revenue in the last financial year was generated from both property development and property investment in Hong Kong, with the majority coming from property development. We have excluded three listed companies, namely Sun Hung Kai Properties Limited (0016.HK), Sino Land Company Limited (0083.HK) and Tsim Sha Tsui Properties Limited (0247.HK) from our analysis, as each of their market capitalisation exceeded HK\$10 billion as at the Latest Practicable Date. Given their significant larger size compared to the Company, we do not consider them to be appropriate comparables. On this basis, we identified an exhaustive list of 6 companies, as set out below:

Company name	Stock code	Principal business	Market Capitalisation as at the Latest Practicable Date HK\$ million	Revenue (latest financial year) HK\$ million	Revenue (previous financial year) HK\$ million	Profit/(Loss) for the latest financial year HK\$ million	Latest total assets HK\$ million	Debt/Assets Ratio %
Kowloon Development Company Limited	34	Property development, property investment and property management in Hong Kong and the PRC.	4,911	2,943	4,582	326	44,455	43.5
Cheuk Nang (Holdings) Limited	131	Property development and investment and provision of property management and related services.	1,070	188	45	171	9,562	14.0
Chuang's Consortium International Limited	367	Property development, investment and trading, securities investment and trading business in Hong Kong, the PRC, France and other countries.	560	397	252	-1,059	13,280	24.4
Easyknit International Holdings Limited	1218	Property development, property investment and loan financing business.	122	227	87	-409	3,605	40.2
Wang On Properties Limited	1243	Property development and trading, property investment and asset management businesses in Hong Kong.	547	298	1,992	-742	9,014	44.0
Star Group Asia Limited	1560	Property development, property investment and provision of property management services in Hong Kong.	90	1,244	1,699	-298	3,395	51.2
The Company	497	Property development and property investment in Hong Kong, the PRC and Macau.	783	1,579	804	-456	23,455	41.3

Source: Bloomberg and official website of the Stock Exchange

Nevertheless, we note that, as at the Latest Practicable Date, none of the above companies had issued any unsecured notes or bonds, and therefore no direct comparison could be performed for the Senior Unsecured Notes. Given the differences in business profile, business model, financial position, size and scale of operation, market conditions facing by different companies, and the differences in the salient terms of the notes/bonds, we consider that it would not be meaningful to extend the search for other companies that had issued unsecured notes/bonds for the purpose of comparison. In our view, comparison with the 2021 Guaranteed Notes would be the most appropriate and relevant for assessing the Senior Unsecured Note.

We further note that, as mentioned in the Board Letter, given that the Senior Unsecured Note will be issued to the Investor who, unlike the providers of current banking facilities of the Group, does not have an established banking relationship with the Company and is hence less likely to be willing to accept lower return, the Board considers that a comparison against the Company's outstanding bank loans is not appropriate when evaluating the fairness and reasonableness of the terms of the Senior Unsecured Note. We concur with the Board's view in this regard. We also consider it reasonable that banks would accept lower return on loans that are secured by the Group's assets.

Taking into account (i) the Senior Unsecured Note being an integral component of the broader Strategic Funding & Partnership Proposal raising approximately HK\$2 billion in total capital; (ii) the reasons and rationale for the Strategic Funding & Partnership Proposal as mentioned in the section headed "4.2 Rationale for the structure of the Strategic Funding & Partnership Proposal" above; (iii) the comparison of the yield of the Senior Unsecured Note with the yields of the 2021 Guaranteed Notes trading on the Singapore Exchange; and (iv) the shift in the market conditions as discussed above, the Management is of the view, and we concur, that the terms of the Note Subscription Agreement are on normal commercial terms and are fair and reasonable.

7. The Facilitation Agreement

7.1 Principal terms of the Facilitation Agreement

The table below summarises the principal terms of the Facilitation Agreement:

Parties:	(i) The Company; and (ii) the Investor.
Consideration:	Pursuant to the Facilitation Agreement, the Company agreed to pay the Investor an amount of HK\$22 million on the Strategic Funding & Partnership Proposal Completion Date.
Obligations:	The Company shall use its best endeavours to implement the Strategic Funding & Partnership Proposal in accordance with the timetable and the Investor shall provide such co-operation and assistance to the Company as the Company may reasonably request in writing in connection therewith.

Condition:	The Company's obligation to pay the amount under the Facilitation Agreement is conditional on any waivers, consents, authorisations, clearances and approvals which are required under the Listing Rules and the Takeovers Code for the Facilitation Agreement and the transactions contemplated therein having been granted, fulfilled or given (as applicable), and all such waivers, consents, authorisations, clearances and approvals not having been revoked or withdrawn.
Termination:	If the Rights Issue is terminated the rights and obligations of Investor and the Company under the Facilitation Agreement shall lapse and neither party shall have any claim against the other under or in connection with the Facilitation Agreement, save in respect of antecedent breaches of the Facilitation Agreement.

7.2 *Our view*

As mentioned in the Board Letter, the amount of HK\$22 million was agreed upon by the Company in consideration of the Investor's contributions to the Company under the Strategic Funding & Partnership Proposal and its commitment to providing funding support as part of the proposal. The amount payable to the Investor was determined after arm's length negotiations between the Company and the Investor having taken into account of, among other factors, the overall difficulty and uncertainty faced by the Group in securing substantial amount of long-term funding amid the current adverse market condition and high-interest rate environment, as well as the benefits that would be brought to the Group by the Strategic Funding & Partnership Proposal.

We have discussed and understand from the Management that the HK\$22 million amount payable to the Investor under the Facilitation Agreement, in consideration of its role in providing capital under the Strategic Funding & Partnership Proposal was determined by reference to the Investor's total commitment of capital of approximately HK\$1,258 million. This commitment comprises approximately HK\$439 million for subscription of Rights Shares under the PAL, approximately HK\$319 million for the subscription of Rights Shares under the EAF, and HK\$500 million (before the discount on issue of the Senior Unsecured Note, and expenses) through the Senior Unsecured Note. The HK\$22 million amount represents approximately 1.75% of this total commitment. Importantly, this amount is only payable by the Company upon completion of the Rights Issue and the Note Subscription Agreement.

Gaw Capital, though not acting as underwriter, has (through its managed funds) committed the capital of approximately HK\$1.2 billion for the Company's implementation of the Strategic Funding & Partnership Proposal effectively performing the function of an underwriter. With the capital commitment by Gaw Capital, the Company therefore could raise the desired sum of approximately HK\$2 billion with certainty amidst the current dampening market conditions facing by the Group. Thus, we consider it meaningful to use underwriting commission as a reference when evaluating the 1.75% amount. We are given to understand that the underwriting commission (together with other fees) for the issuance of the 2021 Guaranteed Notes were approximately 1.2%. We note that the 1.75% amount is within the range of the underwriting commission for the issuance of the 2021 Guaranteed Notes of 1.2% and the 2% underwriting commission charged by the Underwriter under the Rights Issue Underwriting Agreement.

This amount is also lower than the underwriting commission rates for the independent underwriters committing capital in the Rights Issue Comparables, which ranged from 2% and 3%, as shown in the section headed “5.6 Comparison with recent rights issue exercises” above.

Given that the HK\$22 million is payable in respect of the capital commitment of Gaw Capital of HK\$1.2 billion, we consider it to also serve as the capital arrangement fee charged by a financier. We are advised by the Management that the Group had obtained two bank borrowings which were also unsecured in 2024 and 2022, with arrangement fees of approximately 1.55% and 1.035%, respectively. We note that this 1.75% amount is slightly higher than the aforesaid arrangement fees charged by banks. As advised by the Management, the arrangement fees for general banking facilities are payable to banks regardless of whether drawdowns occur. Considering that the 1.75% amount under the Facilitation Agreement is only contingent upon the completion of the Strategic Funding & Partnership Proposal, we consider it reasonable for this amount to be higher than the arrangement fees charged by banks.

Having considered these factors, the Management is of the view that, and we concur, the terms of the Facilitation Agreement are on normal commercial terms and fair and reasonable.

8. Other relevant transactions

8.1 *The Share Consolidation, the Authorised Share Capital Increase and the Change in Board Lot Size*

As mentioned in the Board Letter, in view of the prevailing trading price of the Shares at a level below HK\$0.10 and the value per board lot being substantially less than HK\$2,000, the Board proposed the Share Consolidation and the Change in Board Lot Size with the effect of increasing the nominal value of the Shares and the board lot value, such that the Company would enable to comply with the trading requirements under the Listing Rule. The Board also proposed the Authorised Share Capital Increase to give the Company sufficient authorised but unissued Consolidated Shares for the allotment and issue of other new Consolidated Shares under the Rights Issue, and the Bonus Warrant Shares on the exercise of the Bonus Warrants in the future.

The Share Consolidation and the Authorised Share Capital Increase shall be conditional upon, among other things, the passing of the necessary resolutions to approve the Share Consolidation, the Authorised Share Capital Increase and the transactions contemplated by the Strategic Funding & Partnership Proposal at the SGM. The Change in Board Lot Size shall be subject to the Share Consolidation becoming effective. The Strategic Funding & Partnership Proposal will be executed after the Share Consolidation, the Authorised Share Capital Increase and the Change in Board Lot Size become effective.

Further details of the Share Consolidation, the Authorised Share Capital Increase and the Change in Board Lot Size are set out in the Board Letter.

8.2 *The Bonus Warrants Issue*

The Board also proposed the Bonus Warrants Issue to the Qualifying Shareholders on the basis of one Bonus Warrant for every 10 Consolidated Shares (or every 20 Existing Shares prior to the Share Consolidation) held on the Record Date.

Each Bonus Warrant will entitle the holder thereof to subscribe in cash for one Bonus Warrant Share at a Warrant Subscription Price of HK\$0.22 (subject to adjustment). Assuming all the Bonus Warrants were exercised at such Warrant Subscription Price, the Company would receive total gross subscription monies of approximately HK\$101 million upon the exercise of all Bonus Warrants. The Bonus Warrants shall be exercisable during the period from the date of issue of the Bonus Warrants to the Warrant Expiry Date, which was expected to be from Monday, 7 April 2025 to Wednesday, 7 April 2027 (both dates inclusive).

Based on the 9,209,789,676 issued Existing Shares at the Latest Practicable Date and assuming that no further Shares will be issued or repurchased by the Company from the Latest Practicable Date up to the Record Date, the maximum number of Bonus Warrants to be issued will be 460,489,483 Bonus Warrants and upon the full exercise of the Warrant Subscription Rights attaching to the Bonus Warrants, a maximum of 460,489,483 Bonus Warrant Shares will be issued, which shall represent approximately 3.45% of the issued Consolidated Shares as enlarged by the Rights Shares and the Bonus Warrant Shares.

The Bonus Warrants Issue shall be conditional upon (i) the passing at the SGM of the necessary resolutions to approve the issue of the Bonus Warrants and the Bonus Warrant Shares, the Share Consolidation, the Authorised Share Capital Increase and the transactions contemplated by the Strategic Funding & Partnership Proposal; and (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Bonus Warrants and the Bonus Warrant Shares.

The Bonus Warrants and the Bonus Warrant Shares will be issued pursuant to a specific mandate to be sought at the SGM. The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Bonus Warrants and the Bonus Warrant Shares.

The Directors believe that the Bonus Warrants Issue will provide the Shareholders with an opportunity to participate in the growth of the Company.

Further details of the Bonus Warrants Issue are set out in the Board Letter.

9. Financial effects of the Strategic Funding & Partnership Proposal on the Group

9.1 Consolidated net tangible assets

A statement of unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as if the Strategic Funding & Partnership Proposal, the Bonus Warrants Issue and the Share Consolidation had taken place on 30 September 2024 is set out in Appendix II to the Circular (the “Statement”). Based on the Statement, as at 30 September 2024, the unaudited consolidated net tangible assets attributable to owners of the Company were approximately HK\$12,834.9 million, or approximately HK\$1.39 per Existing Share (i.e. approximately HK\$2.79 per Consolidated Share). Immediately after completion of the Strategic Funding & Partnership Proposal and the Bonus Warrants Issue, the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company would increase to approximately HK\$14,296.3 million, equivalent to approximately HK\$1.11 per Consolidated Share.

The decrease in net tangible asset per Share is primarily due to the increase in the number of issued Shares upon completion of the Rights Issue and the fact that the Subscription Price is at a discount to the unaudited consolidated net tangible assets per Existing Share before completion of the Rights Issue. As such, upon the completion of the Share Consolidation and the Rights Issue, the Company’s enlarged share base will result in a dilution of the net tangible asset value per Consolidated Share. However, it is important to note that while the net tangible assets per Share would decrease immediately after completion of the Rights Issue, the overall net tangible assets of the Group attributable to the owners of the Company would increase by approximately HK\$1,461.4 million, indicating an expansion in total equity of the Company. Given this, we are of the view that despite the decrease in net tangible assets per Share, the Rights Issue is expected to strengthen the financial position of the Group.

9.2 Gearing and liquidity

As at 30 September 2024, the Debt/Assets Ratio was approximately 41.3%. The Strategic Funding & Partnership Proposal is expected to generate net proceeds of approximately HK\$1,919.5 million, assuming no other Shares will be issued or repurchased by the Company on or before the Record Date. Based on the total debts and the total assets of the Group as at 30 September 2024 and considering the Group’s intended use of proceeds, where HK\$800 million out of the net proceeds would be allocated for debt repayment, the total debts of the Group would be reduced to approximately HK\$9,351.1 million, improving the Debt/Assets Ratio to approximately 38.1%. We have further discussed with the Management and understand that the Company may, subject to market conditions, adjust the amount of the proceeds allocated for repaying maturing indebtedness as necessary. If the entire amount of net proceeds were used for debt repayment, the total debts of the Group would decrease further to approximately HK\$8,231.6 million, resulting in a lower Debt/Assets Ratio of approximately 35.1%.

In terms of liquidity position, as at 30 September 2024, the Group had cash and cash equivalents of approximately HK\$1,971.5 million. Current assets and current liabilities of the Group were approximately HK\$7,747.2 million and HK\$5,015.5 million, respectively, translating to a current ratio (current assets divided by current liabilities) of approximately 1.54. Immediately upon completion of the Strategic Funding & Partnership Proposal, the cash and cash equivalents of the Group shall increase by approximately HK\$1,919.5 million, improving the current ratio to approximately 1.93.

10. Potential dilution effect on the existing shareholding

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. The shareholding of Qualifying Shareholders who take up their entitlements in full under the Rights Issue will remain unchanged upon completion of the Rights Issue. For those Qualifying Shareholders who opt not to take up their entitlements in full under the Rights Issue, depending on the extent to which they may take up their entitlements, their shareholding interests will be diluted upon completion of the Rights Issue by a maximum of approximately 64.3%.

Set out below were the shareholding structures of the Company as at the Latest Practicable Date and completion of the Rights Issue (assuming no Bonus Warrant is exercised) under various scenarios:

Shareholders	As at the Latest Practicable Date		All Rights Shares are subscribed by the Qualifying Shareholders other than Mr. Kan Sze Man (Note)		No Rights Shares are subscribed by Shareholders other than Earnest Equity and Golden Boost and all Rights Shares are all taken up by Earnest Equity, Golden Boost and the Underwriter	
	No. of Consolidated Shares	%	No. of Consolidated Shares	%	No. of Consolidated Shares	%
Mr. Chung, Newco & subsidiaries	2,589,596,031	56.24%	7,272,280,336	56.40%	9,025,593,881	70.00%
Mr. Kan Sze Man	11,895,250	0.26%	11,895,250	0.10%	11,895,250	0.10%
Public						
– Public Shareholders	2,003,403,557	43.50%	5,609,529,960	43.50%	2,003,403,557	15.54%
– Underwriter	–	–	–	–	1,852,812,858	14.36%
Total number of Consolidated Shares	4,604,894,838	100%	12,893,705,546	100%	12,893,705,546	100%

Note: Pursuant to the irrevocable undertaking made by Mr. Kan Sze Man, who undertook not to accept any of 21,411,450 Rights Shares to be provisionally allotted to him or for his benefit under PALs pursuant to the Rights Issue and shall not apply for any excess Rights Shares under the EAF. The 21,411,450 Rights Shares not accepted by Mr. Kan Sze Man have been assumed to be taken up by Newco and its subsidiaries.

We consider the potential dilution effect on existing shareholding to be acceptable based on the following factors:

- (i) the Group required additional capital for its business operations and to optimise its financial position. The Rights Issue will provide the Group with immediate and significant cash inflow to the Group, improving its cash flow position and reducing future finance costs through partial debt repayment;

- (ii) the Strategic Funding & Partnership Proposal will significantly recapitalise the Group, leading to a healthier capital structure. As discussed above, upon completion of the Strategic Funding & Partnership Proposal, the Group's overall financial position will improve, providing greater financial flexibility and a safety margin to optimise its capital structure when needed;
- (iii) if the Company is not able to raise new capital, it would be placed in an unfavourable and passive position given the current adverse market environment, which would not be in the interests of the Company and the Shareholders as a whole;
- (iv) all Qualifying Shareholders are offered the same opportunity to maintain their proportional interests in the Company under the Rights Issue;
- (v) Qualifying Shareholders who choose not to take up their provisional allotments will have the opportunity, subject to market conditions, to sell their nil-paid Rights Shares in the market, allowing them to potentially benefit economically and compensate the dilution in shareholding; and
- (vi) the Independent Shareholders have the right to veto the Rights Issue, ensuring that the proposal is subject to their approval and aligned with their interests.

IV DISCUSSION AND ANALYSIS

The Company has proposed the Strategic Funding & Partnership Proposal to raise approximately HK\$1,992 million by way of (i) the Rights Issue on the basis of 18 Rights Shares for every 10 Consolidated Shares held on the Record Date at the Subscription Price of HK\$0.18 per Rights Share; and (ii) the issuance of the 4-year Senior Unsecured Note in the principal amount of HK\$500 million at a subscription price of 93% of the principal amount with interest rates of 8.22%. Given that the dilution effect of shareholding on Independent Shareholders who do not participate in the Rights Shares could reach approximately 64%, the Rights Issue may be regarded as a "heavy" call on Shareholders. Notwithstanding this, we can see that such call, as it forms an integral part of the Strategic Funding & Partnership Proposal to enable the Company to raise substantial new equity capital to support the Group's continued development and financial optimisation, is justifiable and equitable to all Shareholders.

We concur with the Directors' decision to raise new fund via equity financing, as this approach provides the Group with long-term capital essential for its sustained growth. In contrast, debt refinancing alone would not adequately position the Group to navigate current market headwinds or establish a financial buffer for future obligations. Due to the existing bank facilities covenants restricting changes in the shareholding control, we understand that the selected ratio of the Rights Issue to the Senior Unsecured Note under the Strategic Funding & Partnership Proposal represents the most feasible structure for the Company. With the expected net proceeds of approximately HK\$1,919.5 million, the Strategic Funding & Partnership Proposal will enhance the Group's financial position and liquidity. We, therefore, concur with the Management's view that the Strategic Funding & Partnership Proposal will strengthen the Company's financial standing, providing both flexibility and a safety margin for future capital optimisation if needed.

The Management has conveyed its commitment to implementing the Business Plans, and it remains optimistic about the longer term business outlook. With Gaw Capital (through its managed funds) as a long-term strategic investor and business partner, the Company will be well positioned to leverage the business and funding opportunities that Gaw Capital brings. In this context, we note that the Bonus Warrants Issue serves as an incentive for those existing Qualifying Shareholders who share the Company's confidence in its Business Plans and recognise the strategic value that Gaw Capital (through its managed funds) may contribute. While the Warrant Subscription Price was out-of-money as at the Latest Practicable Date, in the event that the Share price performs well following the implementation of the Strategic Funding & Partnership Proposal, Shareholders holding the Bonus Warrant would have the option either to realise the value of the Bonus Warrants in the market or increase their shareholding at the predetermined Warrant Subscription Price at their own discretion.

Demonstrating his commitment to the Company's long-term growth, Mr. Chung, being the controlling Shareholder beneficially interested in approximately 56.24% of the issued share capital of the Company as at the Latest Practicable Date, had (through his wholly-owned Digisino) entered into the Subscription Agreement and the Shareholders' Agreement with the Investor. As part of this, Mr. Chung has ceded a portion of his equity interests and contributed HK\$400 million to Newco while also inviting Gaw Capital (through its managed funds) to participate in the Strategic Funding & Partnership Proposal, committing an additional funding of approximately HK\$1.2 billion to the Company. The remaining Rights Shares have been fully underwritten at arm's length commission rate, ensuring that the Qualifying Shareholders have the opportunity to maintain their proportional stake in the Company. Shareholders who are positive about the Group's prospects can leverage the excess application mechanism to increase their shareholdings at the Subscription Price before any underwriting obligation of the Underwriter is called upon.

The theoretical closing price of the Consolidated Shares had consistently traded at a deep discount of over approximately 90% to the NAV per share. The Subscription Price of HK\$0.18 represents a slight premium over the prevailing market prices. Given the persistent disparity between the trading price and the Group's NAV, setting the Subscription Price at a premium over the prevailing market price helps reinforce investor confidence. This also demonstrates the Company's commitment to preserving Shareholder value and minimising unnecessary value dilution. Any Shareholders who do not wish to increase their capital contribution may sell their nil-paid Rights Shares in the market. Those considering this option should note that on the basis of the expected timetable set out in the Circular, trading in nil-paid Rights Shares will take place from 25 March 2025 to 1 April 2025.

Given the evolving market conditions, including significantly higher interest rates compared to 2021, the Group's shift from profitability to a loss-making position since FY2023/24, and ongoing turbulence in the real estate sector, many property developers are facing liquidity challenges and actively seeking refinancing options to manage their debt burdens. In light of these factors, we consider that it is not unreasonable for any financiers to demand a higher yield for debt financing in the property development sector. The Senior Unsecured Note, customarily of its type and offering a yield of 13.3%, remains lower than the yield of the 2021 Guaranteed Notes currently trading in the market. Accordingly, we consider that the terms of the Note Subscription Agreement to be fair and reasonable. More importantly, the Senior Unsecured Note forms part and parcel of the entire Strategic Funding & Partnership Proposal to raise an aggregate amount of HK\$2 billion, of which a substantial portion of approximately HK\$1.5 billion will come from interest-free equity financing.

Considering these factors in totality, we are of the view that the Strategic Funding & Partnership Proposal was determined on normal commercial terms and its terms are fair and reasonable.

V OPINION AND RECOMMENDATION

Based on the above principal factors and reasons and in view of the Group's capital needs for business development and refinancing its maturing indebtedness, we are of the view that the terms of the Rights Issue, the Note Subscription Agreement and the Facilitation Agreement are fair and reasonable and the Rights Issue, the Note Subscription Agreement and the Facilitation Agreement are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant ordinary resolution(s) to be proposed at the SGM to approve, among other matters, the Rights Issue, the Note Subscription Agreement, the Facilitation Agreement and the transactions contemplated thereunder.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED



Ng Ka Po
Managing Director, Corporate Finance



Lo Chi Pang
Director, Corporate Finance

Mr. Ng Ka Po is a responsible officer of Optima Capital and a licensed person registered with the Securities and Futures Commission to carry out type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO. Mr. Ng has participated in the provision of independent financial advisory services for various transactions involving companies listed on the Stock Exchange.

Mr. Lo Chi Pang is a representative of Optima Capital Limited and a licensed person registered with the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong). Mr. Lo has over 10 years of experience in corporate finance.