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12 March 2025

To the Independent Board Committee and the Independent Shareholders

Miramar Hotel and Investment Company, Limited
15/F, Mira Place Tower A
132 Nathan Road, Tsim Sha Tsui
Kowloon, Hong Kong

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION PROPOSED ACQUISITION OF INTERESTS IN SOLUTION RIGHT LIMITED

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the S&P Agreement and the Transaction (comprising the Acquisition and the transactions contemplated under the S&P Agreement). Details of the S&P Agreement and the Transaction are set out in the "Letter from the Board" contained in the circular of the Company dated 12 March 2025 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein or required by the context.

As stated in the Letter from the Board, on 15 January 2025, the Purchaser (a wholly-owned subsidiary of the Company), the Vendor (a wholly-owned subsidiary of Henderson Land) and Henderson Land (as guarantor of the Vendor) entered into the S&P Agreement, pursuant to which the Purchaser has agreed conditionally to acquire from the Vendor the Sale Interest, which comprises the Sale Share (representing the one and only issued share in the Target Company) and the Sale Loan, at the total consideration of HK$3,120,000,000 (subject to adjustments).

Completion of the Acquisition is conditional upon (i) the approval of the Transaction by the Independent Shareholders; and (ii) the Purchaser being satisfied with Far Union's good title to the Target Property. Completion shall take place on the 5th business day after the Conditions are fulfilled or waived, where applicable (or such other date as the Vendor and the Purchaser may agree in writing).

Upon Completion, the companies within the Target Group (including Far Union which is the sole owner of the Target Property) will become indirect wholly-owned subsidiaries of the Company and the financial results of the Target Group will be consolidated into the Group's financial statements.

LISTING RULES IMPLICATIONS

As the Vendor is an indirect wholly-owned subsidiary of Henderson Land, which in turn is a holding company of the Company holding 345,999,980 Shares (representing approximately 50.08% of the total number of issued Shares as at the Latest Practicable Date), each of the Vendor and Henderson Land is a connected person of the Company under the Listing Rules. Accordingly, the entering into of the S&P Agreement and the Transaction constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the Transaction exceeds 25% but is less than 100%, the Transaction will also constitute a major transaction of the Company under Chapter 14 of the Listing Rules. Accordingly, the entering into of the S&P Agreement and the Transaction will be subject to the announcement, reporting, circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Dr. Timpson Chung Shui Ming, Mr. Howard Yeung Ping Leung, Mr. Benedict Sin Nga Yan and Ms. Wong Yeung Fong, all being independent non-executive Directors, has been established to consider the terms of the S&P Agreement and the Transaction, to advise the Independent Shareholders as to whether the S&P Agreement and the Transaction are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, taking into account the recommendation from the Independent Financial Adviser.

According to the Letter from the Board, Mr. Wu King Cheong ("**Mr. Wu**") and Mr. Alexander Au Siu Kee ("**Mr. Au**"), each being an independent non-executive Director, are also independent non-executive directors of Henderson Land, and Mr. Thomas Liang Cheung Biu ("**Mr. Liang**"), being an independent non-executive Director, was taken to be interested in approximately 0.02% of the total issued share capital of Henderson Land as at the Latest Practicable Date. Therefore, Mr. Wu, Mr. Au and Mr. Liang may not be independent to advise the Independent Shareholders on the S&P Agreement and the Transaction, and are not members of the Independent Board Committee.

INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the S&P Agreement and the Transaction are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the resolution relating to the S&P Agreement and the Transaction to be proposed at the EGM.

We have not acted as independent financial adviser or financial adviser in relation to any transactions of the Company and the HLD Group in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the S&P Agreement and the Transaction is at market level and not conditional upon successful passing of the resolution to be proposed at the EGM, and that our engagement is on normal commercial terms, we are independent of and not associated with the Company, its controlling Shareholder(s) or connected person(s).

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others (i) the annual report of the Company for the year ended 31 December 2023 (the "**2023 Annual Report**") and the interim report of the Company for the six months ended 30 June 2024 (the "**2024 Interim Report**"); (ii) the announcement of the Company in relation to the S&P Agreement and the Transaction dated 15 January 2025; (iii) the valuation report on the Target Property by the Independent Property Valuer; (iv) the audited financial information of the Target Group for each of the years ended 31 December 2021, 2022 and 2023, and the ten months ended 31 October 2024; (v) the unaudited pro forma financial information of the Enlarged Group as at 30 June 2024; and (vi) other information contained or referred to in the Circular.

We have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company (the "**Management**"). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular. The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular misleading.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion are untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us to be untrue, inaccurate or misleading.

We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Management have been reasonably made after due and careful enquiry. We consider that we have been provided with and have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group and the Target Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the terms of the S&P Agreement and the Transaction, we have taken into consideration the following principal factors:

1. Information of the Group

1.1 Principal business of the Group and the Purchaser

The principal activity of the Company is investment holding, and the principal activities of its subsidiaries are property rental, hotels and serviced apartments, food and beverage operation and travel operation. The Purchaser, a wholly-owned subsidiary of the Company, has not commenced any business operation since its incorporation other than entering into the S&P Agreement.

1.2 Financial information of the Group

Set out below is the key consolidated financial information of the Group for the year ended 31 December 2022 ("**FY2022**"), the year ended 31 December 2023 ("**FY2023**"), the six months ended 30 June 2023 ("**1H2023**") and the six months ended 30 June 2024 ("**1H2024**") as extracted from the 2023 Annual Report and the 2024 Interim Report.

Summary of consolidated statement of profit or loss

	FY2022	FY2023	1H2023	1H2024
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	1,382,231	2,552,594	1,142,095	1,400,837
— Property rental	*800,033*	*795,187*	*398,948*	*401,156*
— Hotels and serviced apartments	*318,356*	*581,884*	*267,162*	*296,913*
— Food and beverage operation	*173,280*	*279,443*	*138,607*	*142,787*
— Travel operation	*90,562*	*896,080*	*337,378*	*559,981*
Cost of food and beverage	(102,689)	(150,743)	(71,297)	(81,049)
Staff costs	(411,606)	(512,427)	(245,947)	(284,933)
Utilities, repairs and maintenance and rent	(111,319)	(132,190)	(62,432)	(64,803)
Tour and ticketing costs	(77,419)	(790,753)	(301,374)	(479,905)
Gross profit	**679,198**	**966,481**	**461,045**	**490,147**
Other revenue and non-operating net gain	153,934	300,134	138,158	157,395
Operating and other expenses	(170,037)	(228,698)	(95,237)	(126,508)
Depreciation	(57,783)	(67,212)	(32,108)	(37,195)
Finance costs	(2,140)	(2,268)	(1,174)	(992)
Share of profits less losses of associates	178	176	114	19
Net (decrease)/increase in fair value of investment properties	(23,159)	159,532	(17,100)	(17,843)
Profit before taxation	580,191	1,128,145	453,698	465,023
Taxation				
— Current	*(72,885)*	*(86,209)*	*(42,087)*	*(55,320)*
— Deferred	*(18,766)*	*(24,629)*	*(18,392)*	*(9,225)*
Profit for the year/period	488,540	1,017,307	393,219	400,478
Profit attributable to				
— Shareholders of the Company	*480,104*	*977,136*	*380,132*	*373,111*
— Non-controlling interests	*8,436*	*40,171*	*13,087*	*27,367*

FY2023 vs FY2022

The Group's revenue increased by 84.7% from HK$1,382.2 million in FY2022 to HK$2,552.6 million in FY2023, underpinned by revenue increases for hotels and serviced apartments business, food and beverage operation, as well as travel operation. Revenue from the property rental business remained relatively stable for FY2023 as compared to that for FY2022. Meanwhile, the revenue from the hotel and serviced apartment business increased by 82.8% from HK$318.4 million for FY2022 to HK$581.9 million due to (i) the significant growth in occupancy rates of The Mira Hong Kong (i.e. the Old Wing) and Mira Moon to 90% and 95% respectively (FY2022: 68% and 41% respectively), and (ii) the increase in their average room rates by 61% and 40% respectively in 2023. Revenue from the food and beverage business recorded an increase of 61.3% in FY2023 as compared with that of FY2022, which was driven by the (i) improvement in the food and beverage industry amidst the government's lifting of social distancing measures and the full border reopening in February 2023; and (ii) the growth of restaurant cover and spending per person at the Group's restaurants during FY2023. Meanwhile, revenue from the travel business rebounded strongly to HK$896.1 million in FY2023 following post-pandemic recovery of global cross-border tourism industry and the increase in air capacity of Hong Kong to 80% of pre-pandemic level by the end of 2023.

The Group's gross profit increased by 42.3% from HK$679.2 million in FY2022 to HK$966.5 million in FY2023 along with revenue increase. However, we noticed that the growth rate of the gross profit was lower than that of the revenue, which was mainly attributable to the significant increase in tour and ticketing costs for the Group's travel operation as ticket prices were high during 2023 amidst strong demand from outbound travellers outgrowing the increase in air capacity.

The Group's operating and other expenses increased by 34.5% from HK$170.0 million in FY2022 to HK$228.7 million in FY2023. We observed that this increase was mainly driven by higher advertising and promotion expenses, commission and agency fee and credit card commission fee in FY2023, generally in line with business volume increase.

The profit before taxation and profit attributable to the Shareholders of the Company increased from HK$580.2 million and HK$480.1 million respectively for FY2022 to HK$1,128.1 million and HK$977.1 million respectively for FY2023. Overall, the increases could be attributed to (i) the significant revenue growth and the less than proportional growth in operating and other expense as discussed above; (ii) the increase in other revenue and non-operating net gain from HK$153.9 million in FY2022 to HK$300.1 million in FY2023, which comprised bank interest income and investment gain/loss of the Group's financial assets measured at fair value through profit or loss; and (iii) the net increase in fair value of investment properties of HK$159.5 million for FY2023 (FY2022: net decrease of HK$23.2 million).

1H2024 vs 1H2023

Compared to 1H2023, the Group's revenue increased by 22.7% in 1H2024 to HK$1,400.8 million as the revenue from each of the Group's property rental business, hotel and serviced apartments business, food and beverage operation and travel operation had recorded an increase during the period. In particular, revenue from travel operation increased significantly by 66.0%.

For the hotel and serviced apartments business, revenue growth was subdued as we observed that it was limited by the high occupancy rate already achieved shortly after the reopening of border post-pandemic in 1H2023. Specifically, the occupancy rate of both the Old Wing and Mira Moon were 91.6% and 94.6% respectively during 1H2024 (1H2023: 91.1% and 95.2% respectively), with the average room rate also increased by 8.3% and 2.8% respectively.

Whilst gross profit increased by 6.3% to HK$490.1 million in 1H2024 (1H2023: HK$461.0 million) along with higher revenue, we noted that the comparatively lower growth rate of gross profit could mainly be attributable to higher proportion of revenue contribution from travel operation which profitability was impacted by high tour and ticketing costs experienced in 1H2024.

The Group's operating and other expenses increased by HK$31.3 million (32.8%) in 1H2024 as compared to 1H2023, which was lower than the increase in revenue as the Group endeavoured to adhere to its strategy of maintaining stringent cost control and enhancing operating efficiency. Meanwhile, other revenue and non-operating net gain which comprised mainly dividend and interest income, had remained relatively stable in 1H2024 as compared to 1H2023.

As a result of the foregoing, profit before taxation increased slightly by 2.5% from HK$453.7 million for 1H2023 to HK$465.0 million for 1H2024, whilst the profit attributable to the Shareholders of the Company remained stable at approximately HK$373.1 million for 1H2024 (1H2023: HK$380.1 million).

Overall, we observed that the Group's revenue has been improving since FY2023 amidst the post-pandemic market recovery. Such revenue growth in turn helped improve the Group's business performance as reflected by the increase in gross profit and profit for the year in FY2023 and 1H2024. We however noticed that the revenue growth was contributed mainly by travel operation which had experienced increased expenses due to high tour and ticketing costs. Meanwhile, growth of revenue for hotels and serviced apartments operation had been constrained by limited available rooms and apartment units.

Summary of consolidated statement of financial position

	As at		
	31 December 2022	**31 December 2023**	**30 June 2024**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(unaudited)
Non-current assets			
Investment properties	15,159,392	15,314,929	15,092,083
Other property, plant and equipment	243,053	244,134	278,862
Interests in associates	1,074	1,247	1,224
Equity securities designated at fair value through other comprehensive income	28,140	332,235	430,737
Deferred tax assets	33,122	16,598	16,297
Total non-current assets	**15,464,781**	**15,909,143**	**15,819,203**
Current assets			
Inventories	119,655	120,532	114,490
Trade and other receivables	214,747	282,384	290,229
Financial assets measured at fair value through profit or loss	58,443	89,484	404,268
Cash and bank balances	5,385,923	5,568,703	5,794,472
Tax recoverable	1,461	857	1,032
Total current assets	**5,780,229**	**6,061,960**	**6,604,491**
Total assets	**21,245,010**	**21,971,103**	**22,423,694**
Current liabilities			
Trade and other payables	(363,974)	(469,564)	(632,421)
Rental deposits received	(129,223)	(76,693)	(79,472)
Contract liabilities	(80,567)	(125,069)	(162,512)
Lease liabilities	(42,005)	(34,845)	(45,431)
Tax payable	(9,643)	(35,774)	(67,322)
Total current liabilities	**(625,412)**	**(741,945)**	**(987,158)**

	As at		
	31 December 2022	**31 December 2023**	**30 June 2024**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(unaudited)
Non-current liabilities			
Deferred liabilities	(111,818)	(181,322)	(171,393)
Lease liabilities	(57,055)	(40,675)	(66,078)
Deferred tax liabilities	(329,633)	(335,334)	(340,227)
Total non-current liabilities	**(498,506)**	**(557,331)**	**(577,698)**
Total liabilities	**(1,123,918)**	**(1,299,276)**	**(1,564,856)**
Net Assets	20,121,092	20,671,827	20,858,838
Non-controlling interests	(154,928)	(186,529)	(189,801)
Total equity attributable to shareholders of the Company	**19,966,164**	**20,485,298**	**20,669,037**

The Group's non-current assets consisted mainly of investment properties, other property, plant and equipment and equity securities designated at fair value through other comprehensive income. The aggregate carrying value of investment properties, other property, plant and equipment had remained stable at levels between HK$15.3 billion and HK$15.6 billion as at each of 31 December 2022, 31 December 2023 and 30 June 2024. The carrying value of equity securities designated at fair value through other comprehensive income increased significantly from HK$28.1 million as at 31 December 2022 to HK$332.2 million as at 31 December 2023 and to HK$430.7 million as at 30 June 2024 as the Group had increased its investment in listed equity securities as part of its treasury and capital management strategy.

The Group's current assets, which mainly comprised cash and bank balance, inventories, trade and other receivables, and financial assets measured at fair value through profit or loss, had increased from HK$5,780.2 million as at 31 December 2022 to HK$6,062.0 million as at 31 December 2023, and to HK$6,604.5 million as at 30 June 2024. According to the 2023 Annual Report and the 2024 Interim Report, the Group generated net cash from its operating activities of HK$268.4 million, HK$651.7 million and HK$465.5 million in FY2022, FY2023 and 1H2024 respectively. As at 31 December 2023, the Group had a consolidated cash position of HK$5,568.7 million (as at 31 December 2022: HK$5,385.9 million). The cash position further increased to HK$5,794.5 million as at 30 June 2024. According to its treasury management policies, the Group reviews the expansion needs of its core businesses and monitors the investment environment and requirements from time to time, and may expand and capitalise on securities, bonds and other investment opportunities in an investment-effective manner with a view to enhancing the returns for shareholders. We noted that with the cash generated and having taken into account its consistent dividend payments to Shareholders, the Group increased its financial assets measured at fair value through profit or loss from HK$58.4 million as at 31 December 2022 to HK$89.5 million as at 31 December 2023 and HK$404.3 million as at 30 June 2024.

The Group had comparatively low liabilities position where total liabilities amounted to HK$1,123.9 million, HK1,299.3 million and HK$1,564.9 million as at 31 December 2022, 31 December 2023 and 30 June 2024 respectively. The Group's current liabilities increased to HK$741.9 million as at 31 December 2023 mainly due to the increase in trade and other payables in line with the Group's business volume growth. Current liabilities had further increased to HK$987.2 million as at 30 June 2024 due mainly to higher trade and other payables relating to dividend declared but unpaid of HK$207.3 million in 1H2024. According to the 2023 Annual Report and the 2024 Interim Report, the Group had no loan as at 31 December 2022, 31 December 2023 and 30 June 2024 and the total amount of credit facilities available to the Group were HK$1.0 billion, HK$0.9 billion and HK$0.9 billion as at 31 December 2022, 31 December 2023 and 30 June 2024 respectively, and none of them had been utilised during these year/period. Accordingly, the gearing ratios (calculated by dividing the total consolidated borrowings by the total consolidated shareholders' equity) of the Group were nil as at those dates.

In line with profits recorded by the Group, while net of dividend paid or payable, net assets and equity attributable to the Shareholders of the Company had remained stable at approximately HK$20 billion as at 31 December 2022, 31 December 2023 and 30 June 2024 respectively.

1.3 Historical Dividends

The Group had consistently declared dividends to Shareholders in the past few financial years as summarised below:

Financial year ended/ending 31 December	**Underlying basic earnings** *(HK$ per Share)*[Note 1]	**Total interim and final dividends** *(HK$ per Share)*
2020 ("**FY2020**")	0.66	0.50
2021	0.61	0.46
2022	0.76	0.50
2023	1.19	0.53
2024 ("**FY2024**")	0.58[Note 2]	0.23[Note 2]

Notes:

1. Underlying basic earnings are based on the profits attributable to shareholders of the Company excluding the post-tax effects of the investment properties revaluation movements and other non-recurring items.

2. Underlying basic earnings and interim dividend for 1H2024 only, as extracted from the 2024 Interim Report.

Excluding FY2024 where full year basic earnings and final dividend have yet to be announced; the total annual dividends paid from FY2020 through FY2023 amounted to between HK$315 million and HK$370 million. The Company had meanwhile declared interim dividends of approximately HK$159 million for 1H2024. Having considered the underlying basic earnings and dividend payout of the Group in recent years and based solely on the Group's cash and bank balances as at 30 June 2024 of approximately HK$5.8 billion and before considering the earnings and cash inflow from future operations, it appears the cash outflow for the Acquisition (as detailed in the paragraph headed "4.2 Payment terms" below) should not affect the Group's ability to maintain its consistent dividend payouts at levels of the past few financial years, barring unforeseen circumstances.

1.4 Outlook and Prospects

As discussed in the 2024 Interim Report, the Group remains cautiously optimistic about the Hong Kong economy. The Group is of the view that the market generally expects the US interest rate cut cycle to commence, which would bode well for the development of Hong Kong's hotel, retail, food and beverage and related sectors. In addition, a number of measures to boost Hong Kong's economic outlook and tourism industry, including inbounding travellers boost, such as (i) the Hong Kong Government's deployment of the "Southbound Travel for Guangdong Vehicles" program, and the expected continued expansion of the "Individual Visit Scheme", (ii) the opening of the Shenzhen-Zhongshan Link which significantly reduced the travel time from Guangdong province to Hong Kong; and (iii) the new three-runway system of Hong Kong International Airport and the Airport Authority's recent launch of additional route and flight incentive programs, are being implemented. The Group stated that it will continue to adjust its operational strategies and enhance its hotels and commercial premises to address market changes and will collaborate with the Hong Kong Government and local associations to further upgrade the transportation network in central Tsim Sha Tsui area, thereby enhancing the accessibility and connectivity of Mira Place and the Old Wing. The Group will continue to consolidate the e-commerce development to promote operational efficiency and will also diversify its dining portfolio and tenant mix so as to enhance customers' travel and shopping experiences.

We concur with the Management that Hong Kong tourism industry is on a path to recovery and the number of travelers visiting Hong Kong can reasonably be expected to increase in the coming years, bringing demand for the Old Wing and the New Hotel. Such expectations are underpinned by the following:

(i) The strength of US$ (which HK$ is pegged to) since the past couple of years has, to a certain extent, deterred tourists from visiting Hong Kong. The value of US$ and HK$ may decline relative to other currencies if the expected interest rate cut happens in the coming years. This in turn should provide an impetus for tourist arrivals for Hong Kong, especially for spending on higher grade hotels such as the Old Wing and the New Hotel.

(ii) Passenger traffic at the Hong Kong International Airport had continued to increase in 2024 as reported by the Airport Authority Hong Kong, in part signifying the progressive recovery of number of flights to pre-pandemic levels. This may bring in more diverse international tourists who typically stay overnight, bringing new source of demand for hotels. It is reported by Hong Kong Tourism Board that "High Tariff A Hotels", the highest category of hotels which the Old Wing and the New Hotel fall into, have generally outperformed other hotel categories in terms of occupancy and room rates post-pandemic.

(iii) A series of government initiatives can be expected to increase tourist arrivals in Hong Kong in general, spurring demand for hotels. These initiatives include (a) the further expansion of Individual Visit Scheme for PRC citizens, in particular to those cities with direct transportation linkage with Hong Kong; and (b) implementation of multiple-entry visa for visitors from nearby cities in Guangdong province, as well as (c) positioning Hong Kong as a multi-stop long distance travel destination for long-haul PRC visitors.

(iv) The Hong Kong government's plan to promote (a) the development of MICE (Meetings, Incentives, Conferences, and Exhibitions) industry through expansion of facilities such as the AsiaWorld-Expo and Wan Chai Convention and Exhibition Center, (b) the mega event economy through year-round offerings of cultural, sports and festive events, and (c) the development of cruise tourism through encouraging cruise ships to consider Hong Kong as homeport and enhancing the transport connectivity between the cruise terminals and the surrounding scenic spots and key shopping malls can attract high-spending travelers to Hong Kong, which will be the target clientele of the Old Wing and the New Hotel.

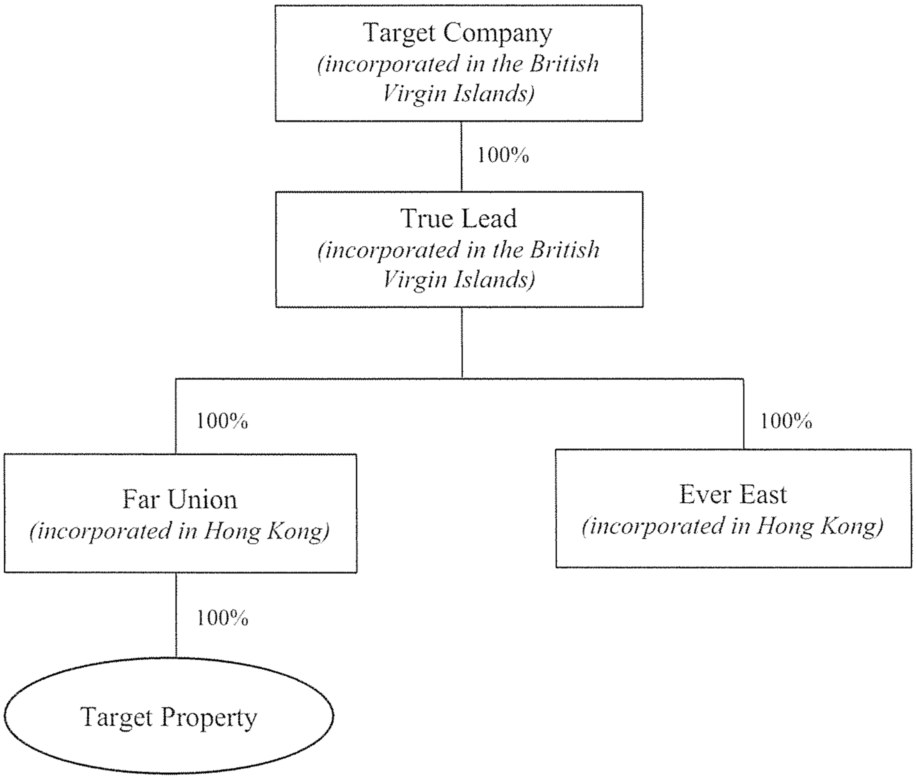
2. Information of the HLD Group and the Vendor

Henderson Land is an investment holding company and the principal activities of its subsidiaries are property development and investment, construction, project management, property management, hotel operation, department store operation and investment holding. The shareholding information of Henderson Land is available on the Stock Exchange's website (https://www.hkexnews.hk/). Henderson Land is the controlling shareholder of the Company holding 345,999,980 Shares (representing approximately 50.08% of the total number of issued Shares as at the Latest Practicable Date). The principal activity of the Vendor is investment holding.

3. Information of the Target Group and the Target Property

3.1 Principal business of the Target Group

The following diagram illustrates the existing holding structure of the Target Property and the Target Group:



Each of the Target Company and True Lead was incorporated on 19 July 2023. True Lead became a direct wholly-owned subsidiary of the Target Company on 31 July 2023, upon which the financial results of True Lead were consolidated into the financial statements of the Target Company. Each of Far Union and Ever East became indirect subsidiaries of the Target Company on 1 August 2023, upon which the financial results of Far Union and Ever East were consolidated into the financial statements of the Target Company. The Target Company and True Lead have not conducted any business activities since their incorporation other than the indirect and direct holding of the interests in Far Union and Ever East respectively. Far Union is a property investment company and Ever East currently has no operations.

3.2 Information of the Target Property

The Target Property comprises the Lot and a composite building of 10 storeys with an additional roof floor erected thereon now known as "Champagne Court (香檳大廈)" completed in 1957 and located at No.16 Kimberley Road, Kowloon, Hong Kong. The site area of the Target Property is approximately 12,283 sq.ft.

As discussed in the Letter from the Board, in response to an application made by Far Union, Ever East and certain members of the HLD Group, the Order For Sale was made by the Lands Tribunal. Far Union, being the bidder who submitted the only bid at the Auction held on 5 January 2024, entered into a memorandum of agreement on the same date with the Trustee, pursuant to which Far Union agreed to purchase the Target Property at the Bidding Price. Immediately before the completion of the Compulsory Sale, the Target Property comprises (a) the Target Group Units owned by Far Union (representing approximately 74.95% of all the undivided shares of the Target Property); (b) the HLD Group Units owned by the HLD Group (representing approximately 8.75% of all the undivided shares of the Target Property); (c) the Group Units owned by the Group (representing approximately 10.00% of all the undivided shares of the Target Property); and (d) the Other Units owned by other third parties (representing approximately 6.30% of all the undivided shares of the Target Property). Completion of the Compulsory Sale took place on 7 February 2024, upon which the ownership of the Target Property was consolidated by Far Union and Far Union has become the sole owner of the Target Property.

The total acquisition costs of the Target Property attributable to the Target Group (after transaction costs) were approximately HK$2,115,000,000. Such acquisition costs included (i) the total purchase prices paid by Far Union in acquiring the Target Group Units (inclusive of the 8 units previously owned by Ever East) up to but immediately before the Auction; and (ii) the actual purchase price paid by Far Union to the Trustee, being the aggregate of the apportioned value of the Bidding Price attributable to the HLD Group Units (being HK$88,869,000), the Group Units (being HK$190,050,000, which had been received by the Group from the Trustee) and the Other Units (HK$281,835,000), as determined pursuant to the Order For Sale.

For illustration purpose only, we noted that the aforesaid total acquisition costs of the Vendor represent approximately 67.8% of the Initial Consideration of HK$3,120,000,000. The Vendor's total acquisition costs above do not include interest expenses (if any) it may have had incurred (i) during the long process of acquiring the Target Group Units which we understand from the Management, had started since 2011; and (ii) to finance its purchases through the Auction as described above. Thereafter pursuant to the S&P Agreement, the Vendor shall have to incur costs to demolish the existing building erected on the Target Property and redevelop it into the New Hotel incorporating the Key Features and on Mira Moon Standard or better.

3.3 Financial information of the Target Group

Set out below is the consolidated financial information of the Target Group for FY2022, FY2023 and for the 10 months ended 31 October 2023 ("**10m2023**") and 2024 ("**10m2024**") prepared in accordance with Hong Kong Financial Reporting Standards as extracted from the accountants' report in Appendix II to the Circular. We wish to highlight that as the existing building erected on the Target Property will be demolished and redeveloped into the New Hotel, historical information of the Target Group as set out below does not reflect the future performance and financial position of the Target Group.

Summary of consolidated statement of profit or loss

	FY2022	**FY2023**	**10m2023**	**10m2024**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(unaudited)	(audited)
Revenue	347	2,664	2,559	1,571
Other Income	—	48	—	650
Operating and other expenses	(1,429)	(1,905)	(1,577)	(1,986)
(Loss)/profit from operations before changes in fair value of investment properties	(1,082)	807	982	235
Decrease in fair value of investment properties	(32,451)	(422,374)	—	(161,311)
(Loss)/profit before taxation	(33,533)	(421,567)	982	(161,076)
(Loss)/profit for the year/period	(33,533)	(421,567)	982	(161,076)

FY2023 vs FY2022

The Target Group derived revenue from rental income earned from the Target Property. Such revenue increased from HK$0.3 million for FY2022 to HK$2.7 million for FY2023 as the occupancy of the Target Group Units improved. Operating and other expenses increased from HK$1.4 million for FY2022 to HK$1.9 million for FY2023 mainly due to increases in government rent and rates, rental commission, security charges and building management fee incurred. Decreases in fair value of investment properties of HK$32.5 million and HK$422.4 million were recorded for FY2022 and FY2023 respectively, which were recognised in response to the valuations of the Target Group Units performed by the professional surveyors, Henderson Valuation and Agency Limited and Cushman & Wakefield Limited respectively. As a result of the foregoing, net loss before and after taxation increased substantially from HK$33.5 million in FY2022 to HK$421.6 million in FY2023.

10m2024 vs 10m2023

Whilst revenue of the Target Group decreased from HK$2.6 million for 10m2023 to HK$1.6 million for 10m2024 due to the fall of occupancy rate in light of the anticipated building redevelopment plan after the Compulsory Sale, the Target Group recognised sundry income of HK$0.7 million in 10m2024. Operating and other expenses increased from HK$1.6 million for 10m2023 to HK$2.0 million for 10m2024 mainly due to the increase in security charges, bad debt written off and government rent and rates for 10m2024. In addition, the Target Group further recognised a decrease in fair value of investment properties of HK$161.3 million for 10m2024 (10m2023: nil) based on the valuation performed by the professional surveyors, Cushman & Wakefield Limited, in respect of the Target Property. Hence, the Target Group's net loss before taxation and net loss for the period increased substantially to HK$161.1 million for 10m2024. (10m2023: net profit before tax and net profit after tax of HK$1.0 million and HK$1.0 million respectively).

Summary of consolidated statement of financial position

	As at		
	31 December 2022	**31 December 2023**	**31 October 2024**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)
Non-current asset			
Investment properties	1,583,000	1,167,600	1,624,788
Current assets			
Prepayments	134,757	134,758	133,995
Trade receivables	183	862	—
Deposits paid	10	10	15
Total current assets	134,950	135,630	134,010
Current liabilities			
Trade and other payables	(446)	(287)	(565)
Contract liabilities	(1)	(14)	—
Rental deposits received	(593)	(333)	—
Total current liabilities	(1,040)	(634)	(565)
Non-current liability			
Amount due to an intermediate holding company	(1,829,525)	(1,836,778)	(2,453,491)
Total deficit	(112,615)	(534,182)	(695,258)

The assets of the Target Group mainly comprised (i) the investment properties, and (ii) prepayments of stamp duty in relation to acquisition of Target Group Units prior to the Order for Sale in 2023. The management of the Vendor is of the view that such stamp duty is refundable by the Inland Revenue Department upon redevelopment of the Target Property pursuant to the relevant sections of the Stamp Duty Ordinance. The carrying value of the investment properties decreased from HK1,583.0 million as at 31 December 2022 to HK$1,167.6 million as at 31 December 2023 mainly due to the decrease in fair value as assessed by professional surveyors as mentioned above. The carrying value of the investment properties increased to HK$1,624.8 million as at 31 October 2024 due to the acquisition of the remaining shares of the Target Property upon completion of the Compulsory Sale for an aggregate consideration of HK$560.4 million, which was partly offset by the decrease in fair value of investment properties of approximately HK$161.3 million during 10m2024. The prepayments of stamp duty and building order costs had remained at HK$134 million levels as at each of 31 December 2022, 31 December 2023 and 31 October 2024.

The liabilities of the Target Group mainly comprised the amount due to an intermediate holding company (which constituted a major component of the Sale Loan). The amount due to an intermediate holding company of the Target Company remained relatively stable at approximately HK$1.83 billion and HK$1.84 billion as at 31 December 2022 and 31 December 2023 respectively, and increased to approximately HK$2.45 billion as at 31 October 2024, which was mainly due to additional borrowings from the HLD Group to complete the Compulsory Sale.

The total deficit of the Target Group increased from HK$112.6 million as at 31 December 2022 to HK$534.2 million as at 31 December 2023 mainly due to the decrease in carrying value of the investment properties as discussed above. The total deficit increased to HK$695.3 million as at 31 October 2024 due to further decrease in fair value of investment properties.

Following the completion of the Transaction, the Target Group will be a wholly-owned subsidiary of the Company, and its financial results will be consolidated into the financial statements of the Company. As mentioned above, Shareholders should note that after Completion, the existing building erected on the Target Property will be demolished and redeveloped into the New Hotel. During the period of the Redevelopment and before the Handover, the Target Property is not expected to generate income. Given the impending change of the Target Property from an aged composite building into a brand new hotel, historical financial information of the Target Group set out above is mainly for information only and has minimal relevance to the future performance and financial position of the Target Group. For further discussion on the financial impact to the Enlarged Group resulting from the Transaction, please refer to the paragraph headed "6. Possible financial effects of the Transaction" below in this letter.

4. Principal terms of the S&P Agreement

On 15 January 2025, the Purchaser, the Vendor and Henderson Land (as guarantor of the Vendor) entered into the S&P Agreement, pursuant to which the Purchaser has agreed conditionally to acquire from the Vendor the Sale Interest, which comprises the Sale Share (representing the one and only issued share in the Target Company) and the Sale Loan, at the total consideration of HK$3,120,000,000 (subject to adjustments).

We summarise below the principal terms of the S&P Agreement. For details, please refer to the paragraph headed "The S&P Agreement" in the Letter from the Board.

Date	:	15 January 2025
Parties	:	(i) The Vendor (a wholly-owned subsidiary of Henderson Land) as vendor; (ii) the Purchaser (a wholly-owned subsidiary of the Company) as purchaser; and (iii) Henderson Land as the guarantor of the Vendor.
Subject matter	:	The Vendor agreed to sell and assign, and the Purchaser agreed to purchase and take the assignment of, the Sale Interest (comprising the Sale Share and the Sale Loan) free from all encumbrances.
Consideration and payment terms	:	The Consideration for the Sale Interest is the Initial Consideration in the amount of HK$3,120,000,000 (which is equal to the Agreed Acquisition Value), plus or minus any adjustment(s) based on the Completion NAV of the Target Company. For details, please refer to the paragraph headed "4.1 Basis of determining the Consideration" below. The payment terms are set out in the paragraph headed "4.2 Payment terms" below. The Consideration will be funded through internal resources of the Group.

Conditions : Completion of the Acquisition is conditional upon the satisfaction (or waiver, where applicable) of the following Conditions no later than the Long Stop Date:

(i) the Independent Shareholders having approved the entering into and the performance of the S&P Agreement and the Transaction; and

(ii) the Purchaser being satisfied with Far Union's good title to the Target Property.

The Condition in (i) above cannot be waived by any party to the S&P Agreement. The Purchaser may, at its sole discretion, waive the Condition in (ii) above by written notice to the Vendor. As at the Latest Practicable Date, none of the Conditions have been fulfilled.

If the Conditions shall not be fulfilled or waived (where applicable) on or before the Long Stop Date, the S&P Agreement may be terminated by the Vendor or the Purchaser and be of no further effect and force. Upon such termination, the Vendor shall return the Deposit (as referred to in the paragraph headed "4.2 payment terms" below) to the Purchaser in full forthwith without interest, and no party to the S&P Agreement shall be entitled to any rights or benefits or be under any obligations or have any liability under or in respect of the S&P Agreement save in respect of any antecedent breach.

4.1 Basis of determining the Consideration

Pursuant to the S&P Agreement, the Consideration for the Sale Interest is the Initial Consideration in the amount of HK$3,120,000,000 (which is equal to the Agreed Acquisition Value), plus or minus any adjustment(s) based on the Completion NAV. According to the Letter from the Board, the Initial Consideration was determined after arm's length negotiations between the parties to the S&P Agreement with reference to the Appraised Gross Development Value. In addition to the Consideration, subject to Completion taking place, the Purchaser shall pay or refund to the Vendor (i) the amount of profits tax credit accumulated as of the Completion Date as may be utilised by the Target Group after Completion, and (ii) the Stamp Duty Refund and the refund of the Prepaid Building Order Costs if such refunds are received by the Target Group from the Inland Revenue Department and the Trustee's solicitors respectively (as further discussed in the paragraph headed "4.4 Payment relating to utilised profits tax credit, Stamp Duty Refund and Prepaid Building Order Costs Refund" below).

As at 10 January 2025, the Appraised Gross Development Value of the Target Property was HK$3,120,000,000, according to the valuation performed by the Independent Property Valuer. Meanwhile, the Completion NAV is equivalent to the total consolidated assets of the

Target Company (excluding the value of the Target Property, the Prepaid Building Order Costs, the Prepaid Stamp Duty and any deferred tax assets) minus the total consolidated liabilities of the Target Company (excluding the Sale Loan and any deferred tax liabilities) as at the Completion Date. The Completion NAV as calculated with reference to the Pro Forma Completion Accounts ("**Estimated Completion NAV**"), will form the adjustment to the portion of the Consideration payable on Completion (as referred to in the paragraph headed "4.2 Payment terms" below). The Pro Forma Completion Accounts will be audited by the auditors within sixty (60) days after Completion (the "**Audited Completion Accounts**"), and any difference in the amount of the Estimated Completion NAV and the Completion NAV based on the Audited Completion Accounts (the "**NAV Difference**") will be determined. The amount of NAV Difference will be payable by the Vendor or the Purchaser, as the case may be, to the other in cash after the delivery of the Audited Completion Accounts.

For illustrative purposes, according to the financial information of the Target Group as set out in the paragraph headed "3.3 Financial information of the Target Group" and the basis of determining the Completion NAV above, the items to be included in the Completion NAV will comprise mainly the Target Group's trade receivables, deposits paid, trade and other payables, contract liabilities and rental deposits received. As at 31 October 2024, the Target Group had no trade receivables, contract liabilities and rental deposits received, whilst deposits paid amounted to HK$15,000 and trade and other payables amounted to approximately HK$0.6 million.

Overall, having considered the above basis of determining the Consideration and the Completion NAV, and the agreement to refund the Stamp Duty Refund and the Prepaid Building Order Costs to the Vendor, the Purchaser essentially is acquiring the Target Property at the Appraised Gross Development Value of HK$3.12 billion, together with the asset and liabilities of the Target Group included in the computation of the Completion NAV, for the Consideration amount of HK$3,120,000,000, plus or minus any adjustment(s) for the amounts of the Estimated Completion NAV and the NAV Difference (if any).

After netting off the apportioned sales proceeds of approximately HK$190,050,000 (before transaction costs) which the Group received from Far Union for the sale of the Group Units under the Compulsory Sale, the Group will effectively be paying only HK$2,929,950,000 (subject to adjustment based on the Estimated Completion NAV and the NAV Difference (if any)) as consideration for the Acquisition. We understand from the Management that the Group had owned the Group Units since 1978, and they generated minimal income in recent years prior to the Compulsory Sale. In this regard, we noted that the Transaction, which is premised on among others the Compulsory Sale first having taken place, enabled the rejuvenation of these underperforming investment properties of the Group, and also provided added value to the Group's properties (including the Old Wing and Mira Place) in the vicinity of the Target Property through its redevelopment.

We are of the view that the method of arriving at the Consideration, which shall take into account (i) the Appraised Gross Development Value of the New Hotel and (ii) amount of net asset value of the Target Group as at the Completion Date, is fair and reasonable. Further, considering that the Appraised Gross Development Value of the Target Property, being the basis for determining the Consideration, is being assessed by the Independent Property Valuer, we are of the view that the Consideration is fair and reasonable. For discussions on the valuation of the Target Property, please refer to the paragraph headed "4.3 Valuation of the Target Property" below.

4.2 Payment terms

The Consideration will be funded through internal resources of the Group. Pursuant to the S&P Agreement, the Purchaser will pay the Consideration to the Vendor in cash in the following manner:

(i) the deposit of HK$312,000,000 (the "**Deposit**"), representing 10% of the Initial Consideration, had been paid to the Vendor upon signing of the S&P Agreement as the deposit;

(ii) HK$727,896,000, representing 23.33% of the Initial Consideration, as adjusted by either adding the Estimated Completion NAV (if it is a positive figure) or deducting the absolute value of the Estimated Completion NAV (if it is a negative figure) calculated with reference to the Pro Forma Completion Accounts as prepared by the Vendor, will be payable to the Vendor on Completion;

(iii) subject to Completion having taken place, HK$1,039,896,000, representing 33.33% of the Initial Consideration, will be payable to the Vendor within seven (7) business days after the day on which the Building Authority issues its consent to the commencement of building works of the New Hotel;

(iv) HK$1,015,208,000, being the sum representing 33.34% of the Initial Consideration less the Retention Money (referred in (v) below), will be payable to the Vendor at Handover; and

(v) Retention money of HK$25,000,000 ("**Retention Money**") (being the balance of the Consideration) will be payable to the Vendor within 5 business days after the Purchaser receives the Defects Rectification Certificate.

In addition, the NAV Difference (as discussed in the paragraph headed "4.1 Basis of determining the Consideration" above) will be payable by the Vendor or the Purchaser, as the case may be, to the other in cash within five (5) business days after the delivery of the Audited Completion Accounts.

Furthermore, if Handover does not take place on or before the Latest Handover Date (which is currently expected to fall on the last quarter of 2029 according to the Letter from the Board) other than solely due to the default of the Purchaser, the Vendor shall pay to the Purchaser upon Handover interest accrued on all part(s) of the Consideration already paid by the Purchaser to the Vendor under the S&P Agreement, calculated at the rate of 0.5% per annum below the prime rate as quoted by The Hongkong and Shanghai Banking Corporation Limited in Hong Kong Dollars from time to time ("**Prime Rate**"), for the period from the Latest Handover Date until the day on which Handover actually takes place (both days inclusive).

Firstly, we noted that only approximately 33.33% of the payment of the Consideration will be made upon Completion, and the remaining portions will be paid to the Vendor by instalments according to the progress of the Redevelopment work. In particular, an aggregate of 33.34% of the Initial Consideration will only be payable upon or after the Handover (i.e. when the Group receives the New Hotel in a fit for use and fully operational state, after which any defects, shrinkages and other faults to the Redevelopment work and the New Hotel shall be made good to the Authorised Person's satisfaction as soon as reasonably practicable after such defects, shrinkages and other faults are notified to the Vendor during the 12-month Defects Liability Period). Notwithstanding the Group's cash and bank balance of approximately HK$5.8 billion as at 30 June 2024 which was sufficient to cover the entire amount of the Consideration, such payment schedule in stages enables more efficient capital deployment for the Group and allows the Group to monitor the progress of the Redevelopment alongside its capital management activities, maximising its investment returns and income generation. Secondly, if there is any delay in the Handover, the Vendor would need to pay to the Purchaser an interest accrued on all part(s) of the Consideration already paid by the Purchaser at the aforesaid rate of 0.5% per annum below the Prime Rate. According to the Management, such interest rate to be charged if such event occurs in future is expected to be generally comparable to the effective bank deposit rate which the Group can command.

Based on the above, we are of the view that the payment terms for the Consideration are fair and reasonable and on normal commercial terms. We are also of the view that the adjustment mechanism of the Consideration, which shall take into account the Estimated Completion NAV and the NAV Difference of the Target Company, is fair and reasonable.

4.3 Valuation of the Target Property

As discussed above, the Initial Consideration was determined after arm's length negotiations between the parties to the S&P Agreement with reference to the Appraised Gross Development Value, being the aggregate capital value of the Target Property assuming completion of construction of the New Hotel at current price as at the valuation date.

When assessing the fairness and reasonableness of the basis for determining the Appraised Gross Development Value of the Target Property, we have in particular considered the valuation report prepared by the Independent Property Valuer ("**Valuation Report**"), the details of which are set out in Appendix V to the Circular. In this respect, we note that

Colliers International (Hong Kong) Limited has been appointed as the Independent Property Valuer to conduct a valuation on the Target Property for the purpose of the Transaction. According to the Valuation Report, the Appraised Gross Development Value of the Target Property amounted to HK$3,120,000,000 as at 10 January 2025. We note that the Appraised Gross Development Value is equivalent to the Agreed Acquisition Value of the Target Property adopted in deriving the Initial Consideration.

To assess the fairness and reasonableness of the valuation, we have reviewed the Valuation Report and discussed with the Independent Property Valuer in relation to (i) the methodology and assumptions used in performing the valuation on the Target Property as well as whether such methodology and assumptions are appropriate and acceptable; (ii) their scope of work for conducting the valuation on the Target Property; and (iii) their relevant professional qualifications as a property valuer.

4.3.1 *Valuation methodology*

In arriving at the Appraised Gross Development Value, we note that the Independent Property Valuer has valued the Target Property, which are intended to be used for the Group's hotel and serviced apartment business, using primarily the income approach. We have discussed with the Independent Property Valuer on (i) the rationale for adopting the income approach as the primary valuation methods for the Target Property; and (ii) the basis and assumptions adopted in arriving at the Appraised Gross Development Value using the income approach. We understand and concur with the Independent Property Valuer that this method is appropriate for valuation of the Target Property having considered that (i) the Target Property, once redeveloped into the New Hotel, is expected to have stable and consistent pricing terms; and (ii) the gross revenue generated by the retail, back of house/function room, hotel and car parking portions of the Target Property can be assessed by referencing to the rental level of the respective market comparables. Such assessed gross revenue is then capitalised to determine the market value of each of the Target Properties at an appropriate capitalisation rate.

Further, we understand that the Independent Property Valuer has cross-checked the valuation derived from the income approach with the result using market approach, where recent en bloc sales of commercial premises in Hong Kong were chosen as transaction comparables. Overall, the Independent Property Valuer mainly adopted the income approach to estimate the Appraised Gross Development Value. Based on our experience acting as independent financial adviser for property transactions of other Hong Kong-listed companies in the past, such cross-checking mechanism was commonly adopted. We were also advised by the Management that such valuation methodologies adopted are the same as those currently used for the valuation of the investment properties of the Group.

4.3.2 *Valuation basis and assumptions*

The Independent Property Valuer's valuation is carried out on a market value basis, which is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion" in accordance with the HKIS Valuation Standards 2024. We note that in the case of the Transaction, the S&P Agreement and the transactions contemplated thereunder have been entered into by the parties thereto on normal commercial terms following arm's length negotiations; and we are not aware of any unique circumstance relating to the Transaction such as distressed or compulsory sale. We are therefore of the view that the basis adopted by the Independent Property Valuer is fair and reasonable.

We also note that the Independent Property Valuer relied on the information provided by the Purchaser, and independently obtained relevant information available from public domain including the Land Registry, the Rating and Valuation Department and the Buildings Department. Further, the valuation has been made on the assumptions, amongst others that (i) no allowance has been made for any charges, mortgages or amounts owing on any of the Target Property valued nor for any expenses or taxation which may be incurred in effecting a sale; (ii) the Target Property is free from and clear of any and all charges, liens and encumbrances of an onerous nature likely to affect value; (iii) any land premium or other fees payable for the acquisition, transfer, sale, letting or mortgage of the Target Property have been fully paid and settled; (iv) proper title has been obtained, and the Target Property and the interest valued therein can be freely transferred, mortgaged and let in the market; and (v) the owner has free and uninterrupted rights to use the Target Property for the whole of the unexpired term of the government lease and/or land grant, in accordance with the terms of the lease/or the land grant.

For the income approach, the Independent Property Valuer has taken into account the assessed gross revenue of the Target Property (which will be redeveloped into the New Hotel) derived from similar hotel operations, as well as retail and food and beverage rental of selected market comparables situated within Tsim Sha Tsui area, which is then capitalised to determine the market value of the Target Property at an appropriate capitalisation rate. We understand from the Independent Property Valuer that they have considered the potential difference in operating income levels given the unique location, age, size, building quality, floor level, and excluded the relevant government rates, rent and/or the management fee of each comparable premises to estimate the assessed gross revenue and to determine the Target Property's market value. We have discussed with the Independent Property Valuer, who confirmed that it is normal market practice to value hotel properties using this approach. We note that the Independent Property Valuer has made reference to the rental information of retail premises, car parks, as well as guestroom and function room rates of major five-star hotels in Tsim Sha

Tsui area to assess the potential rental income derived from the Target Property. We have compared the relevant information with the prevailing market rental rates of retail premises and car park, as well as room rates of five-star hotels in Tsim Sha Tsui area obtained from public sources and noted that they are comparable.

We understand from the Independent Property Valuer that a capitalisation rate of approximately 4.90% has been adopted. Such capitalisation rate was determined having taken into account (i) its research and analysis of the commercial property market in Hong Kong in the second half of 2024, where the observed market yields ranged from 2.8% to 4.1% based on the values of four recent transactions of en bloc commercial properties in main business districts and with reference to the respective prevailing market rental rates of these properties; and (ii) the location and characteristics of the Target Property. The Independent Property Valuer explained that a capitalisation rate of 4.90%, which is higher than the above market yield range, is reasonable for reflecting investors' general expectation of higher rates of return from hotel properties such as the New Hotel, compared with properties of other commercial uses. We understand that this in part reflects the cyclical nature of hotel operations with high and low seasons during different part of the year.

We have reviewed and discussed with the Independent Property Valuer the aforesaid basis and assumptions adopted in the income approach together with the lists of market information referred to when making the relevant assumptions in relation to the potential rental income of the Target Property and capitalisation rates. In addition, we have also examined the historical performance of the Group's commercial premises adjacent to the Target Property, such as occupancy rates and average room rate and shop rent. We note that the assumptions made in the income approach have reflected the expected revenue generating ability of the New Hotel.

We noted that the Independent Property Valuer has then cross-checked the valuation derived using income approach with market approach. In this case for the market approach, it rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties. In this regard, we have discussed with the Independent Property Valuer and understand that there was no recent transaction of hotel premises of similar characteristics and location, and considering that the New Hotel will comprise multiple commercial uses including hotel operations, ground floor and upper floor retail shops and food and beverage operations, the Independent Property Valuer has identified and analysed, in general, the prevailing market transaction information of five en bloc commercial properties across various locations in main business districts in Hong Kong ("**Transaction Comparables**").

We have conducted independent research to verify the above findings of the Independent Property Valuer. We note that while there had been recent transactions of hotels in Hong Kong, these properties were either not located in vicinity of prime location or were of substantially smaller size and scale than, or were of different grade from, the New Hotel, rendering them not suitable as Transaction Comparables. Our independent work involved searching for completed commercial real estate transactions from information publicly available, including transaction records collected and displayed on real estate agents' websites, and property news in public domain. In light of the location and GFA of the Target Property, our selection criteria focused on recent transactions which (i) were completed from 1 July 2024 up to the Latest Practicable Date; (ii) involved en bloc hotel building or commercial complex building located in major business districts (i.e. Yau Tsim Mong District, Central and Western District, and Wan Chai District); and (iii) were of similar scale with transaction GFA greater than 50,000 square feet. Based on such selection criteria, our findings are the same. Based on the above, we are of the view that using the above references in the absence of direct comparable transactions for the market approach is acceptable, and we consider that the Transaction Comparables are collected exhaustively by the Independent Property Valuer, to the best of our knowledge.

For its cross-referencing using market approach, we note that the Independent Property Valuer mainly cross-checked the implied unit rate of the Target Property of approximately HK$22,628 per square feet (which is computed by dividing the assessed gross development value of HK$3.12 billion using income approach by the New Hotel's planned GFA of 137,885 square feet) with the unit rates of the selling prices in the Transaction Comparables. As stated in the Valuation Report, the unit rates of the selling prices in the Transaction Comparables ranged from HK$10,913 to HK$17,866 per square feet (on GFA basis). It is worth noting that the lowest gross unit rate of HK$10,913 per square feet among the Transaction Comparables was related to a distressed sale under receivership. We note that the New Hotel is in general superior to the Transaction Comparables in terms of location and quality, as the New Hotel is located near the bustling area of Nathan Road in Tsim Sha Tsui, and will be handed over to the Group as a brand — new hotel constructed on Mira Moon Standard or better, meaning that the building materials, fittings, finishing and appliances included in the New Hotel will be of a 5-star hotel standard. These specifications would increase the overall commercial value of the New Hotel as compared to the Transaction Comparables, where the relevant premises were existing buildings transacted on an "as-is" condition. On this basis, we concur with the Independent Property Valuer the justification of the higher unit rate for the New Hotel.

Having considered the foregoing, we are of the view that the methodology and basis and assumptions made in the income approach and cross-checking the valuation using market approach as adopted by the Independent Property Valuer to assess the Appraised Gross Development Value, are fair and reasonable.

4.3.3 *Independent Property Valuer's competence and scope of work*

We have conducted an independent interview with the Independent Property Valuer. We have enquired and the Independent Property Valuer has confirmed its independence from the Purchaser, the Vendor, the Group, the HLD Group, as well as other parties to the Transaction. In addition to our discussion with the Independent Property Valuer on its firm's experience and expertise, we have obtained relevant qualifications and credentials of the team members involved in this valuation of the Target Property.

We note that the Independent Property Valuer is an international professional services company specialising in commercial real estate services, engineering consultancy and investment management, and provides integrated service where all aspects of a property valuation assignment can be carried out in-house. According to the Independent Property Valuer, it has been appointed as valuer by a wide range of Hong Kong listed companies in the past. The person responsible for signing off the Independent Property Valuer's Property Valuation Report, Ms. Dorothy Chow, is a qualified general practice surveyor with over 26 years of experiences in valuation, land matters and property development in Hong Kong and the PRC. Inspection of the Target Property for preparation of the Valuation Report was conducted by employees of the Independent Property Valuer who have the necessary qualification and experience.

We have also obtained and reviewed the Independent Property Valuer's terms of engagement and discussed with the Independent Property Valuer its work performed in connection with this valuation. We are satisfied that the Independent Property Valuer is qualified to give the opinion as set out in the Valuation Report having taken into account its relevant experience, expertise, its independence, and its scope of work.

Having considered that (i) the Independent Property Valuer has the relevant qualification, competence and experience to prepare the Valuation Report; (ii) the Independent Property Valuer's scope of work is appropriate for performing the valuation on the Target Property; and (iii) the valuation methodologies, basis and assumptions for valuing the Target Property are fair and reasonable, we are of the view that the Appraised Gross Development Value of the Target Property has been fairly and reasonably determined.

4.4 Payment relating to, utilised profits tax credit, Stamp Duty Refund and Prepaid Building Order Costs Refund.

Pursuant to the S&P Agreement, The Purchaser has provided undertaking in favour of the Vendor that:

(i) It shall pay to the Vendor an amount equivalent to the profits tax credit which arises from the accumulated tax loss of each of Far Union and Ever East as at the Completion Date to the extent that it is utilised by Far Union or Ever East in offsetting its assessable profits for profits tax payable after Completion, within fourteen (14) business days after the relevant notice of assessment is received by Far Union or Ever East (as the case may be) from the Inland Revenue Department;

(ii) subject to Completion taking place, it shall pay to the Vendor an amount equivalent to the Stamp Duty Refund within sixty (60) days after the Purchaser or any member of the Target Group actually receives such Stamp Duty Refund from the Inland Revenue Department; and

(iii) shall pay to the Vendor an amount equivalent to the refund of the Prepaid Building Order Costs (or the balance thereof) received from the Trustee's solicitors within thirty (30) days after the actual receipt of the same by the Purchaser or any member of the Target Group.

As disclosed in the Letter from the Board, as at 31 October 2024, (i) the Target Group had an accumulated tax loss in the aggregate amount of HK$177,954,508, which represents a profits tax credit of HK$29,362,494 using the current profits tax rate of 16.5%; (ii) the Target Group had prepaid the Prepaid Stamp Duty in the aggregate amount of approximately HK$133,062,546, which formed part of its consolidated current assets; and (iii) Far Union had paid the Prepaid Building Order Costs to the Trustee's solicitors as stakeholders in the aggregate amount of HK$932,000, which formed part of the Target Group's consolidated current assets. We understand from the Management that the Completion NAV will disregard any Prepaid Stamp Duty and Prepaid Building Order Costs, whilst the profits tax credit is not recognised in the Group's consolidated statement of financial position and can only be utilised to offset its assessable profits for profits tax payable after Completion, and hence is also not reflected in the Completion NAV. Therefore, the profits tax credit to be utilised, the Prepaid Stamp Duty and the Prepaid Building Order Costs have not been taken into account in the calculation of the Consideration. Having considered that the aforementioned Prepaid Stamp Duty amount was paid by the Target Group when acquiring the property interest in the Target Property before it became eligible to apply for order for the Compulsory Sale, and the Prepaid Building Order Costs were paid at completion of the Compulsory Sale and prior to commencement of the Redevelopment work, we concur with the Management that the exclusion of these amounts from the Completion NAV for the calculation of the Consideration payable by the Purchaser and the refund of these amounts to the Vendor, if the Purchaser actually offsets the tax credit or receives such amounts from the relevant authority, are commercially reasonable.

4.5 The construction of the New Hotel and the Handover

Pursuant to the S&P Agreement, the Target Property will not be handed over to the Purchaser at Completion. The Vendor shall procure the demolition of the existing building erected on the Target Property, and the redevelopment of the Target Property into the New Hotel based on the approved general building plans, incorporating the Key Features and on Mira Moon Standard or better, and in accordance with all applicable laws and regulations. The Vendor shall procure the completion of the Redevelopment with all due expedition, and on or before the Latest Handover Date. Apart from the Purchaser's payment obligation for the Consideration, the Group (including the Target Group upon Completion) shall not be required to make any other payment to the Vendor or any other company within the HLD Group in relation to the Redevelopment or to any building contractors in relation to the redevelopment contracts. For details, please refer to the paragraph headed "The S&P Agreement — Construction of the New Hotel" in the Letter from the Board.

The New Hotel will be adjoining to the Old Wing. Based on the relevant general building plans which have been approved by the Building Authority, the New Hotel will be a 23-storey hotel cum commercial complex erected above two basement storeys with a total GFA of approximately 137,885 square feet and a total Construction Floor Area of approximately 196,161 square feet, comprising 99 hotel guestrooms, shops, restaurants, banquet halls, and approximately 21 private car parking spaces and 2 motor parking spaces. For details, please refer to the paragraph headed "S&P Agreement — Key Features of the New Hotel" in the Letter from the Board.

Vacant possession of the New Hotel will be delivered by the Vendor to the Purchaser on or before the Latest Handover Date, or such other date as the Vendor and the Purchaser may agree in writing. The Vendor will procure all permits, licences and certificates (the "**Applicable Hotel Licences**") which are required to be issued by competent authorities under the applicable laws and regulations for the operation of all reasonable and proper functions of the New Hotel as a fully operational hotel in Hong Kong (including but not limited to the hotel licence but excluding any liquor licence, for which the Group intends to apply on its own) will be issued in the name of Far Union (or any other person designated by the Purchaser) before the Handover and no later than the Latest Handover Date. Therefore, the New Hotel will be fit for use as a hotel upon Handover.

We are of the view that under the above arrangement, the Purchaser is in effect acquiring the New Hotel upon its full development and will not assume any development risks nor bear any development costs. From our discussion with the Management, it is recognised that the Group does not have the experience nor expertise to take on the Redevelopment on its own. Through the Transaction, the Group can mitigate any project risks associated with the Redevelopment and obtain a new ready-to-operate hotel premises upon Handover at a fixed acquisition cost. Considering the principal businesses and the respective expertise and specialisations of the Group and the HLD Group, we concur with the Management that the aforesaid arrangements in respect of the Redevelopment are in the interests of the Company and its Shareholders as a whole.

Considering all the factors and analysis above, we are of the view that the principal terms of the S&P Agreement and the arrangements thereunder are on normal commercial terms and are fair and reasonable.

5. The Board's rationale for the Transaction

As stated in the paragraph headed "Reasons for and Benefits of the Transaction" in the Letter from the Board, the acquisition of the New Hotel will form an important part of the Group's strategic development plan which will benefit the Group's hotel operation as well as its property rental operation. The Company believes that the New Hotel will attract high-end patrons and achieve a higher average room rate. The acquisition will improve the commercial value of Mira Place through relocating approximately 60,000 square feet in the Old Wing to the New Hotel, enabling the retail cluster to reach its critical mass and strengthening the 5-star hotel status of the Old Wing. It is expected that the operational efficiency of the Group's hotel operation will be enhanced, and the New Hotel will bring synergistic benefits to the surrounding businesses of the Group.

As discussed in the paragraph headed "1.2 Financial information of the Group" in this letter, we observed that the Group's growths of hotels and serviced apartments operation have been constrained by limited available rooms and apartment units. In particular, the occupancy rate of the Old Wing already reached 90% and 91.6% in FY2023 and 1H2024 respectively, with average room rate having increased by 61% and 8.3% respectively in the corresponding year/period. In light of the expected recovery of Hong Kong tourism industry as elaborated in the paragraph headed "1.4 Outlook and Prospects" in this letter, the acquisition of the New Hotel will increase the Group's overall capacity to meet the potential growth in hotel demand, contributing to potential revenue increase. The overall increase in number of rooms after completion of the New Hotel would also give the Group greater flexibility in managing demands during different seasons and more efficient allocation of rooms to guests of different needs.

To further consider the synergistic effect which the Target Property with the Group's current operations, we have had discussions with the Management to understand the current issues faced by the Group in respect of its portfolio of properties in the vicinity of the Target Property, being the Old Wing, Mira Place Tower A, Mira Place 1 and Mira Place 2. These issues are summarised below:

	Issues	*Synergy with, and solution provided by, the New Hotel*
1	Floor-to-floor height of the guestrooms at the Old Wing are comparatively low due to building height restrictions imposed at the time it was built in the 1970's, before Hong Kong's airport operation moved from Kai Tak Airport to Chek Lap Kok Airport. This height restriction also affected room size in the attempt to build more guestrooms within limitations of building height. Consequently, the average standard guestroom size of 270 square feet at the Old Wing is less than optimal for its positioning as a five-star hotel. Such restrictions were removed in 1998 and hotels within the vicinity of the Old Wing which are built thereafter typically have guestrooms of higher floor-to-floor height. Consequently, the competitiveness of the Old Wing is progressively compromised in the face of these newer hotels.	Based on the general building plans which have been approved by the Building Authority, the New Hotel will comprise a 23-storey hotel cum commercial complex with will have 99 guestrooms, shops, restaurants, banquet halls and car parking spaces. The New Hotel is expected to offer a total of eight suites (including four presidential suites) and 91 guestrooms. Compared to those currently at the Old Wing, standard guestrooms with 30% larger average size of approximately 350 square feet and with 25% higher floor-to-floor height are being planned in the New Hotel. Higher floor guestrooms will have sea views and/or scenic view of the neighbouring Kowloon Park. The New Hotel with its enhanced features is expected to attract high-end patrons, and can elevate the general positioning of both hotels as a whole. Along with refurbishments elaborated below, room rates at the Old Wing can also potentially increase.

	Issues	*Synergy with, and solution provided by, the New Hotel*
2	Affected by the COVID-19 pandemic and uncertainties surrounding the redevelopment of the Target Property (which the Group had minor stakes prior to the Compulsory Sale), the Old Wing has not undergone major refurbishment for over 15 years. Its consistent high occupancy also means the Old Wing has been experiencing wear and tears which, if renovation is not undertaken, will affect room and occupancy rates. Such wear and tears also necessitated more regular maintenance work which incurs costs and at the same time result in higher vacancy of guestrooms left idle pending repairs.	The New Hotel provides more flexibility on guestroom allocation between the New Hotel and the Old Wing to manage demand. This allows upgrading and refurbishment work to be progressively carried out at the Old Wing. The Old Wing had consistently achieved average occupancy rate of above 90% since borders re-open in Hong Kong. The upgraded guestrooms should allow it to capitalise on further demand and raise room rates as appropriate. The lesser need of maintenance work post upgrading will also contribute to improved occupancy.
3	The Old Wing currently has limited drop-off points and they are located along unsheltered street side. There is also no designated parking space. Valet parking service is also hampered by road traffic directions in its vicinity. These limitations affected the Old Wing's attractiveness as a venue for wedding banquets and corporate events. It is similarly less than optimal for the Old Wing's general positioning as a five-star hotel.	Based on the general building plans which have been approved by the Building Authority, the New Hotel will have covered drop-off points at street level, from which vehicles can also access the car parks on the two basement floors. There will also be drop-off and parking bays for light bus. Such improved convenience to guests will enhance the Old Wing and the New Hotel's attractiveness for holding larger scale wedding banquets and corporate events and potentially improve the traffic situation around the vicinity of the Old Wing, which should also benefit the Mira Place on the opposite side of the street.

	Issues	*Synergy with, and solution provided by, the New Hotel*
4	The commercial value of the ground floor (i.e. the street level) of the Old Wing has room for further optimisation as its hotel lobby and several of its food and beverage outlets are located on the ground floor which have high foot traffic given its location at the bustling Nathan Road area.	Upon completion of the New Hotel, the reception lobby will be on its second level and have a higher floor-to-floor height of approximately 9 metres as compared to that of the Old Wing. This new reception lobby can potentially be used to also serve guests of the Old Wing, vacating the current reception lobby area. After the Handover, the food and beverage outlets of the Old Wing operated by the Group, which are currently located on the ground floor, 3/F and 5/F can also be relocated to the New Hotel, allowing the vacated areas to be replanned in a manner to improve their commercial value. As stated in the section "Reasons for and benefits of the Transaction" in the Letter from the Board, GFA of approximately 60,000 square feet at the Old Wing can potentially be made available for leasing, increasing the aggregate retail space of Mira Place 1 and Mira Place 2 to approximately 530,000 square feet, reaching the critical mass of a competitive retail cluster. This allows for a comprehensive reconfiguration and repositioning to create a more vibrant shopping environment and attract anchor and higher quality retail tenants to generate higher rental income.

According to the paragraph headed "Reasons for and Benefits of the Transaction" in the Letter from the Board, for comparison purpose only, if all the guestrooms of the New Hotel were of standard guestroom size and if the GFA of the New Hotel currently designated for retail, food and beverage and event function use was also made use to offer additional guestrooms, the total number of standard guestrooms that the New Hotel could provide would rise to 222, representing an increase of around 1.2 times from the 99 standard guestrooms and suites currently expected to be provided. However, the Management considers that the current planning of the New Hotel is more preferrable than making use of entire GFA of the New Hotel to offer additional guestrooms as it provides solutions to issues currently faced by the Group as well as synergistic effects which benefit its hotel and serviced apartments operation and property rental operation as discussed above.

As the New Hotel will be adjoining to the Old Wing, the New Hotel will be managed under the same management team and operational efficiency can be enhanced. The Management expects that improvement in gross profit margin will be achievable upon commencement of operations of the New Hotel given economies of scale. For example, no additional staffing is required for back office and administration team and hotel management team, and relatively marginal increase in headcounts to front office team and hotel security team would be able to render similar levels of services. There will also be cost savings in terms of discounts for bulk purchase of hotel amenities and larger contract sums with suppliers.

In addition, further benefits may potentially accrue to the Group in future if there is relaxation of restrictions on plot ratio and building height in the district where the New Hotel is situated. Details of this potential change can be found in the section "Reasons for and benefits of the Transaction" in the Letter from the Board. It is stated that if there is indeed such relaxation, the Company may, at its absolute discretion, request the Vendor to make use of any such additional plot ratio before the issue of the occupation permit of the New Hotel. In such case, pursuant to the Deed of Undertaking, the Vendor has undertaken to comply with such request and the Purchaser shall pay the construction costs, consultancy fees and related costs and expenses to be incurred as a result of the increase in GFA. Based on our discussion with Management, in the event of such a change, there will be negotiations with the Vendor on the additional costs required and implication on timing of the Handover. In determining whether to make use of any such additional plot ratio, the Board will take into consideration, among other things, the amount of costs and expenses to be incurred, the benefits which will be brought to the Group and the relevant compliance requirements.

We concur with the Management's view that the Transaction can potentially enhance the Group's revenue as well as provide a viable opportunity for the Group (i) to acquire a property to expand its hotel and retail presence in Tsim Sha Tsui area and enhance its 5-star hotel status; (ii) to replan the use of space in the Old Wing; and (iii) to reposition the Group's portfolio of hotel premises in Tsim Sha Tsui area (including the Old Wing and the New Hotel), Mira Place 1, and Mira Place 2 with a view to attracting high-end patrons and achieving critical mass of a competitive retail cluster. As the Vendor will be fully responsible for the Redevelopment and delivery of the New Hotel to the Group in a fully operational state, the Group does not need to take on any redevelopment risks. Any potential upside due to regulatory relaxations will also accrue to the Group and implemented at the Group's sole discretion.

In summary, we concur with the Management that the New Hotel will form an important part of the Group's strategic development plan as it will bring synergistic benefits to the surrounding businesses of the Group (including the Old Wing and the Mira Place) and expand its hotel and retail presence in Tsim Sha Tsui area. Meanwhile, we noted that the Consideration was determined primarily based on the Appraised Gross Development Value, without factoring in the synergistic benefits that can be brought about by the New Hotel as discussed above. Overall, we concur that the arrangement contemplated under the S&P Agreement and the Transaction are in the interest of the Company and the Shareholders as a whole.

6. Possible financial effects of the Transaction

As stated in the Letter from the Board, upon Completion, the companies within the Target Group (including Far Union which is the sole owner of the Target Property) will become indirect wholly-owned subsidiaries of the Company and the financial results of the Target Group will be consolidated into the Group's financial statements.

The unaudited pro forma financial information of the Enlarged Group assuming the Transaction had taken place on 30 June 2024 ("**Pro forma Financial Information**") is set out in Appendix III to the Circular. The followings set forth the possible financial effects of the Transaction on the Enlarged Group:

Effect on earnings

It is expected that the Group will recognise transaction expenses of HK$4.9 million on its profit and loss account in connection with the Transaction, which include fees to legal advisers, independent financial advisers, reporting accountants, valuer, printer and other related expenses. Also, as discussed in the paragraph headed "4.1 Basis of determining the Consideration" in this letter, the Purchaser essentially is acquiring the Target Property at the Appraised Gross Development Value of HK$3.12 billion, together with the asset and liabilities of the Target Group included in the computation of the Completion NAV, for the Consideration amount of HK$3,120,000,000 plus or minus any adjustment based on the Completion NAV. Save for the aforementioned transaction expenses borne by the Group, the Transaction is not expected to give rise to any gain or loss on the Enlarged Group's profit and loss account upon Completion.

Given that the Handover will not happen immediately upon Completion (but only before the Latest Handover Date), and that other than the Consideration, the Enlarged Group shall not be required to make any other payment to the Vendor or any other company within the HLD Group in relation to the Redevelopment or to any building contractors in relation to the redevelopment contracts, save for any impairment loss of the Target Property subsequent to Completion, the Group is not expected to derive other operating profit or loss from the Target Property during the period of Redevelopment and before the Handover.

Meanwhile, as the New Hotel would not be handed over immediately upon the Completion, the quantitative impact on the earnings of the Enlarged Group will depend on the business and financial performance of the New Hotel after the Handover. As the Acquisition would help the Group to expand its hotel and retail presence in Tsim Sha Tsui area as discussed in paragraph headed "5. The Board's rationale for the Transaction" in this letter, we concur with the Management that the Group's source of revenue base will be broadened, but the quantitative impact on the earnings of the Enlarged Group will depend on the business and financial performance of the New Hotel and materialisation of synergies with the existing operations of the Group after the Handover.

Effects on the assets and liabilities

As the Consideration for the Sale Interest is the Initial Consideration in the amount of HK$3,120,000,000, which is equal to the Agreed Acquisition Value, plus or minus any adjustment(s) based on the Completion NAV, and the Agreed Acquisition Value is determined based on the Appraised Gross Development Value of the Target Property (without any premium on such appraised fair value), it is expected the Transaction will not give rise to any recognition of goodwill in the Enlarged Group's consolidated statement of assets and liabilities.

Upon Completion, the Target Property will be redeveloped into the New Hotel. Accordingly, the Target Property is expected to be reclassified from "investment properties" to "other property, plant and equipment" of the Group as non-current assets upon Completion. The carrying value of the Target Property will be marked to its prevailing market value at the time of Completion as its original cost, and will be stated at cost less depreciation and/or impairment loss going forward. Meanwhile, a substantial portion of the Target Group's liabilities, being the Sale Loan, shall be assigned to the Purchaser and eliminated in the Enlarged Group's consolidated financial statements upon Completion.

Based on the Pro Forma Financial Information, the net assets of the Enlarged Group is expected to decrease by HK$4.9 million, which is attributable to the aforementioned transaction expenses payable in connection with the Transaction.

After the Completion, additions in the item "other property, plant and equipment" in respect of the New Hotel shall be commensurate with the progress of the Redevelopment, whilst the cash balance of the Enlarged Group is expected to decrease in line with the settlement of the remaining Consideration payable to the Vendor pursuant to the payment terms set out in the S&P Agreement. Based on the foregoing, we understand from the Management that the Transaction is also not expected to bring any material effect to the Enlarged Group's net asset value position post-Completion.

Effects on the gearing and working capital position

Based on the Pro-Forma Financial Information, the Group's consolidated cash position will decrease by the portion of the Consideration to be paid by the Purchaser upon Completion, which is expected to be approximately HK$1,039.3 million (subject to adjustment(s) based on the Completion NAV). Since the Target Group is expected to be a wholly-owned subsidiary of the Company, the Target's Group financial results will be consolidated into the financial statements of the Group. As advised by the Management, it is expected that the working capital and the corresponding current ratio of the Enlarged Group will decrease as a result of the reduction in the cash balance upon settlement of the remaining portions of the Consideration according to the payment terms. The debt ratio of the Enlarged Group is expected to remain at nil, whilst the gearing ratio is expected to remain low upon Completion as the Enlarged Group is not expected to require external borrowings to fund for the Transaction.

Overall, we note that the Transaction will not have adverse impact on the Enlarged Group's earnings and net asset position. While there will be a reduction in the Enlarged Group's working capital as the Transaction will entirely be funded by its cash resources, we note that the Enlarged Group's cash and bank balances will remain ample after payment of the Consideration.

RECOMMENDATION

Having considered the aforementioned principal factors and reasons, in particular,

(i) growths of the Group's higher margin hotels and serviced apartments operation had been constrained by limited available rooms and apartment units. The Transaction will provide a viable opportunity for the Group to acquire a property to expand its hotel and retail presence in Tsim Sha Tsui area and to replan the use of space at the Old Wing;

(ii) the New Hotel will increase the supply of guestrooms with larger average room size, higher floor-to-floor heights and scenic view at the higher floors. It also provides more flexibility on guestroom allocation which allows upgrading and refurbishment work to be progressively carried out at the Old Wing. Overall room rates at both hotels can potentially be raised as a result of these efforts. As discussed in the paragraph headed "5. The Board's rationale for the Transaction" in this letter, it is expected that the acquisition of the New Hotel will have potential positive effects on the Group's revenue, will provide solutions to issues currently faced by the Group and will generate synergistic effects which benefit its hotel and serviced apartments operation and property rental operation. This in turn will help improve gross profit margins from price increases and cost efficiencies through economies of scale;

(iii) the method of arriving at the Consideration is fair and reasonable as it was determined primarily based on the Appraised Gross Development Value. The Consideration largely reflect the fair value of the New Hotel as a standalone premises, without factoring in the economic benefits brought about by the synergistic effects of the New Hotel on the Group's existing operations;

(iv) the Appraised Gross Development Value of the Target Property has been fairly and reasonably determined, having considered that (a) the Independent Property Valuer has the relevant qualification, competence and experience to prepare the Valuation Report; (b) the Independent Property Valuer's scope of work is appropriate for performing the valuation on the Target Property; and (c) the valuation methodologies, basis and assumptions for valuing the Target Property are fair and reasonable;

(v) the payment terms for the Consideration are fair and reasonable and such payment schedule in stages enables more efficient capital deployment for the Group and allows the Group to monitor the progress of the Redevelopment alongside its capital management activities, maximising its investment returns and income generation with a view to enhancing dividend payment to Shareholders in future;

(vi) as the Vendor will be fully responsible for the Redevelopment and delivery of the New Hotel to the Group in a fully operational state under the terms of the S&P Agreement, the Group does not need to take on any redevelopment risks; and

(vii) the Enlarged Group's cash and bank balances will remain ample after payment of the Consideration, and the Transaction will not have adverse financial effects on the Enlarged Group,

we are of the view that the terms of the S&P Agreement and the Transaction are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution to be proposed at the EGM to approve the S&P Agreement and the Transaction.

Yours faithfully,
For and on behalf of
Altus Capital Limited

Arnold Ip
Responsible Officer

Chang Sean Pey
Responsible Officer

*Mr. Arnold Ip ("**Mr. Ip**") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance ("**SFO**") and permitted to undertake work as a sponsor. He is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Mr. Ip has over 30 years of experience in banking, corporate finance advisory and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.*

*Mr. Chang Sean Pey ("**Mr. Chang**") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and permitted to undertake work as a sponsor. He is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Mr. Chang has over 25 years of experience in banking, corporate finance advisory and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.*