

HALCYON CAPITAL LIMITED

铠盛资本有限公司

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18 March 2025

To the Independent Board Committee and the Independent Shareholders

Dear Sirs/Madam,

**VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION
IN RELATION TO THE PROPOSED DISPOSAL OF
THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY AND
THE ASSIGNMENT OF THE SALE LOAN**

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in a circular of the Company (the “**Circular**”) to the Shareholders dated 18 March 2025, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 6 February 2025, the Company (as the vendor), the Purchaser (as the purchaser), the PN Holder and the Guarantor entered into the Sale and Purchase Agreement, pursuant to which, (i) the Company has conditionally agreed to dispose of, and the Purchaser has conditionally agreed to acquire, the Sale Shares; and (ii) the Company has conditionally agreed to assign, and the Purchaser has conditionally agreed to take up an assignment of the Sale Loan. The Consideration for the Sale Shares and the assignment of the Sale Loan shall be HK\$1 which shall be settled by the Purchaser in cash at Completion. The Sale Shares represent the entire issued share capital of the Target Company, and the Sale Loan represents the outstanding shareholder's loan advanced by the Company to the Target Company which is to be assigned to the Purchaser pursuant to the Sale and Purchase Agreement. As at the date of the Sale and Purchase Agreement, the aggregate amount of the Sale Loan amounted to approximately HK\$358.7 million. Subject to Completion, the Purchaser shall procure a waiver by the PN Holder of (i) the outstanding interest of approximately HK\$409.8 million accrued on the Outstanding PN as at 30 September 2024; and (ii) interest accrued on the Outstanding PN from 1 October 2024 to the Completion Date.

The Target Company is an investment holding company incorporated under the laws of the BVI with limited liability and is a direct wholly-owned subsidiary of the Company. New Bright, which is a wholly-owned subsidiary of the Target Company, is an investment holding company incorporated in Hong Kong with limited liability. Chongqing Kingstone, which is wholly-owned by New Bright, is a company established in the PRC which engaged in the Chongqing Property Business. The principal asset of Chongqing Kingstone is the Chongqing Property located in the prime area of Chongqing at 77 Qingnian Road, Yuzhong District, Chongqing City, the PRC. The redevelopment of the Chongqing Property had been completed which comprises residential apartments for sale, and services apartments and a shopping mall for lease. The financial performance of the Target Company is primarily attributed from the operating results of Chongqing Kingstone and the Chongqing Property.

Since each of the Purchaser and the PN Holder is wholly-owned by Mr. Hu, who is the Chairman of the Board, an executive Director and the controlling shareholder of the Company, and hence is a connected person of the Company. By virtue of the aforesaid relationship, the Proposed Disposal constitutes a connected transaction for the Company under Rule 14A.25 of the Listing Rules. Since the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Proposed Disposal exceeds 75%, the Proposed Disposal also constitutes a very substantial disposal of the Company.

The Independent Board Committee, comprising Ms. Pau Yee Ling and Mr. Wong Kwan Kit, being the independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether the terms and conditions of the Sale and Purchase Agreement are fair and reasonable and on normal commercial terms, and the entering into of the Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole and how the Independent Shareholders should vote at the SGM.

Our role, as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder, is to (i) provide the Independent Board Committee and the Independent Shareholders an independent opinion and recommendation as to whether the Sale and Purchase Agreement is entered into on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Group and the Shareholders as a whole, and whether the terms thereof are fair and reasonable so far as the Company and the Independent Shareholders are concerned; and (ii) advise the Independent Shareholders on how to vote at the SGM.

There was no engagement between the Group and Halcyon Capital in the last two years from the date of this letter. Given our independent role and the normal professional fee we received, we consider that we are independent from the Company pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the information, financial information and the facts supplied to us and representations expressed by the Directors and/or management of the Group and have assumed that all such information, financial information and facts and any representations made to us, or referred to in the Circular, in all material aspects, are true, accurate and complete as at the time they were made and continue to be so as at the date of the Circular, has been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Directors and/or the management of the Group. The management of the Group has confirmed that, after having made all reasonable enquiries and to the best of their knowledge and belief, all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

Our review and analysis were based upon, among others, the information provided by the Group including the Sale and Purchase Agreement, the annual report of the Company for the year ended 31 March 2024 (the “**2024 Annual Report**”), interim report of the Company for the six months ended 30 September 2024 (the “**2024 Interim Report**”), the valuation report on the Chongqing Property (the “**Valuation Report**”) as set out in Appendix V to the Circular, the financial information of the Disposal Group for the three years ended 31 March 2024 and six months ended 30 September 2024 as set out in Appendix II to the Circular, the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to the Circular, the Circular, and certain published information from the public domain.

We have also discussed with the Directors and/or the management of the Group with respect to the terms of and reasons for the entering into of the Sale and Purchase Agreement and considered that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted an independent verification or appraisal of the information nor have we conducted any form of in-depth investigation into the businesses, affairs, financial position, profitability or the prospects of the Group, the Purchaser, the Disposal Group or any of their respective subsidiaries or associates or the Chongqing Property. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy the shares or any other securities of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion for the Sale and Purchase Agreement and the transactions contemplated thereunder, we have considered the following principal factors and reasons:

1. Information on the Group

1.1 Principal business

The Company is an investment holding company, and its subsidiaries principally engaged in the property development, sales and leasing of properties, provision of property management services, provision of renovation and decoration services and hotel management.

As stated in the 2024 Annual Report, during the year ended 31 March 2024, the PRC real estate market was sluggish amid the high interest rate environment, worsening domestic economy and fluctuating capital market. Consumer's confidence remain weak during the period and they hesitated to enter the real estate market, which adversely affected the Group's business performance in the PRC. The Group's revenue growth for hotel and golf club operation in Japan remained stable as Japan was experiencing inbound tourists boom.

On the other hand, the loss attributable to equity holders of the Company in the year ended 31 March 2024 amounted to approximately HK\$551.8 million as compared to approximately HK\$482.9 million in the year ended 31 March 2023. The increase in loss attributable to equity holders of the Company was mainly due to additional impairment losses on its property in Chongqing, offsetting by the decrease in finance costs in the year ended 31 March 2024.

As further stated in the 2024 Interim Report, (i) the Board was expecting the year ahead will be challenging to its business in Chongqing City; (ii) the Group's property management business and renovation and decoration business will leverage on their solid foundation and actively seek new business opportunities; and (iii) due to relatively small scale of operations and geographical factor, the Board are expecting the growth of the hotel and golf club operation in Japan will remain solid. Considering the recent developments of the Group, the Board will focus on (i) proactively negotiating with the lender and creditor on restructuring of the default payments; (ii) enhancing the financial performance of the existing business; (iii) reducing operation-related expenses to improve profitability; and (iv) lowering the Group's gearing ratio by further optimizing the financial costs and capital structure. In addition, the Group will continue to identify potential cooperations and acquisition opportunities to further diversify and strengthen its investment portfolio to provide stable income flow and business growth to the Group.

1.2 Financial highlights

(i) Financial performance

Set out below is the summary of key financial information of the Group for the two years ended 31 March 2024 and the six months ended 30 September 2023 and 2024, as extracted from the 2024 Annual Report and 2024 Interim Report, respectively:

	For the six months ended 30 September		For the year ended 31 March	
	2024	2023	2024	2023
	<i>HK\$'mil</i>	<i>HK\$'mil</i>	<i>HK\$'mil</i>	<i>HK\$'mil</i>
	(unaudited)	(unaudited)	(audited)	(audited)
Revenues	70	69	127	137
Cost of sales	<u>(60)</u>	<u>(63)</u>	<u>(110)</u>	<u>(127)</u>
Gross profit	10	6	17	10
Decrease in fair value of investment properties	(59)	(38)	(245)	(194)
Finance costs	(69)	(79)	(137)	(168)
Loss before tax	(175)	(159)	(546)	(481)
Taxation	<u>(6)</u>	<u>(1)</u>	<u>(6)</u>	<u>(2)</u>
Loss for the year/period	<u><u>(181)</u></u>	<u><u>(160)</u></u>	<u><u>(552)</u></u>	<u><u>(483)</u></u>

For the six months ended 30 September 2024

For the six months ended 30 September 2024, the Group recorded revenue of approximately HK\$70.4 million, as compared to approximately HK\$68.6 million in the corresponding period in 2023, and loss for the period of approximately HK\$180.8 million, as compared to approximately HK\$159.7 million in the corresponding period in 2023. The improvement in gross profit was mainly attributable to improvement in different segments of business and the ongoing strict control on costs in all business segments.

During the six months ended 30 September 2023 and 2024, the Group recorded decreases in fair value of investment properties of approximately HK\$59.1 million and HK\$37.6 million, respectively, and all of which were mainly attributable to the Chongqing Property.

The Group also recorded finance costs of approximately HK\$68.7 million for the six months ended 30 September 2024 (as compared to approximately HK\$78.8 million for the six months ended 30 September 2023), mainly comprising approximately HK\$41.1 million interest on bank and other borrowings, approximately HK\$11.0 million interest on promissory notes and HK\$16.6 million interest on unsecured borrowings from a director. The decrease in finance costs was mainly attributable to the decrease in interest on promissory notes of approximately HK\$11.0 million as a result of the reduction in interest rate with effect from 1 December 2023.

The Group recorded a loss for the period of approximately HK\$180.8 million for the six months ended 30 September 2024 as compared to a loss for the period of approximately HK\$159.7 million for the six months ended 30 September 2023, the increase in loss was mainly attributable to the surge in decrease in fair value of investment properties.

For the year ended 31 March 2024

For the year ended 31 March 2024, the Group recorded revenue of approximately HK\$126.7 million, as compared to approximately HK\$137.1 million in the corresponding period in 2023, and loss for the year of approximately HK\$551.5 million, as compared to approximately HK\$483.3 million in the corresponding period in 2023. According to the 2024 Annual Report, the decrease in revenue was principally attributable to the Group's property management services and renovation and decoration services. The improvement in gross profit was mainly attributable to different segments of business and an effective cost control strategy imposed to the Group.

During the years ended 31 March 2023 and 2024, the Group recorded decreases in fair value of investment properties of approximately HK\$193.9 million and HK\$244.7 million, respectively, and all of which were mainly attributable to the Chongqing Property.

The Group also recorded finance costs of approximately HK\$137.2 million for the year ended 31 March 2024 (as compared to approximately HK\$167.9 million for the year ended 31 March 2023), comprising approximately HK\$74.3 million interest on bank and other borrowings, approximately HK\$36.8 million interest on promissory notes, HK\$25.8 million interest on unsecured borrowings from a director and approximately HK\$0.4 million interest on lease liabilities. The decrease in finance costs was mainly attributable to the decrease in interest on bank and other borrowings of approximately HK\$19.9 million and the decrease in interest on promissory notes of approximately HK\$7.2 million.

The Group recorded a loss for the year of approximately HK\$551.5 million for the year ended 31 March 2024 as compared to approximately HK\$483.3 million for the year ended 31 March 2023, the increase in loss was mainly attributable to the surge in decrease in fair value of investment properties.

(ii) *Segmental revenue and profit or loss*

Set out below is the analysis of segmental revenue and segment profit or loss for each of the two years ended 31 March 2024 and six months ended 30 September 2023 and 2024 as extracted from the 2024 Annual Report and the 2024 Interim Report, respectively:

	For the six months ended 30 September		For the year ended 31 March	
	2024	2023	2024	2023
	<i>HK\$'mil</i>	<i>HK\$'mil</i>	<i>HK\$'mil</i>	<i>HK\$'mil</i>
	(unaudited)	(unaudited)	(audited)	(audited)
<i>Revenue</i>				
Renovation and decoration	32	25	39	50
Chongqing property	21	25	47	41
Property management services	11	11	31	37
Hotel operation in Japan	6	7	10	9
Total	<u>70</u>	<u>68</u>	<u>127</u>	<u>137</u>
<i>Segment profit/(loss)</i>				
Renovation and decoration	2	7	3	(2)
Chongqing property	(157)	(131)	(488)	(402)
Property management services	1	(2)	3	9
Hotel operation in Japan	(1)	(2)	(7)	(10)
Total	<u>(155)</u>	<u>(128)</u>	<u>(489)</u>	<u>(405)</u>

As shown in the table above, renovation and decoration business, and the Chongqing property were the two largest revenue-contributing business segments for each of the two years ended 31 March 2024 and the six months ended 30 September 2023 and 2024, while the segment loss recorded by the Group during each of the two years ended 31 March 2024 and the six months ended 30 September 2023 and 2024 were significantly attributable to the Chongqing property. The segment loss recorded by the Chongqing property represented no less than 99% of the aggregate segment loss of the Group during each of the two years ended 31 March 2024 and the six months ended 30 September 2023 and 2024.

Based on the table above, if the impacts of the Chongqing property on segment results were excluded for each of the two years ended 31 March 2024 and six months ended 30 September 2024, the Group would have recorded marginal segment profit or loss for each of the two years ended 31 March 2024 and six months ended 30 September 2024.

On the other hand, according to the announcement of the Company dated 13 November 2024 (the “**November Announcement**”), a subsidiary of the Company had entered into an equity transfer agreement to acquire the entire equity interest of Chengdu Doof. According to the November Announcement, Chengdu Doof is principally engaged in commercial property management and development of artificial intelligence software, and recorded revenue of approximately RMB28.6 million and RMB27.1 million for the year ended 31 December 2022 and 2023, respectively, and net profit after tax of approximately RMB2.8 million and RMB2.1 million for the year ended 31 December 2022 and 2023, respectively. The completion of the acquisition of Chengdu Doof took place on 26 November 2024 according to the 2024 Interim Report.

(iii) Financial position

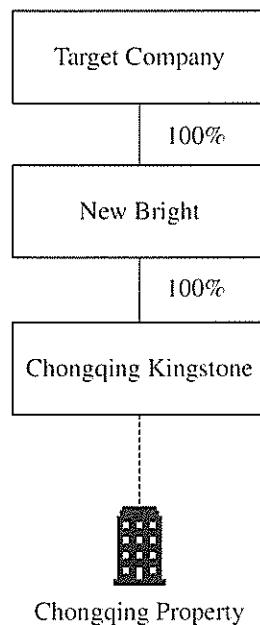
As stated in the 2024 Interim Report, the Group recorded net liabilities of approximately HK\$1,108.0 million, and net current liabilities of approximately HK\$1,396.0 million as at 30 September 2024. Major balance sheet items of the Group as at 30 September 2024 included investment properties of approximately HK\$1,255.6 million, property, plant and equipment of approximately HK\$435.8 million, properties held for sale of approximately HK\$302.9 million, bank and other borrowings (which included current and non-current portion) of approximately HK\$1,546.2 million, promissory notes of approximately HK\$914.9 million and unsecured borrowings from a director of approximately HK\$539.3 million. The carrying value of the promissory notes represented the amortised cost calculated based on effective interest rates at 8%, principal amount of HK\$550.0 million and the outstanding interest of the Outstanding PN (which amounted to approximately HK\$409.8 million based on the Letter from the Board). The carrying values of investment properties, property, plant and equipment and properties held for sale were principally attributable to the Chongqing Property.

2. Information on the Disposal Group

2.1 Principal business

The Target Company is an investment holding company incorporated under the laws of the BVI with limited liability and is a direct wholly-owned subsidiary of the Company. New Bright, which is a wholly-owned subsidiary of the Target Company, is an investment holding company incorporated in Hong Kong with limited liability. Chongqing Kingstone, which is wholly-owned by New Bright, is a company established in the PRC which engaged in the Chongqing Property Business. The principal asset of Chongqing Kingstone is the Chongqing Property located in the prime area of Chongqing at 77 Qingnian Road, Yuzhong District, Chongqing, the PRC. The redevelopment of the Chongqing Property had been completed which comprises residential apartments for sale, and services apartments and a shopping mall for lease. The financial performance of the Target Company is primarily attributed from the operating results of Chongqing Kingstone and the Chongqing Property. Due to the downward trend of the PRC property market as affected by, among others, the coronavirus pandemic in the past few years and the investors' concerns about the uncertain economic conditions, the Group had encountered difficulties in selling off the property units of the Chongqing Property.

Set out below is the shareholding structure of the Disposal Group:



As advised by the management of the Company, the occupancy rates of the services apartments and the mall of the Chongqing Property for the year ended 31 March 2024 were approximately 80.9% and 82.0%, respectively.

2.2 The Loan and the Legal Proceedings

As set out in the Letter from the Board, to finance the re-development and operation of the Chongqing Property, Chongqing Kingstone has obtained the Loan of RMB1,250 million from a commercial bank in the PRC secured by, among other things, the Chongqing Property and personal guarantee from Mr. Hu. The Loan carries a fixed interest rate of 5.3% per annum and the original maturity date is 30 March 2035. The Loan was in default and the bank has initiated the Legal Proceedings against the Group to recover the outstanding loan amount and interests. On 24 July 2024, the Company has received the Judgment handed down by the Court in respect of the Legal Proceedings pursuant to which the Court has ordered, among other things, (i) Chongqing Kingstone to repay the outstanding principal and interests as of 31 May 2024 which approximate to HK\$1,413,568,000 (equivalent to RMB1,308,861,000) and the outstanding interests for the period from 1 June 2024 until date of settlement to the bank within 10 days from the effective date of the Judgment; and (ii) that the bank is entitled to enforce its rights under the mortgage in respect of the pledged properties for the repayment of debt. Chongqing Kingstone has subsequently filed an appeal against the Judgment at the Chongqing City People's Supreme Court (重慶市高級人民法院) and on 9 January 2025, the Company received a judgment in respect of the Legal Proceedings pursuant to which Chongqing City People's Supreme Court (重慶市高級人民法院) upheld the decision made by the Court. Subsequently, the Company has received a notice of enforcement from the Court which stated that the Judgment had become effective and Chongqing Kingstone shall fulfil its obligations under the Loan and other obligations ordered by the Court.

As at the Latest Practicable Date, the Company is in the course of consulting with its PRC legal advisers regarding the impact of the Legal Proceedings on the Group.

2.3 Unsecured Borrowings granted by Mr. Hu

As set out in the Letter from the Board, in view of the unsatisfactory business performance of Chongqing Kingstone and the cashflow pressure arising from the payment of principal and finance cost of the Loan, Mr. Hu has granted the Unsecured Borrowings to Chongqing Kingstone. As at 30 September 2024, Unsecured Borrowings with an aggregate principal amount of HK\$383.4 million had been drawn down which carries a fixed interest rate of 9% per annum, and unpaid interest of approximately HK\$141.1 million, representing the majority of the outstanding balance of unsecured borrowings from a director of the Group as shown in the 2024 Interim Report. The maturity date of the Unsecured Borrowings is 31 December 2025. Upon Completion, the Remaining Group will no longer be obligated to repay the Unsecured Borrowings and the outstanding interest accrued thereon.

2.4 Financial highlights

Set out below is the summary of key unaudited consolidated financial information of the Disposal Group for the three years ended 31 March 2024 and six months ended 30 September 2024 as extracted from the financial information of the Disposal Group as set out in Appendix II to the Circular:

	For the six months ended 30 September 2024	For the year ended 31 March		
	2024	2024	2023	2022
	HK\$' million	HK\$' million	HK\$' million	HK\$' million
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	21.5	46.6	40.9	37.4
Cost of sales	(16.5)	(45.0)	(48.9)	(45.4)
Gross profit/(loss)	5.0	1.6	(8.0)	(8.0)
Decrease in fair value of investment properties	(59.1)	(244.7)	(193.9)	(69.4)
Finance costs	(56.1)	(95.3)	(118.7)	(125.7)
Loss before taxation and for the year/period	(158.9)	(496.6)	(404.0)	(267.4)

Financial performances

The Disposal Group recorded a relatively stable income for each of the three years ended 31 March 2024, which ranged from approximately HK\$37.4 million to HK\$46.6 million, and as advised by the management of the Group, over 70% of which was contributed by the revenue from the service apartment/hotel business. Further, the revenue derived from property sales during the three years ended 31 March 2024 only amounted to approximately HK\$9.3 million in aggregate, as compared to the aggregate selling expenses of approximately HK\$33.3 million and aggregate impairment losses on properties held for sale of approximately HK\$98.5 million during the period, and no revenue was derived from property sales during the six months ended 30 September 2024.

The Disposal Group recorded gross loss of approximately HK\$8.0 million for each of the two years ended 31 March 2023, and gross profit of approximately HK\$1.6 million and HK\$5.0 million for the year ended 31 March 2024 and the six months ended 30 September 2024, respectively, while recorded significantly larger decreases in fair value of investment properties that amounted to approximately HK\$69.4 million, HK\$193.9 million, HK\$244.7 million and HK\$59.1 million for each of the three years ended 31 March 2024 and the six months ended 30 September 2024, respectively. Meanwhile, the Disposal Group further recorded finance costs of approximately HK\$125.7 million, HK\$118.7 million, HK\$95.3 million and HK\$56.1 million for each of the three years ended 31 March 2024 and the six months ended 30 September 2024, respectively.

Taking into account the relatively significant impairment losses, decrease in fair value and finance costs of the Disposal Group, the Disposal Group recorded losses of approximately HK\$267.4 million, HK\$404.0 million, HK\$496.6 million and HK\$158.9 million for each of the three years ended 31 March 2024 and the six months ended 30 September 2024, equivalent to approximately 715.0%, 987.8%, 1,065.7% and 739.1%, respectively, of its revenue of the relevant year/period.

Net liabilities value

Set out below is the breakdown of unaudited consolidated net liabilities value of the Disposal Group as at 30 September 2024 as extracted from Appendix II to the Circular:

	As at 30 September 2024 HK\$' million
Non-current assets	1,794
Current assets	321
Current liabilities	2,105
Non-current liabilities	526

As at 30 September 2024, the Disposal Group recorded unaudited consolidated net liabilities of approximately HK\$515.4 million, of which the carrying value of the investment properties portion of the Chongqing Property amounted to approximately HK\$1,255.6 million, property, plant and equipment amounted to approximately HK\$393.7 million, properties held for sale amounted to approximately HK\$302.9 million, amounts due to immediate holding company, being the Sale Loan, amounted to approximately HK\$375.3 million, bank and other borrowings amounted to approximately HK\$1,453.0 million and unsecured borrowings from a director amounted to approximately HK\$525.5 million.

Further, according to the Valuation Report as set out in Appendix V to the Circular, the market value of the Chongqing Property as at 31 December 2024 was RMB1,703.0 million (equivalent to approximately HK\$1,839.0 million based on the exchange rate as at 31 December 2024 quoted from The People's Bank of China of HK\$1 = RMB0.92604). Based on the valuation reconciliation statement as set out in the Letter from the Board, further valuation deficit for the Chongqing Property was recorded during 1 October 2024 to 31 December 2024.

Cashflows

Set out below is the highlight of the unaudited consolidated cashflow statements of the Disposal Group for the three years ended 31 March 2024 and six months ended 30 September 2024 as extracted from the financial information of the Disposal Group as set out in Appendix II to the Circular:

	For the six months ended 30 September 2024	For the year ended 31 March		
	2024	2024	2023	2022
	HK\$' million	HK\$' million	HK\$' million	HK\$' million
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operating cash flows before movements in working capital	(5.9)	(19.2)	(8.6)	(23.0)
Net cash (used in)/generated from operating activities	(8.6)	(18.1)	18.5	(57.8)
Net cash generated from/ (used in) investing activities	0.0	0.0	(10.1)	(10.2)
Net cash generated from/ (used in) financing activities	10.2	24.6	(8.1)	(61.7)

As shown from the table above, the Disposal Group recorded operating cash outflows before movements in working capital of approximately HK\$23.0 million, HK\$8.6 million, HK\$19.2 million and HK\$5.9 million for each of the three years ended 31 March 2024 and the six months ended 30 September 2024, respectively. According to the unaudited consolidated statement of cash flows of the Disposal Group as set out in Appendix II to this Circular, the Disposal Group had been mainly relying on proceeds from unsecured borrowings from a director to finance its business operation.

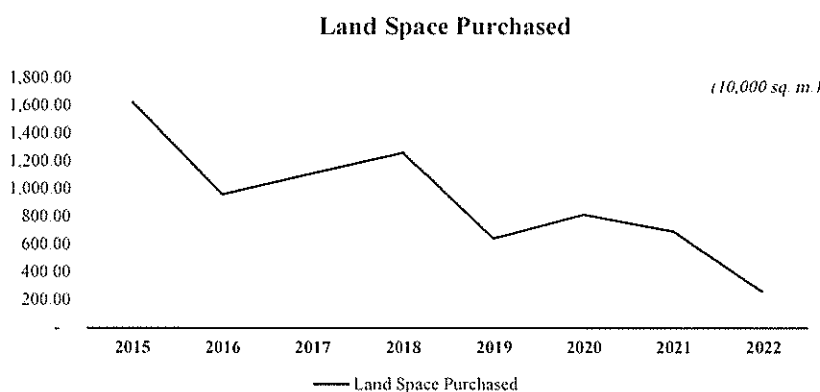
3. General industry outlook on the residential property market and hotel market in Chongqing

As Chongqing Kingston engages in the Chongqing Property Business, we have also reviewed the residential property market and the hotel market in Chongqing.

Residential property market

According to the Bureau of Statistics of Chongqing* (重慶市統計局), the residential property market experienced declines in land space purchased, floor space of buildings started for residential buildings, floor space of commercialised residential buildings sold and the sales amount of commercialised residential buildings over recent years.

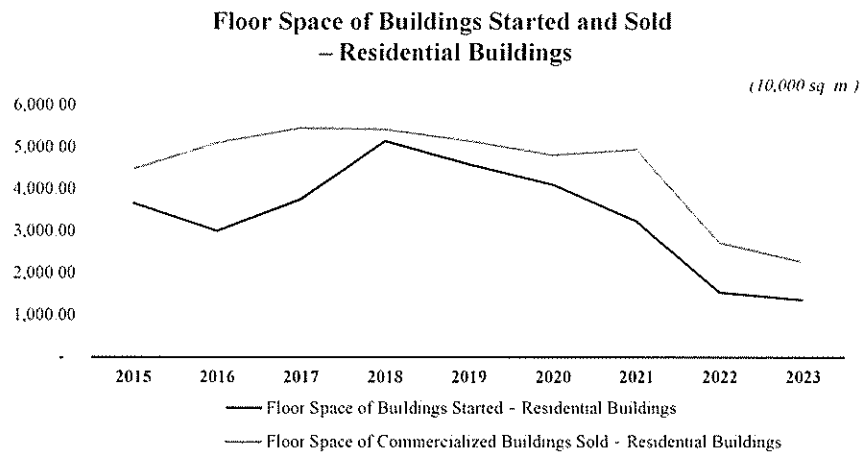
Set out below is the land space purchased in each year from 2015 to 2022 in Chongqing:



Source: Bureau of Statistics of Chongqing* (重慶市統計局)

The demand side of the land space purchased can partially reflect the confidence of property developers in the market development and expected changes in the market price of properties to be developed. As illustrated from the chart above, the land purchased in 2022 only amounted to approximately 2,567,000 sq. m., representing a decrease of approximately 84.2% from 2015.

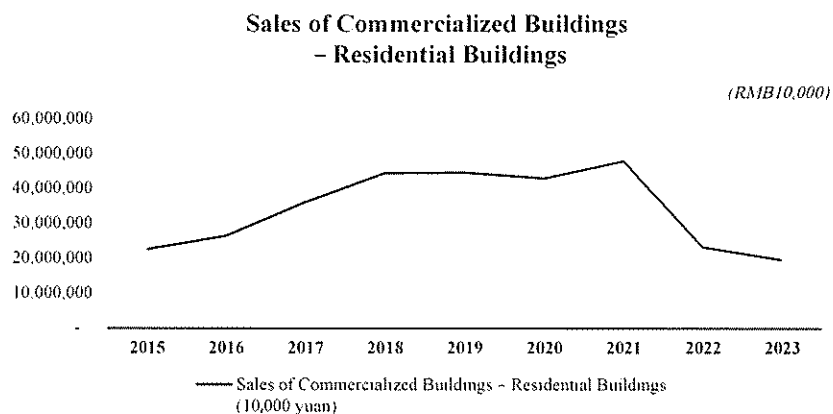
Set out below is the floor space of buildings started for residential buildings in each year and floor space of commercialised residential buildings sold in each year from 2015 to 2023:



Source: Bureau of Statistics of Chongqing* (重慶市統計局)

As illustrated from the chart above, both of the floor space of buildings started and sold for residential buildings demonstrated a declining trend since 2018 and the declining rate even increased after 2021. The floor space of buildings started and sold for residential buildings in 2023 only amounted to approximately 13,598,000 sq. m. and 22,689,000 sq. m., respectively, representing a decrease of approximately 73.6% and 58.2%, respectively, as compared to that in 2018. Given there is normally a time lag between the buildings started, completed and then sold, the continuing decline in buildings started potentially indicated that the decline in upcoming supply.

Set out below is the sales amount of commercialised residential buildings in each year from 2015 to 2023:



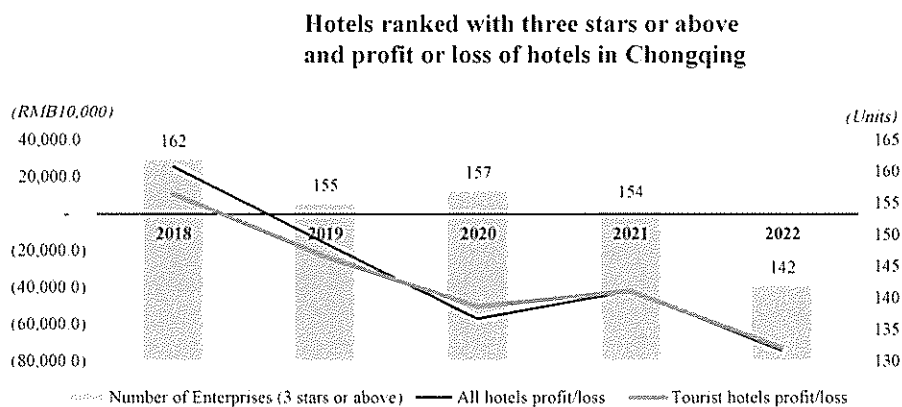
Source: Bureau of Statistics of Chongqing* (重慶市統計局)

Similar to the trend of floor space of buildings sold for residential buildings, the sales amount of commercialised residential buildings experienced a declining trend since 2021 and decreased by approximately 59.2% from 2021 to 2023.

Furthermore, based on the monthly statistics report published by the Bureau of Statistics of Chongqing* (重慶市統計局) for November 2024, during January to November 2024, the floor space of buildings started for residential buildings, the floor space of buildings sold for residential buildings and the sales amount of commercialised residential buildings experienced further decline of approximately 21.3%, 15.2% and 18.5%, respectively, as compared to the corresponding period in 2023, which evidenced the continuous declining trend in the residential property market in Chongqing.

Hotel market

Set out below are the number of hotels ranked with three stars or above in Chongqing and the total profit or loss for (i) all hotels and (ii) all tourist hotels, for enterprises above the designated size of hotels based on the classification of the Bureau of Statistics of Chongqing* (重慶市統計局) from 2018 to 2022:



Source: Bureau of Statistics of Chongqing* (重慶市統計局)

As shown in the chart above, the total number of hotels ranked with three stars or above in Chongqing experienced a decreasing trend in recent years and, at the same time, the financial performances recorded by (i) all hotels and (ii) all tourist hotels showed weakening trends. We may reasonably believe that the hotel market in Chongqing had been experiencing a difficult time over the past years, which was consistent with the recent financial performance of the Target Group.

4. Reasons for and the benefits of the Proposed Disposal

Unfavourable market condition

As stated in the Letter from the Board, the negative impact of the coronavirus pandemic in the past few years had adversely affected the operation and financial performance of the Chongqing Property. Further, as seen from the decline in national investment in real estate and contracted sales amount in the PRC throughout the past year, the real estate industry has experienced a period of unprecedented intensive adjustment and unstable market expectations in recent years which adversely affected the sale of residential apartments of the Chongqing Property. The consecutive loss-making performance for the three years ended 31 March 2022, 2023 and 2024 was mainly attributable to the impairment loss on the Chongqing Property and the significant finance cost of the Loan.

Our view

As stated in our analysis under section 3 headed “General industry outlook on the residential property market and hotel market in Chongqing” above, declines in both land purchases, start of building residential properties, contracted sales in terms of area and sales amount in Chongqing in recent years are noted. On the other hand, the significant decline in land purchased in recent years may also reflect the unfavourable outlook of the market on the upcoming development of the industry. Based on the aforesaid and the analysis under section 3 headed “General industry outlook on the residential property market and hotel market in Chongqing” above, we concur with the Company that the Disposal Group has been experiencing an unfavourable market condition in recent years, and based on our further analysis on the financials of the Disposal Group as stated above, we also concur with the Company that the impairment loss on the Chongqing Property and the finance costs attributable to the Loan has exerted severe financial pressure to and adversely affected the financial performances of the Disposal Group.

Liquidity support to the Group

As stated in the Letter from the Board, the Target Company was previously acquired by the Company and the completion of which took place on 28 July 2016. The consideration for the acquisition was settled by way of cash of HK\$300 million and the issue of promissory notes of HK\$1,168 million. As at the Latest Practicable Date, the Outstanding PN with an aggregate principal amount of HK\$550 million remains outstanding. Mr. Hu is the ultimate beneficial owner of the Outstanding PN. To support the liquidity of the Group, the maturity date of the Outstanding PN has been extended to 31 December 2025 and the rate on which interest shall accrue on the Outstanding PN has been reduced from 8% to 4% per annum on 1 December 2023. Pursuant to the Sale and Purchase Agreement, Mr. Hu shall procure to waive (i) the outstanding interest of approximately HK\$409.8 million accrued on the Outstanding PN as at 30 September

2024; and (ii) the interest accrued on the Outstanding PN from 1 October 2024 to the Completion Date. Subject to completion of the Proposed Disposal, the maturity date of the Outstanding PN would be further extended to 31 December 2027 which would provide additional time for the Company to repay the Outstanding PN. Subject to the prevailing market condition, the Company may conduct equity fund raising exercises and/or debt financing for the purpose of settling the Outstanding PN if considered appropriate. The Company will also actively negotiate with the PN Holder on the renewal and extension of the Outstanding PN when approaching to its maturity. On the other hand, the Group will continue to adopt stringent cost control and measures to reduce its operating costs.

In view of the downturn of the PRC property market, the uncertain prospect of the real estate industry, the unsatisfactory financial performance and net liabilities position of the Target Company and the uncertainty arising from the Legal Proceedings, the Company has decided to dispose of its Chongqing Property Business by entering into of the Sale and Purchase Agreement. Taking into account that the finance cost and debts of the Company would be significantly reduced upon completion of the Proposed Disposal where the Loan, the Unsecured Borrowings and the relevant accrued and future interest expense would be transferred to the Purchaser, and the waiver of the interest accrued on the Outstanding PN, the Directors consider that the Proposed Disposal would relieve the tremendous liquidity pressure of the Company to meet its financial obligations and improve its overall financial position, as well as improving the gearing ratio of the Group.

Our view

As stated under the sub-section 1.2 headed “Financial highlights” under section 1 headed “Information on the Group” above, (i) the Group had been loss-making for each of the two years ended 31 March 2024 and the six months ended 30 September 2024; (ii) the decrease in fair value of investment properties and the finance costs recorded by the Group during each of the two years ended 31 March 2024 and the six months ended 30 September 2024 were significantly larger than the gross profit recorded by the Group during each of such year or period (as the case may be); (iii) very significant part of the segment loss recorded by the Group during each of the two years ended 31 March 2024 and the six months ended 30 September 2024 was attributable to the business related to the Chongqing Property; and (iv) the Group recorded net liabilities and net current liabilities position as at 30 September 2024 of over HK\$1.0 billion each and major liabilities of the Group as at 30 September 2024 included bank and other borrowings of approximately HK\$1,546.2 million, promissory notes of approximately HK\$914.9 million and unsecured borrowings from a director of approximately HK\$539.3 million.

Taking into account the aforesaid and the information set out under sub-section 2.4 headed “Financial highlights” under section 2 headed “Information on the Disposal Group” above, (i) the entire amount of the decrease in fair value of investment properties and the majority of the finance costs recorded by the Group were attributable to the Disposal Group for the year ended 31 March 2024; (ii) as at 30 September 2024, approximately 97.4% and 94.0% of the unsecured borrowings from a director and bank and other borrowings, respectively, of the Group were attributable to the Disposal Group, and the accrued interest of the Outstanding PN (which represented approximately 44.8% of the carrying amount of the promissory notes of the Group as at 30 September 2024) will be waived pursuant to the Sale and Purchase Agreement subject to the Completion. Taking into account the above and further cope with the fact that, subject to the Completion, the maturity date of the Outstanding PN would be further extended to 31 December 2027 which would provide additional time for the Company to repay the Outstanding PN, we concur with the Company that the Proposed Disposal will improve the liquidity and ease the liquidity pressure of the Group.

Our further analysis

According to the information set out under the sub-section 2.4 headed “Financial highlights” under section 2 headed “Information on the Disposal Group” above, we further noted that the gross profit recorded by the Disposal Group only amounted to approximately HK\$1.5 million and HK\$5.0 million for the year ended 31 March 2024 and the six months ended 30 September 2024, respectively, and the Disposal Group recorded gross loss for the each of the two years ended 31 March 2023. On the other hand, we noted that such gross profit, if any, recorded by the Disposal Group would not be able to cover its selling expenses and administrative expenses incurred during the same period/year. The Disposal Group recorded operating cash outflows before working capital changes ranging from approximately HK\$8.6 million to HK\$23.0 million during each of the three years ended 31 March 2024. Based on the above and further taking into account the latest development and market situation of the residential property market and hotel market in Chongqing as set out above, we are of the view that it will be difficult for the Disposal Group to generate sufficient operating cashflow to finance its own operation without any external financial support in current market condition.

Meanwhile, as set out under the sub-section 1.2(ii) headed “Financial highlights – Segmental revenue and profit or loss” under section 1 headed “Information on the Group” above, the business of the Remaining Group (being the segments other than the Chongqing property related business) was able to record marginal segment profit or loss for the each of the two years ended 31 March 2024 and the six months ended 30 September 2024. On the other hand, as set out under the sub-section 2.4 headed “Financial highlights” under section 2 headed “Information on the Disposal Group” above, the Disposal Group had been relying on proceeds from unsecured borrowings from a director to support its operation and business. As further stated in the “Financial and trading prospect of the Remaining Group” in Appendix I, the Remaining Group will focus on

enhancing the financial performance of the existing business, reducing operation-related expenses to improve profitability and lowering the Remaining Group's gearing ratio by further optimising the financial costs and capital structure. In addition, the Remaining Group will continue to identify potential cooperations and acquisition opportunities to further diversify and strengthen its investment portfolio to provide stable income flow and business growth to the Remaining Group. Taking into account the above, we concur with the management of the Company that the Proposed Disposal will ease the financial and liquidity pressure of the Remaining Group such that the Remaining Group may devote adequate resources in the Remaining Group with a view to enhance the financial performances of the existing businesses of the Remaining Group and prepare for possible expansions.

5. Principal terms of the Sale and Purchase Agreement

On 6 February 2025 (after trading hours), the Company (as the vendor), the Purchaser (as the purchaser), the PN Holder and the Guarantor entered into the Sale and Purchase Agreement, pursuant to which (i) the Company has conditionally agreed to dispose of, and the Purchaser has conditionally agreed to acquire, the Sale Shares; and (ii) the Company has conditionally agreed to assign, and the Purchaser has conditionally agreed to take up an assignment of the Sale Loan. Details of the Sale and Purchase Agreement are included in the Letter from the Board and reproduced out below:

5.1 Assets to be disposed of

The Sale Shares, representing the entire issued share capital of the Target Company.

5.2 Assignment of Sale Loan

Pursuant to the Sale and Purchase Agreement, the Company has agreed to assign, and the Purchaser has agreed to take up an assignment of, all benefits and interests of and in the Sale Loan free from all encumbrances and with all rights attached thereto as at Completion.

As at the date of the Sale and Purchase Agreement and the Latest Practicable Date, the aggregate amount of the Sale Loan amounted to approximately HK\$358.7 million.

5.3 Consideration and payment terms

Pursuant to the Sale and Purchase Agreement, the Consideration for the Sale Shares and the assignment of the Sale Loan shall be HK\$1 which shall be settled by the Purchaser in cash at Completion.

Subject to Completion, the Purchaser shall procure a waiver by the PN Holder of (i) the outstanding interest of approximately HK\$409.8 million accrued on the Outstanding PN as at 30 September 2024; and (ii) interest accrued on the Outstanding PN from 1 October 2024 to the Completion Date.

Basis of the Consideration

The Consideration was determined after arm's length negotiations between the Company and the Purchaser taking into account (i) the unaudited net liabilities value of the Disposal Group of approximately HK\$515.4 million as at 30 September 2024 after taking into account the valuation of Chongqing Property conducted by an independent valuer using direct comparison method; (ii) the Sale Loan which amounted to approximately HK\$358.7 million as at the date of the Sale and Purchase Agreement; (iii) the waiver of the outstanding interest of approximately HK\$409.8 million accrued on the Outstanding PN as at 30 September 2024 and the interest accrued on the Outstanding PN from 1 October 2024 to the Completion Date by the PN Holder; and (iv) the consecutive loss-making performance and the heavily indebted financial position of the Disposal Group, and the uncertainty arising from the Legal Proceedings

Our analysis on the Consideration

The Consideration and valuation of Chongqing Property

Pursuant to the Sale and Purchase Agreement, the Consideration for the Sale Shares and the assignment of the Sale Loan shall be HK\$1 which shall be settled by the Purchaser in cash at Completion.

Based on the financial information of the Disposal Group as set out in Appendix II of the Circular, the unaudited consolidated net liabilities of Disposal Group as at 30 September 2024 was approximately HK\$515.4 million, which had taken into account the valuation of Chongqing Property conducted by an independent valuer using direct comparison method, and the amounts due to immediate holding company was approximately HK\$375.3 million.

As stated above, the Consideration is determined based on, among other things, valuation of Chongqing Property. As disclosed in the Letter from the Board, the fair value of the Chongqing Property as at 30 September 2024 was approximately HK\$2,097.3 million and based on the valuation of the Chongqing Property as at 31 December 2024, the fair value of the Chongqing Property as at 31 December 2024 as appraised by CHFT Advisory and Appraisal Ltd. ("CHFT"), an independent valuer appointed by the Company based on direct comparison approach, was RMB1,703.0 million (equivalent to approximately HK\$1,839.0 million based on the exchange rate as at 31 December 2024 quoted from The People's Bank of China of HK\$1 = RMB0.92604).

In assessing the fairness and reasonableness of the Consideration, we have further obtained and reviewed the Valuation Report (the details of which are set out in Appendix V to the Circular) and discussed with CHFT regarding the methodology of, basis and assumptions adopted for the valuation of the market value of the Chongqing Property as contained in the Valuation Report. We noted that CHFT has carried out inspection of the Chongqing Property.

Valuation methodology

The valuation of the Chongqing Property was conducted by CHFT using direct comparison method whereby comparisons based on asking prices of comparable properties have been made. Comparable properties with similar characteristics, location and so on are analyzed and carefully weighed against all respective advantages and disadvantages of the properties in order to arrive at the fair comparison of values.

We have been advised by CHFT that for valuation of residential/commercial properties, the above valuation methodology is commonly adopted in the industry. Meanwhile, as part of our analysis and work, we have further reviewed the relevant requirements under HKIS Valuation Standards 2024. According to HKIS Valuation Standards 2024, the market approach is commonly applied for the valuation of real property. Based on our discussion with CHFT and, according to HKIS Valuation Standards 2024, such approach should be applied and afforded significant weight when (i) the subject asset has recently been sold in a transaction appropriate for consideration under the basis of value, (ii) the subject asset or substantially similar assets are actively publicly traded, and/or (iii) there are frequent and/or recent observable transactions in substantially similar assets, while a valuer should consider whether any other approaches can be applied and weighted to corroborate the value indication from such approach when (a) transactions involving the subject asset or substantially similar assets are not recent enough considering the levels of volatility and activity in the market; (b) the asset or substantially similar assets are publicly traded, but not actively; (c) information on market transactions is available, but the comparable assets have significant differences to the subject asset.

potentially requiring subjective adjustments; (d) information on recent transactions is not reliable; or (e) the critical element affecting the value of the asset is the price it would achieve in the market rather than the cost of reproduction or its income-producing ability. As confirmed the CHFT, the comparable properties identified are able to fulfill the above criteria and none of the circumstances (a) to (e) was noted during CHFT's research for the comparable properties.

We have also reviewed all circulars issued under the classification of notifiable transactions in HKEXnews published during December 2024 to February 2025 by companies listed on the Stock Exchange, and 12 circulars contained property valuation report(s) on properties located in the PRC have been identified (the "**Valuation Precedents**"). The valuation methodologies adopted in the preparation of the relevant valuation reports are summarized below:

Company	Stock Code	Date of circular	Valuation methodology
Beijing Media Corporation Limited	1000	3 December 2024	Market approach
Qingdao Holdings International Limited	499	18 December 2024	Market approach
Universal Health International Group Holding Limited	2211	24 December 2024	Cost approach
Steed Oriental (Holdings) Company Limited	8277	10 January 2025	Market approach or investment method
Grand Field Group Holdings Limited	115	14 January 2025	Market approach
China Agri-Products Exchange Limited	149	24 January 2025	Income capitalisation method
Solartech International Holdings Limited	1166	24 January 2025	Investment method or market approach
JH Educational Technology INC.	1935	11 February 2025	Market approach
Silver Grant International Holdings Group Limited	171	12 February 2025	Market approach
China Partytime Culture Holdings Limited	1532	13 February 2025	Income approach
Coastal Greenland Limited	1124	14 February 2025	Market approach
Fantasia Holdings Group Co., Limited	1777	27 February 2025	Market approach

Note: Market approach includes comparison approach, direct comparison approach, direct comparison method, comparable transaction method and market comparison method as referred to in the relevant circulars.

Based on the above, 75% of the precedents identified had adopted market approach in the preparation of the relevant valuation report (the "**Market Approach Precedents**"), out of which approximately 77.8% adopted market approach as the only valuation methodology in arriving at the fair value or market value of the relevant properties in the PRC.

According to HKIS Valuation Standards 2024, overall valuation approach is usually classified into one of the three main categories, being the market approach, income approach and cost approach. The direct comparison approach adopted by CHFT in preparation of the valuation of the Chongqing Property is under the market approach.

According to HKIS Valuation Standards 2024, the income approach provides an indication of value by converting projected cash flows to a single current value. Under the income approach, the value of an asset is determined by reference to the value of income, cash flow or cost savings generated by the asset. The income approach should be applied and afforded significant weight under the following circumstances: (i) the income-producing ability of the asset is the critical element affecting value from a participant perspective; and/or (ii) reasonable projections of the amount and timing of future income are available for the subject asset, but there are no relevant and reliable market comparables. We noted that, and as further discussed with CHFT, taking into account the revenue of the Disposal Group in recent years, it is unlikely that the income-producing ability of the Chongqing Property is the critical element affecting value from a participant perspective, and given the Chongqing Property is located in the prime area of the central business district of Chongqing, and the area is subject to further modification, development and promotion based on government present and future directions and policies, the parameters required and assumptions to be made under the income approach may not be easily verified or reasonably justified.

On the other hand, according to HKIS Valuation Standards 2024, the cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for all relevant forms of obsolescence. The cost approach should be applied and afforded significant weight under the following circumstances: (i) participants would be able to recreate an asset with substantially the same utility as the subject asset, without regulatory or legal restrictions, and the asset could be recreated quickly enough that a participant would not be willing to pay a significant premium for the ability to use the subject asset immediately; (ii) the asset is not directly income-generating and the unique nature of the asset makes using an income approach or market approach unfeasible; (iii) the basis of value being used is fundamentally based on replacement cost; and/or (iv) the asset was recently created or issued and sold to market participants, such that there is high degree of reliability in the assumptions used in the cost approach. It is further stated under HKIS Valuation Standards 2024 that great care must be exercised when relying on the cost approach as the primary or only approach, as the relationship between cost and value is rarely direct.

Taking into account the above, we concur with CHFT that using direct comparison method in performing the valuation of the Chongqing Property, without using income approach and/or cost approach to cross-check the valuation, is appropriate.

Assumptions

As stated under the section headed “Valuation assumptions” in the Valuation Report, the valuation has been made on the assumption that the owner sells the property on the open market without the benefit or burden of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which would serve to affect the value of the property interests. It is assumed that the property is free from encumbrances, restrictions and outgoings of onerous nature which could affect its value. As further detailed under the valuation reports on different parts of the Chongqing Property, the relevant valuations are based on the assumptions that (i) the owner of the property is entitled to occupy, use, mortgage, transfer, lease or transfer the property without any additional land premium, grant fee, or other onerous payment to any government authorities; and (ii) the property is free from encumbrances, and is freely transferable. We noted that these assumptions mainly assumed that the Chongqing Property is free from restrictions regarding its usage under the designated usage and transferability, and further noted that similar assumptions have been made in the valuation reports of the Valuation Precedents. We, therefore, consider that the assumptions are in line with market practice. During our discussion with CHFT, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal basis and assumptions adopted for or the information used in the valuation of the Chongqing Property. Nevertheless, Shareholders should note that valuation of property usually involves assumptions and therefore the valuation of the Chongqing Property may or may not reflect the true market value of the Chongqing Property accurately. Further details of the basis and assumptions of the valuation of the Chongqing Property are included in the Valuation Report as set out in Appendix V to this circular.

Comparables and adjustments

The asking comparables adopted by CHFT in valuing the Chongqing Property have been set out in the Valuation Report (the “**Comparable Properties**”). We noted that all of the Comparable Properties are located in the same district as the Chongqing Property, being the Yuzhong District of Chongqing. Amongst the Comparable Properties, we noted that the asking prices for apartments ranged from RMB21,875 to RMB24,973 per square meter, while the asking prices for retail shops ranged from RMB54,286 to RMB60,000 per square meter. We have performed desktop searches on an online real estate platform and search engine maintained by a publicly listed company. We have identified comparable apartments

based on the location and status of the relevant apartments, and comparable retail shops based on the location, usage and whether it can be registered with the government department for the relevant retail shops. We noted that the ranges of asking prices of the Comparable Properties fall within the range of asking prices of relevant properties that we identified based on our selection criteria as stated above.

According to HKIS Valuation Standard 2024, when comparable market information does not relate to the exact or substantially the same asset, the value must perform a comparative analysis of qualitative and quantitative similarities and differences between comparable assets and the subject asset. It will often be necessary to make adjustments based on this comparative analysis. Further, we noted that five of the valuation reports of the Market Approach Precedents had quantitative disclosures regarding the adjustments made to the comparable properties identified, and the range of the total percentage adjustment (in absolute terms), except for the floor level adjustment for retail units, ranged from 3% to 20%, we noted that the total percentage adjustment (in absolute terms) made by CHFT on the Comparable Properties falls within the range. In respect of the floor level adjustment for retail units, we noted that the Planning and Resources Bureau of Chongqing* (重慶市規劃和自然資源局) has published a notice dated 30 March 2023 regarding the base land price of the right to use state-owned land in urban areas in central of Chongqing (the “Notice”). According to the Notice, the floor level adjustment factor for commercial retail properties located in grade 1 and grade 2 areas of Chongqing shall range from 0% to 60%, and the Chongqing Property is located in grade 1 area of Chongqing according to the classification under the Notice. We noted that the range of floor level adjustment factors applied by CHFT in valuing the Chongqing Property is comparable to the aforesaid range.

Terms of engagement, qualification and experience

We have also enquired (i) the terms of engagement of CHFT (including its independence) with the Company; (ii) the qualification and experience of CHFT in relation to the valuation of similar property interests in the PRC and the preparation of the Valuation Report; and (iii) the procedures and work taken by CHFT in conducting the valuation of the Chongqing Property. From the relevant information provided by CHFT, in particular, the scope of the engagement of CHFT in the subject transaction (being provision of valuation service regarding the Chongqing Property), the fact that, based on our research, CHFT was engaged as the property valuer in no less than four transactions of companies listed on the Stock Exchange published over the past two years, and was also engaged as the property valuer in financial reporting of a number of companies listed on the Stock Exchange in the relevant latest published annual report, Mr. Alex PW Leung, person-in-charge of CHFT in the subject project, has been a registered member of the general practice division under the Hong Kong Institute of Surveyors since 1999, CHFT is on the company list contained in the website of the Hong Kong Institute of Surveyors, and based on our interview with them, we are satisfied with the terms of engagement of CHFT as well as their qualification and experience for preparation of the Valuation Report. CHFT has also confirmed that they are independent to the Group and the Purchaser.

5.4 *Conditions precedent*

Completion of the Sale and Purchase Agreement is conditional upon satisfaction or waiver of the Conditions below (save for Condition (ii) which is not capable of being waived by the Purchaser):

- (i) all necessary consents, confirmations, permits, approvals, licences and authorisations having been obtained from all relevant governmental, regulatory and other governmental authorities or third party in connection with the transactions contemplated under the Sale and Purchase Agreement; and
- (ii) the Company having satisfied the Independent Shareholders' approval requirement in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder in accordance with the Listing Rules.

The Company shall use its best endeavour to procure the fulfilment of the Conditions on or before the Long Stop Date. If any of the Conditions has not been fulfilled or waived (as the case may be) on or before the Long Stop Date, none of the Company or the Purchaser shall be obliged to proceed to Completion and thereafter, the Sale and Purchase Agreement shall cease to have any effect and neither party shall have any claims against each other save for any claims arising out of any antecedent breaches of the Sale and Purchase Agreement.

As at the Latest Practicable Date, none of the Conditions had been fulfilled.

5.5 Completion

Completion shall take place on the Completion Date, which shall be the third Business Day after fulfilment or waiver (as the case may be) of the Conditions.

5.6 Guarantee

The Guarantor has agreed to guarantee the due performance and observance of the terms and obligations under the Sale and Purchase Agreement by the Purchaser and the PN Holder.

6. Financial effects of the Proposed Disposal

Given the Sale Shares represent the entire issued share capital of the Target Company, upon Completion, the Disposal Group will cease to be subsidiaries of the Company, and their assets, liabilities and results will no longer be consolidated into the consolidated financial statements of the Group.

Upon Completion, the Remaining Group will cease to engage in the Chongqing Property Business. It is expected that subsequent to the Proposed Disposal, there will not be any further contribution from this segment.

6.1 Earnings

According to the financial information of the Disposal Group as set out in Appendix II to this Circular, the Disposal Group had been loss-making in each of the three years ended 31 March 2024 and six months ended 30 September 2024. If the Completion had taken place on 1 April 2023, the loss recorded by the Group for the year ended 31 March 2024 from its ordinary course of businesses, before taking into account the one-off gain or loss attributable to the Proposed Disposal, would have been reduced.

Based on the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to the Circular, assuming, among other things, the Completion had taken place on 1 April 2023 and after taking into account, among other things, the

financial performance of the Disposal Group and the estimated loss attributable to the Proposed Disposal (determined based on the net assets position of the Disposal Group as at 1 April 2023), the loss for the year ended 31 March 2024 of the Group would have been increased from approximately HK\$551.5 million to approximately HK\$630.7 million, and the loss attributable to owners of the Company for the year ended 31 March 2024 would have increased from approximately HK\$551.8 million to approximately HK\$631.1 million. The weakening in financial performance was mainly attributable to the estimated loss on the Proposed Disposal of approximately HK\$575.9 million as the Target Group was in net assets position as at 1 April 2023 and the Sale Loan amounted to approximately HK\$382.4 million as at 1 April 2023, and the impact of which was partially offset by the exclusion of losses attributable to the Disposal Group of approximately HK\$496.6 million for the year ended 31 March 2024.

Although a loss on the Proposed Disposal would be recognised if the Proposed Disposal had taken place on 1 April 2023, we further noted that, as set out in note 2(b) to the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to the Circular, if the Proposed Disposal had taken place on 30 September 2024, an estimated gain on the Proposed Disposal of approximately HK\$86.8 million, mainly due to the weakening of net assets position of the Disposal Group during 1 April 2023 to 30 September 2024, would have been recorded. As set out in note 2(b) to the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to the Circular, the gain on the Proposed Disposal is determined based on (i) the amount of consideration; (ii) the net liabilities position of the Disposal Group; (iii) the cumulative foreign exchange translation difference of the Disposal Group; (iv) the transaction costs attributable to the Proposed Disposal; and (v) the amount of outstanding Sale Loan.

For the avoidance of doubt, the aforesaid gain or loss on the Proposed Disposal did not take into account the waiver of interests accrued on the Outstanding PN, which will be charged to other reserve as a contribution from the shareholder to the Group according to note 2(d) to the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to the Circular.

Shareholders should note that the actual financial effect on the Group from the Proposed Disposal depends on, among others, the financial position of the Disposal Group at the Completion and the waiver of interest accrued on the Outstanding PN at the Completion, and is subject to final audit.

6.2 Assets and liabilities

According to the 2024 Interim Report, the unaudited consolidated total assets and total liabilities of the Group as at 30 September 2024 were approximately HK\$2,224.7 million and HK\$3,332.7 million, respectively. Based on the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to the Circular,

assuming, among other things, the Completion had taken place on 30 September 2024, the unaudited pro forma consolidated total assets and total liabilities of the Remaining Group as at 30 September 2024 would be approximately HK\$108.4 million and HK\$667.6 million, respectively on a pro forma basis. Accordingly, the unaudited pro forma consolidated net liabilities of the Remaining Group as at 30 September 2024 would be decreased by approximately HK\$548.7 million from approximately HK\$1,108.0 million to approximately HK\$559.3 million on a pro forma basis, which was mainly resulted from the exclusion of the assets and liabilities of the Disposal Group (which was in net liabilities position before and after taking into account the Sale Loan) from the consolidated financial positions of the Company and the waiver of interests accrued on the Outstanding PN.

6.3 *Gearing*

As stated in the 2024 Interim Report, the Group's gearing ratio, representing by bank and other borrowings, promissory notes and unsecured borrowings from a director, including current and non-current portions, divided by total equity, was approximately negative 2.71.

Based on the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to the Circular, assuming, among other things, the Completion had taken place on 30 September 2024, the unaudited pro forma consolidated bank and other borrowings, promissory notes and unsecured borrowings from a director (including current and non-current portions) as at 30 September 2024 would be approximately HK\$612.1 million in aggregate and the unaudited pro forma consolidated net deficit would be approximately HK\$559.3 million on a pro forma basis. The then pro forma gearing ratio of the Remaining Group would be approximately negative 1.09. The significant improvement in pro forma gearing ratio is mainly attributable to the fact that a significant part of the borrowings of the Group as at 30 September 2024 were attributable to the Disposal Group and it is expected that the Proposed Disposal would result in improvement in the net liabilities position of the Remaining Group as stated above.

6.4 *Working capital*

Based on the 2024 Interim Report, the Group had cash and cash equivalents of approximately HK\$19.5 million as at 30 September 2024.

Based on the unaudited pro forma financial information of the Remaining Group as set out in Appendix III to the Circular, assuming, among other things, the Completion had taken place on 30 September 2024, the unaudited pro forma consolidated cash and cash equivalents would be approximately HK\$11.1 million. The decrease in such balance was principally attributable to the cash and cash equivalents held by the Disposal Group.

Nevertheless, according to the financial information of the Disposal Group as set out in Appendix II to the Circular, the operating cash outflow before working capital changes recorded by the Disposal Group for each of the three years ended 31 March 2024 and six months ended 30 September 2024 was approximately HK\$23.0 million, HK\$8.6 million, HK\$19.2 million and HK\$5.9 million, respectively. Taking into account the aforesaid and the operating cash outflow recorded by the Disposal Group in recent years, we concur with the view of the Company that although the Proposed Disposal may result in reduction in cash and cash equivalent level of the Group, while it is expected that the Remaining Group will be benefited from the ease of financial and liquidity pressure as a result of the exclusion of the Disposal Group which was in heavy debt position and unable to generate positive operating cashflow before working capital movements in recent years.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above, which, in particular, include:

- (i) the Disposal Group had been loss-making in recent years, and, in particular, generated negative operating cashflows before changes in working capital in recent years;
- (ii) the segment loss recorded by the business related to the Chongqing Property represented no less than 99% of the aggregate segment loss of the Group during each of the two years ended 31 March 2024 and the six months ended 30 September 2023 and 2024;
- (iii) the decrease in fair value of the investment properties of the Disposal Group and finance costs attributable to the Disposal Group has brought material adverse impact to the Group's financial performance in recent years;
- (iv) the residential property market in Chongqing showed declines in both land purchases, start of building residential properties, contracted sales in terms of area and sales amount in Chongqing in recent years. On the other hand, the significant decline in land purchased in recent years may also reflect the unfavourable outlook of the market on the upcoming development of the industry;

- (v) the Proposed Disposal, if materialises, not only enables the Company to dispose the Disposal Group, which was loss-making, unable to generate positive operating cashflow before working capital movements and net debt positions in recent years, but also eases the financial and liquidity pressure of the Group by waiving the interests accrued on the Outstanding PN up to the Completion and extending the maturity date of the Outstanding PN;
- (vi) although the Consideration is nominal, an improvement in net assets position of the Group as a result of the Proposed Disposal is expected as the Disposal Group was in net liabilities position before and after adjusting for the carrying value of the outstanding Sale Loan as at date of the Sale and Purchase Agreement, and the interests accrued on the Outstanding PN up to the Completion will be waived; and
- (vii) the gearing ratio of the Remaining Group is expected to be improved as a result of the Proposed Disposal,

we consider that (i) the Sale and Purchase Agreement is not entered into in the ordinary and usual course of business of the Group; (ii) the terms of the Sale and Purchase Agreement are on normal commercial terms; and (iii) the terms of the Sale and Purchase Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the entering into of the Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise (i) the Independent Board Committee to recommend the Independent Shareholders and (ii) the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the Proposed Disposal.

Yours faithfully,
For and on behalf of



Halcyon Capital Limited
Terry Chu
Managing Director

Mr. Chu is a licensed person registered with the Securities and Futures Commission and a responsible officer of Halcyon Capital, which is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activities. Mr. Chu has participated in the provision of independent financial advisory services for various transactions involving companies listed on the Stock Exchange.

* for identification purpose only