PELICAN FINANCIAL
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PELICAN FINANCIAL LIMITED

28/F, Lee Garden Two, 28 Yun Ping Road, Causeway Bay, Hong Kong

31 March 2025

To the Independent Board Committee and the Independent Shareholders of Emperor Watch & Jewellery Limited

Dear Sirs/Madams,

DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF ENTIRE EQUITY INTEREST IN TARGET COMPANY

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular of the Company dated 31 March 2025 (the **"Circular"**), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

As set out in the Board Letter, on 28 February 2025, the Vendor and the Purchaser entered into the Sale and Purchase Agreement, pursuant to which, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase (a) the Sale Share; and (b) the Sale Loan at the Consideration of HK$79.8 million (subject to adjustment).

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition exceeds 5% but below 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, Emperor International and the Company are both indirectly controlled by the respective private discretionary trusts which were all set up by Dr. Yeung, who is a deemed substantial shareholder of the Company. As such, the Vendor (a direct wholly-owned subsidiary of Emperor International) is a deemed connected person of the Company and the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The Acquisition is subject to reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

Ms. Cindy Yeung, an executive Director and the Chairperson of the Board, abstained from voting on the relevant Board resolution(s) of the Company in view of her deemed interest in the Acquisition by virtue of being one of the eligible beneficiaries of the private discretionary trusts that control the Vendor and the Purchaser. For the sake of prudence, Ms. Fan Man Seung, Vanessa and Mr. Wong Chi Fai, being the executive Directors whom have management role in the counter-party to the Sale and Purchase Agreement, also abstained from voting on the Board resolution(s) approving the Acquisition and the transactions contemplated under the Sale and Purchase Agreement. Save for the aforesaid, no other Director has a material interest or conflict of role in the transactions and has abstained from voting.

THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee comprising all independent non-executive Directors has been established by the Company to advise the Independent Shareholders in respect of the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder. We have been appointed by the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect and such appointment has been approved by the Independent Board Committee.

OUR INDEPENDENCE

Pelican Financial Limited (**"Pelican"**) is not connected with the Directors, chief executive of the Company or substantial Shareholders or any of their respective associates and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. As at the Latest Practicable Date, there were no relationships or interests between us and the Group, the Vendor or any of their respective substantial shareholders, directors or chief executives, or their respective associates that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser.

In the last two years, we had not been engaged by the Company for the provision of other services that would affect our independence. Apart from normal professional fees payable to us in connection with this appointment of us as Independent Financial Adviser, no arrangement exists whereby Pelican will receive any fees or benefits from the Company or the Directors, chief executive of the Company or substantial Shareholders or any of their respective associates.

Our role is to provide you with our independent opinion and recommendation as to (i) whether the Sale and Purchase Agreement and the transactions contemplated thereunder is in ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole; and (ii) whether the terms and conditions of the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Company and Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote on the relevant resolution(s) in respect of the Sale and Purchase Agreement and transactions contemplated thereunder at the EGM.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have performed relevant procedures and those steps which we deemed necessary in forming our opinions which include, among other things, review of relevant agreements, documents as well as information provided by the Company and verified them, to an extent, to the relevant public information, statistics and market data, the relevant industry guidelines and rules and regulations as well as information, facts and representations provided, and the opinions expressed, by the Company and/or the Directors and/or the management of the Group. The documents reviewed include, but are not limited to, the Sale and Purchase Agreement, the valuation report of the Property, the annual report of the Company for the financial year ended 31 December 2023 (the "**2023 Annual Report**"), the annual results announcement for the year ended 31 December 2024 (the "**2024 Annual Results**"), and the Circular. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us.

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

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the management of the Group nor have we conducted any form of an in-depth investigation into the business and affairs or the prospects of the Group.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion in respect of the Acquisition, we have considered the following principal factors and reasons:

1. Background of the Acquisition

1.1. Information of the Group

The Company is an investment holding company and its subsidiaries are principally engaged in the sale of European-made internationally renowned watches and jewellery products in Hong Kong, Macau, Mainland China, Singapore and Malaysia. The Purchaser is a direct wholly-owned subsidiary of the Company and is principally engaged in investment holding.

Set out below is a summary of the financial information of the Group for the two years ended 31 December 2024 as extracted from the 2024 Annual Results.

Table 1: Revenue breakdown and other financial information of the Group

	For the year ended 31 December 2024 (Audited) *HK$'000*	2023 (Audited) *HK$'000*
Revenue		
External sales	5,212,142	4,808,336
Commission income	18,189	14,887
Total	**5,230,331**	**4,823,223**
Cost of sales	(3,749,388)	(3,372,942)
Gross profit	**1,480,943**	**1,450,281**
Other income	25,657	14,802
Selling and distribution expenses	(992,131)	(932,960)
Administrative expenses	(148,161)	(137,802)
Other gains or losses	(25,151)	(16,361)
Finance costs	(24,119)	(10,228)
Profit before taxation	**317,038**	**367,732**
Taxation	(60,301)	(68,513)
Profit for the year	**256,737**	**299,219**

The Group is a leading retailer of European-made internationally renowned watches, together with jewellery products under its own brand, "Emperor Jewellery". With a history of over 80 years, the Group carries a balanced and comprehensive watch dealership list. The target customers range from middle to high income groups worldwide. The Group's core strategy focuses on maintaining its position as the leading watch and jewellery retailing group in Greater China, coupled with an eye on expansion beyond the region.

According to the 2024 Annual Results, despite the market uncertainties and weak consumption sentiment, the Group's total revenue increased by 8.4% to HK$5,230.3 million (2023: HK$4,823.2 million) during the year. Revenue from Hong Kong was up by 16.5% to HK$2,923.2 million (2023: HK$2,510.0 million), accounting for 55.9% (2023: 52.0%) of the total revenue, and the revenue from Mainland China was HK$1,350.8 million (2023: HK$1,372.9 million), accounting for 25.8% (2023: 28.5%) of the total revenue. In terms of revenue by product segment, the revenue from the watch segment was HK$3,337.3 million (2023: HK$3,480.4 million), accounting for 63.8% (2023: 72.2%) of the total revenue, and the revenue from the jewellery segment increased significantly by 41.0% to HK$1,893.0 million (2023: HK$1,342.8 million), accounting for 36.2% (2023: 27.8%) of the total revenue, mainly attributable to the increase in revenue from gold products.

The Group's gross profit was HK$1,480.9 million (2023: HK$1,450.3 million) and the net profit was HK$256.7 million (2023: HK$299.2 million).

According to the 2023 Annual Report, boosted by the full resumption of travel and revival of consumption sentiment, the Group's total revenue grew by approximately 30.9% to HK$4,823.2 million (2022: HK$3,684.3 million) for the year ended 31 December 2023. Revenue from Hong Kong and Mainland China were approximately HK$2,510.0 million (2022: HK$1,652.5 million) and HK$1,372.9 million (2022: HK$1,186.3 million), respectively, accounting for 52.0% (2022: 44.9%) and 28.5% (2022: 32.2%) of the total revenue, respectively. In terms of revenue by product segment, the sales revenue from the watch and jewellery segments were HK$3,480.4 million (2022: HK$3,017.6 million) and HK$1,342.8 million (2022: HK$666.7 million), respectively, accounting for 72.2% (2022: 81.9%) and 27.8% (2022: 18.1%) of the total revenue, respectively.

Gross profit increased by 23.2% to HK$1,450.3 million (2022: HK$1,177.3 million). As a result of the improvement in total revenue, the Group's net profit increased by approximately 34.7% to HK$299.2 million (2022: HK$222.1 million) during the year.

The consolidated assets and liabilities of the Group as at 31 December 2024 as extracted from the 2024 Annual Report are summarized as follows:

Table 2: Financial position of the Group

	As at 31 December 2024 (Audited) *HK$'000*	As at 31 December 2023 (Audited) *HK$'000*
Cash and cash equivalents	**916,360**	**458,750**
Time deposits with original maturity over three months	**33,459**	**160,898**
Total assets		
– Non-current assets	1,870,537	1,849,216
– Current assets	4,071,818	3,859,148
Total liabilities		
– Non-current liabilities	197,077	130,582
– Current liabilities	531,188	531,094
Net current assets	3,540,630	3,328,054
Net assets	5,214,090	5,046,688

The Group's cash and bank balances (including time deposits with original maturity over three months) amounted to approximately HK$949.8 million as at 31 December 2024, representing an increase of approximately HK$330.2 million or 53.3%, as compared to that of approximately HK$619.6 million as at 31 December 2023.

The Group's total assets amounted to approximately HK$5,942.4 million and HK$5,708.4 million as at 31 December 2024 and 31 December 2023, respectively. As at 31 December 2024, the Group's non-current assets amounted to approximately HK$1,870.5 million, mainly comprised of property, plant and equipment of HK$1,383.4 million. The non-current assets increased by HK$21.3 million or 1.2%, from approximately HK$1,849.2 million as at 31 December 2023, which was mainly attributable to the increase in right-of-use assets of HK$98.6 million. The Group's current assets amounted to approximately HK$4,071.8 million as at 31 December 2024, mainly consisted of (i) inventories of approximately HK$3,003.4 million; and (ii) cash and cash equivalents of approximately HK$916.4 million. The current assets increased by approximately HK$212.7 million or 5.5%, from approximately HK$3,859.1 million as at 31 December 2023 was mainly attributable to the increase in cash and cash equivalents (including time deposits with original maturity over three months) of approximately HK$ 330.2 million.

The Group's total liabilities amounted to approximately HK$728.3 million and HK$661.7 million as at 31 December 2024 and 31 December 2023, respectively. As at 31 December 2024, the Group's non-current liabilities amounted to approximately HK$197.1 million, mainly comprised of lease liabilities of HK$195.9 million. The non-current liabilities increased by HK$66.5 million or 50.9%, from approximately HK$130.6 million as at 31 December 2023, was mainly attributable to the increase in lease liabilities of HK$68.7 million. The Group's current liabilities amounted to approximately HK$531.2 million as at 31 December 2024, mainly consisted of (i) lease liabilities of approximately HK$216.5 million and (ii) payables and accrued charges of approximately HK$202.4 million. The current liabilities remained stable as at 31 December 2024 compared to its last year.

1.2. Information of the Purchaser

The Purchaser is a company incorporated in the BVI with limited liability and is principally engaged in investment holding. The Purchaser is a direct wholly-owned subsidiary of the Company.

1.3. Information of the Vendor

The Vendor is a company incorporated in the BVI with limited liability and is principally engaged in investment holding. The Vendor is a direct wholly-owned subsidiary of Emperor International. Emperor International is an investment holding company and its subsidiaries are principally engaged in property investment and property development in the Greater China and overseas.

1.4. Information of the Target Group

The Target Company is a company incorporated in the BVI and indirectly wholly-owned by Emperor International. The principal business of the Target Company is investment holding. The Property Company is a company incorporated in Hong Kong with limited liability and directly wholly-owned by the Target Company. The Property Company is engaged in the business of property investment and holds the Property.

For the two years ended 31 March 2023 and 2024, the unaudited financial information of the Target Group is as follows:

	For the year ended 31 March	
	2024	**2023**
	HK$'000	*HK$'000*
	(approximately)	*(approximately)*
Revenue	1,183	1,074
Loss before taxation	2,766	6,937
Loss after taxation	2,743	6,989

The unaudited combined total asset value and net liabilities of the Target Group as at 31 January 2025 were approximately HK$80.3 million and approximately HK$58.6 million respectively. The Sale Loan amounted to approximately HK$138.4 million as at 31 January 2025.

1.5. Information of the Property

The Property consists of the space on 2/F to 4/F and the advertising space of Nos. 4-8 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong. The Property is sold on an "as is" basis. Based on the information provided by the Vendor, the original acquisition cost of the Property was approximately HK$235.1 million.

2. Reasons for and benefits of the Acquisition

We have taken into account the following factors in assessing the reasonableness of entering into the Sale and Purchase Agreement and the transactions contemplated thereunder by the Company:

(a) Unify the ownership of the entire building

The Property is located on the second to fourth floors of a 5-storey building located on Canton Road, Tsim Sha Tsui, one of the prominent shopping districts in Hong Kong and around the world. The Group currently owns the shops on the ground and first floors of the same building. The Board considers it a valuable opportunity for the Group to acquire the remaining storeys of the building and, upon Completion, the Group will own all units of the building. The Board considers it a valuable opportunity for the Group to open mega flagship stores for its luxury watch brand partners. The Acquisition will also enable the Group to use the facade and advertising board of the building for brand promotion.

By unifying the ownership of the entire building, it enhances "control premium" value (the additional value derived from owning and controlling the entire building rather than partial ownership) and offers strategic flexibility for business development, thereby reinforcing the Group's market position within the industry. In this regard, as at the Latest Practicable Date, the Group has already identified a potential top-notch luxury watch brand and planned to open and operate a mega flagship store at this 5-storey retail complex for enhancing customer experience and customer engagement.

Based on our latest conversation with the management of the Group, it is essential for customers to visit the store physically for a personal and authentic customer experience when they purchase luxury items, and opening a flagship store at this retail complex will enable the watch brands to achieve this. Per the management of the Group, one of its luxury watch brand partners will very likely open a mega flagship store at this 5-storey retail complex/it is under negotiation with one of its luxury watch brand partners to open a mega flagship store at this 5-storey retail complex upon the completion of the Acquisition.

(b) The Property's prime location and the risk exposure to rental fluctuation

The easy accessibility from the High Speed Rail ("**HSR**") West Kowloon Station to Canton Road has undoubtedly contributed to the increasing number of patronages in Tsim Sha Tsui. According to the statistic of MTR Corporation Limited, HSR patronages increased by 32.8% from 20.1 million in 2023 to 26.7 million in 2024. In the first half of 2024, Tsim Sha Tsui was the most visited place for overnight visitors during their stay in Hong Kong, and the jewellery and watches ranked second amongst the shopping categories based on the per capita spending. Being a tourist hotspot with a considerable foot traffic, Canton Road has been regarded as a popular option of the global and Mainland renowned brands to open their multi-storey flagship stores. According to Cushman & Wakefield's 2024 Main Streets report, Tsim Sha Tsui continued to top the Asia Pacific ranking as the most expensive retail destination in the region, and ranked fourth globally, in terms of rental.

Acquiring the Property means that the Group will no longer be exposed to the risks associated with rental fluctuations in the future, particularly during periods of economic peak cycles. Hence, the unified ownership as mentioned above is expected to generate value beyond the sum of individual floor values, with potential for long-term rental cost savings.

(c) Outlook of Hong Kong tourism market

Hong Kong, an international city and a tourism hub with diverse culture, has long been one of the most popular tourist destinations in the world. Premising on the strong support of our country, Hong Kong's tourism industry demonstrated strong competitiveness and resilience after the pandemic. According to the statistics of Hong Kong Tourism Board, the total number of visitor arrivals to Hong Kong increased by 30.9% from 34.0 million in 2023 to 44.5 million in 2024, amongst which the number of inbound Mainland tourists increased by 26.9% from 26.8 million to 34.0 million. In addition, the government's initiative, exemplified by the Culture, Sports and Tourism Bureau's release of "Development Blueprint for Hong Kong's Tourism Industry 2.0" in December 2024, articulates a visionary framework that encompasses fundamental principles and development strategies. This blueprint aims to foster the healthy and sustainable growth of tourism-related sectors while promoting long-term economic development through tourism. The Group is poised to benefit from the government's endeavors to develop the tourism industry of Hong Kong.

(d) Owning vs Renting

Regarding the reason why the Company decided to acquire the Property now instead of continuing rent as the tenancy will only expire on 31 December 2033, the reasons are as follows after our discission with the Company:

(i) Building equity: Despite the coming years of rental cash outflow, the Company will still not own any equity interest in future. Considering the factors above, an acquisition appears to be a reasonable decision. The acquisition of the Property will alleviate the Group's responsibility to pay a continuous amount of rent pursuant to the relevant tenancy agreement and enhance long-term profitability.

(ii) Flexibility: The unifying of ownership of the Property enables the Company to scale its operations more efficiently, with higher flexibility to make refurbishment and upgrade facilities to maintain competitiveness in the long term. Although the tenancy is up to 2033; however, it will eventually reach its conclusion.

(iii) Interest income vs rental cost: The Group consistently achieved profit (attributable to owners of the Company) in the past five years from approximately HK$90.0 million in FY2019 to approximately HK$256.7 million in FY2024 with a bank balances and cash (including time deposits with original maturity over three months) increased from approximately HK$239.9 million to approximately HK$949.8 million. Taking into account of the Company's cash and cash equivalents carried an interest rate ranged from 0.01% to 4.28% (cash inflow) during FY2024, while the Company pays rent equivalent to a 1.2% market yield of Property (cash outflow) annually, it is not unreasonable for the Company to acquire the Property following a price slump in the past few years, which would eliminate ongoing rental expenses while providing potential for long-term capital appreciation.

(iv) The Property is located in a prime area in Tsim Sha Tsui, which is adjacent to large commercial plazas and residential areas and is considered to be a high-quality asset with long-term investment value. It is considered that the potential capital appreciation in the Property (part of offsetting the inflation) would allow the Group to have investment returns in future.

In conclusion, amid the current down cycle in the Hong Kong property market, we concur with the Board's view that the Acquisition is a valuable opportunity for the Group to strengthen its market position in the industry and boosts its business performance through capitalizing on the increasing tourism traffic, which is in line with the business development strategy of the Group in the long-run.

3. Principal terms of the Sale and Purchase Agreement

Below summarises the major terms of the Sale and Purchase Agreement:

Date:	28 February 2025
Vendor:	Emperor Property Investment
Purchaser	Emperor W&J (HK & Macau)
Subject Matter	(i) the Sale Share; and
	(ii) the Sale Loan

3.1. Consideration and payment terms

The Consideration payable (subject to adjustments) by the Purchaser to the Vendor was arrived at arm's length negotiations between the Vendor and the Purchaser on normal commercial terms and shall be determined by the following formula:

Consideration = A + B – C

where:

"A"	means HK$80.3 million, being the agreed value of the Property;
"B"	means the carrying value/book value of the tangible assets of the Target Group (but excluding the Property and the fittings and equipment, if any) as at the Completion Date as shown in the Pro-forma Completion Accounts; and
"C"	means the amount of all liabilities of the Target Group, including actual or contingent, accrued and deferred liabilities but excluding the Sale Loan, as at the Completion Date as shown in the Pro-forma Completion Accounts.

In accordance with the formula as set out above, the Consideration is estimated to be approximately HK$79.8 million with reference to the Management Accounts, consisting of mainly (i) the agreed value of the Property with reference to the preliminary fair market valuation of the Property of HK$80.3 million as at 13 February 2025 as indicated by an independent professional valuer; (ii) the carrying value/book value of the tangible assets of the Target Group (but excluding the Property and the fittings and equipment, if any) of approximately HK$0.1 million as at 31 January 2025; and (iii) the amount of all liabilities of the Target Group (but excluding the Sale Loan) of approximately HK$0.6 million as at 31 January 2025.

The Consideration (subject to adjustments) shall be paid and satisfied by the Purchaser in the following manner:

(a) a sum of HK$7.98 million, being initial deposit, was paid by the Purchaser to the Vendor (or its designated party) within 7 days after the date of the Sale and Purchase Agreement; and

(b) subject to adjustment in accordance with the terms and conditions of the Sale and Purchase Agreement, the remaining balance of the Consideration shall be payable to the Vendor (or its designated party) upon Completion.

The Consideration (or any part(s) thereof) shall be payable by the Purchaser to the Vendor by cash transfer to the designated bank account of the Vendor or such other bank accounts as the Vendor may direct or such other method as mutually agreed by the Vendor and Purchaser in writing.

3.2. Pro-forma Completion Accounts and Completion Accounts

Pursuant to the Sale and Purchase Agreement, the Vendor shall deliver to the Purchaser (i) the Pro-forma Completion Accounts at least 5 Business Days prior to Completion; and (ii) the Completion Accounts together with the calculation of the final consideration with reference to the Completion Accounts ("**Final Consideration**") within 10 Business Days after the Completion Date.

The Consideration payable shall be subject to the adjustments following agreement or determination of the Completion Accounts and the Final Consideration in accordance with the terms of the Sale and Purchase Agreement.

The Consideration shall be adjusted in the following manner:

(a) If the Final Consideration is less than the Consideration as determined by reference to the Pro-forma Completion Accounts, the Consideration shall be adjusted downward by such difference; or

(b) If the Final Consideration is higher than the Consideration as determined by reference to the Pro-forma Completion Accounts, the Consideration shall be adjusted upward by such difference.

Such difference shall be settled between Vendor and Purchaser within 5 Business Days after receipt of the Completion Accounts in accordance with the Sale and Purchase Agreement.

3.3. Conditions precedent

Completion shall be conditional upon the following conditions precedent have been fulfilled (or waived by the Purchaser, except for conditions (c) and (d) below which cannot be waived):

(a) the Purchaser having completed its due diligence investigation on the business, financial, legal and other aspects of the Target Group and is reasonably satisfied with the results thereof;

(b) the Vendor having proved the good title to the Property in accordance with Section 13 of the Conveyancing and Property Ordinance;

(c) the approval by the independent shareholders of Emperor International of the Sale and Purchase Agreement and the transactions contemplated thereunder at the special general meeting of Emperor International; and

(d) the approval by the Independent Shareholders of the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM.

In the event that any of the foregoing conditions is not fulfilled (or otherwise waived by the Purchaser, except conditions (c) and (d) above which cannot be waived) in accordance with the Sale and Purchase Agreement on or before the Completion Date, either the Vendor or the Purchaser shall be entitled to terminate the Sale and Purchase Agreement by notice in writing to the other party whereupon, subject to the terms of the Sale and Purchase Agreement, the Vendor shall return to the Purchaser all money paid by the Purchaser to the Vendor under the Sale and Purchase Agreement (if any) forthwith without costs, compensation and interest and neither party shall have any claim against the other thereon save and except for any antecedent breach. As at the Latest Practicable Date, conditions (a) and (b) have been fulfilled.

3.4. Completion

Subject to the fulfillment of all the above conditions precedent (or waived by the Purchaser, except conditions (c) and (d) above which cannot be waived), Completion shall take place at or before 12:00 noon on the Completion Date or at such time as may be agreed by the Vendor and Purchaser in writing pursuant to the Sale and Purchase Agreement.

Immediately after Completion, the Target Group will become indirect wholly-owned subsidiaries of the Company.

4. Assessment of the principal terms of the Sale and Purchase Agreement

In assessing the fairness and reasonableness of the Consideration, we have in particular considered the property valuation report as set out in Appendix I to this Circular (the "**Valuation Report**"). In this respect, we noted that Vincorn Consulting and Appraisal Limited (the "**Valuer**") has been engaged to issue the Valuation Report. According to the Valuation Report, the fair market valuation of the Property is HK$80.3 million as at 13 February 2025.

4.1. Our due diligence on the Valuer

We have interviewed the Valuer and conducted an enquiry into their experiences and qualification. According to our interview and the information provided by the Valuer, we noted that the person signing the Valuation Report, being the director of the Valuer, is a fellow of the Hong Kong Institute of Surveyors, a fellow of the Royal Institution of Chartered Surveyors, a Registered Professional Surveyor (General Practice), a member of China Institute of Real Estate Appraisers and Agents, a member of Hong Kong Securities and Investment Institute, a member of Institute of Shopping Centre Management, a member of Hong Kong Institute of Real Estate Administrators, a fellow of the Hong Kong Institute of Directors, a Registered Valuer of the Royal Institution of Chartered Surveyors and a Registered Real Estate Appraiser and Agent People's Republic of China who has over 27 years of experience in handling valuation of fixed and intangible assets in Hong Kong. We are satisfied with the competence of the independent Valuer in respect of the preparation of the Valuation Report.

We also confirmed with the Valuer that it is not the Company's subsidiary or holding company or a subsidiary of the Company's holding company or any of its partners, directors or officers, is not an officer or servant or proposed director of the Company or the Company's subsidiary or holding company or of a subsidiary of the Company's holding company or any associated company. The Valuer also confirmed that they are independent to the Group and the Vendor.

We have also obtained and reviewed the Valuer's terms of engagement and discussed with the Valuer its work performed in connection with this valuation. From the mandate letter and other relevant information provided by the Valuer and based on our interview with them, we were satisfied with the terms of engagement of the Valuer.

With respect to the steps and due diligence measures taken by the Valuer in performing the valuation, we note that the Valuer mainly carried out its due diligence through, among other, (i) on-site inspection on the Property conducted by the Valuer; (ii) internal background check; and (iii) conducted its own research on the key parameters adopted in the valuations. We noted the scope of work performed by the Valuer is consistent with the market practice and appropriate to give the opinion. Based on our review, we are not aware of any limitations on the scope of work which might have a negative impact on the degree of assurance given by the Valuer in the Valuation Report.

4.2 Our analysis on the basis of determination of the Consideration

As stated in the Board Letter and our discussion with the management of the Group, the Consideration was arrived at after arm's length negotiation between the Vendor and the Purchaser taking into account the Management Accounts, consisting of mainly (i) the agreed value of the Property with reference to the preliminary fair market valuation of the Property of HK$80.3 million as at 13 February 2025 as indicated by the Valuer; (ii) the carrying value/book value of the tangible assets of the Target Group (but excluding the Property and the fittings and equipment, if any) of approximately HK$0.1 million as at 31 January 2025; and (iii) the amount of all liabilities of the Target Group (but excluding the Sale Loan) of approximately HK$0.6 million as at 31 January 2025.

In order to assess the fairness and reasonableness of the Consideration, we have reviewed the Valuation Report prepared by the Valuer. We understand that it was prepared in accordance with the HKIS Valuation Standards 2024 published by The Hong Kong Institute of Surveyors (the "**HKIS**") effective from 31 December 2024 with reference to the International Valuation Standards published by the International Valuation Standards Council ("**IVSC**") effective from 31 January 2025, and the requirements set out in Chapter 5 of the Listing Rules. With reference to the Valuation Report, the Valuer is of the opinion that the estimated value of the Property as at 13 February 2025 would be approximately HK$80.3 million. In conducting the valuation of the Property, the Valuer has also adopted the following assumptions: (i) the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests; (ii) no allowances have been made for any charges, mortgages or amounts owing on the property interests, nor for any expenses or taxations which may be incurred in effecting a sale; (iii) the owner has free and uninterrupted rights to use the property interests for the whole of the unexpired term of the leasehold interests.

We noted from the Valuation Report that the Valuer has provided the valuation on the basis of market value, which meant 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. The Valuer adopted the market approach for the valuation of the Property by comparing prices realized in actual transactions and/or asking price of comparable properties located in the surrounding area. According to our interview with the Valuer, we understand that (i) in an open market where reliable, verifiable and relevant market information of property of a similar nature is available; and (ii) in luxury properties market, the market approach adopted by the Valuer in the Valuation Report is the preferred valuation approach and is a commonly adopted approach for property valuation.

We have obtained the information on the comparable properties for the valuation of the Property from the Valuer and have conducted an interview with the Valuer. The Valuer conducted thorough market research on available comparable properties for the valuation of the Property and selected 5 recent transactions of properties (the "**Comparable Properties**"). We noted that the selection criteria of the Comparable Properties had taken into account, among others, (i) location, which should be located in the vicinity of the Property; (ii) similarity in property nature; and (iii) time, which should be transacted within a reasonable period from the valuation date to ensure there were sufficient comparable properties that met the target characteristics. We understand from the Valuer that four to five relevant transactions that meet the selection criteria are sufficient evidence for the valuation of the Property under market approach. With sufficient comparable properties that met the target characteristics, and considering that comparable property transactions closer to the valuation date are generally more relevant and reliable, along with the Valuer including the time factor as one of the adjustments in the valuation of the Property to reflect the price trends of the luxury commercial properties market in Hong Kong between the transaction date of the respective Comparable Properties and the valuation date, we believe that the selection period of less than one year is fair and reasonable. We understand from the Valuer that these selection criteria were commonly used in valuation practice. In light of the above, we are of the view that the selection criteria of the Comparable Properties are fair and reasonable for the valuation of the Property.

We have conducted independent research on the information of the Comparable Properties and noted that the Comparable Properties are (i) all located in the vicinity of the Property; (ii) similar in property nature; and (iii) transacted between April 2024 to December 2024, which are within one year from the valuation date. As the information of the Comparable Properties has fulfilled the selection criteria, we are of the view that the Comparable Properties are exhaustive and representative for the valuation of the Property.

Based on our interview with the Valuer, we also noted that the Valuer has taken into account various factors when comparing the Property and the Comparable Properties, including but not limited to, time of transaction, size, provision of ancillary areas and facilities and building quality. The Comparable Properties' effective saleable unit rate ranged from approximately HK$21,495 to HK$39,452 per sq. ft. As the market approach determines the value of a property by comparing recent transaction prices of similar property on the valuation benchmark date based on the principle of substitution, we noted that appropriate adjustments have been made by the Valuer on the above factors to reflect the differences between the Property and the respective Comparable Properties. The adjustments included (i) location; (ii) building age; (iii) floor level; (iv) size; (v) timing of transaction; and (vi) other material factors such as building quality and provision of ancillary areas. These adjustments resulted in a percentage range of aggregate adjustments amongst the Comparable Properties of approximately 4.4% to 17.0%. After taking into account of the aforementioned adjustments, the Valuer adopted an effective saleable unit rate of approximately HK$27,884 per sq. ft. for the valuation of the Property, which refers to the rate of the 2nd floor of the Property.

As the Property consists of other floors (apart from the 2nd floor), advertising space and common areas and facilities, the Valuer further adjusted the effective saleable unit rate from HK$27,661 to HK$30,115 per sq. ft., which represents an average unit rate of HK$28,528 per sq. ft. on the basis of effective saleable area. Given that the total effective saleable area of the Property is approximately 2,814.75 sq. ft., the valuation of the Property is estimated to be approximately HK$80.3 million as at 13 February 2025 as set out in the Valuation Report.

Based on the interview with the Valuer, we understand that the aforementioned valuation adjustments (including further adjustments) are commonly used in valuation practice. As relevant and appropriate adjustments have been made by the Valuer to reflect the differences between the respective Comparable Properties and the Property, we consider such adjustments to be fair and reasonable for the valuation of the Property.

For the selection criteria of the Comparable Properties, having considered the wide range of unit rates among the Comparable Properties (from HK$21,495 to HK$39,452 per sq. ft.), we are of the view that such variation is reflective of normal market differentials within Hong Kong's commercial property sector. The range is attributable to differences in specific location attributes, floor levels, building conditions and property features, all of which are properly accounted for in the Valuer's adjustment process. As all selected comparables satisfy the fundamental selection criteria described above and the Valuer has applied appropriate methodology in deriving the adopted unit rate of HK$28,528 per sq. ft., we consider the selection and comparability of the Comparable Properties to be fair and reasonable for the purpose of valuing the Property.

Market research has been conducted on the recent circulars issued by companies listed on the Stock Exchange from 1 November 2024, up to the date of the Announcement, concerning the acquisition or disposal of companies where a majority of assets consist of property interests or properties involving connected persons (**"Listed Comparables"**). A total of nine Listed Comparables have been identified, which are exhaustive, representative and comprehensive, as detailed below:

Listed Comparables

Date of circular	Company name (stock code)	Asset to be acquired/disposed	Description of property	Valuation approach for the subject property	Adjustment factors
25-Feb-2025	Future World Holdings Limited (572)	Acquisition of property	Residential property	Market approach	Date of transaction, building age, floor level, size, view, and building condition
26-Feb-2025	Mexan Limited (22)	Disposal of property	Hotel in Hong Kong and furnitures	Market approach	Date of transaction, location, size, building age, and view
24-Jan-25	China Agri-Products Exchange Limited (149)	Acquisition of 100% equity interests in a company	Agricultural markets located in Shenzhen	Income capitalisation approach	Date of transaction, location, accessibility, building age, building quality, trade mix and size
13-Jan-2025	Excellence Commercial Property & Facilities Management Group Limited (6989)	Acquisition of property and 50% equity interest of a company	Commercial properties in Shanghai and Guangdong	Market approach	Location and accessibility, building quality, view, layout
6-Jan-2025	Dowell Service Group Co. Limited (2352)	Acquisition of 100% equity interests in a company	Elderly centre in Chengdu City	Investment method	Date of transaction, location, layout, level and size
19-Dec-2024	Kinetic Development Group Limited (1277)	Acquisition of 100% equity interests in two companies	Property projects in PRC including buildings for commercial and residential use	Market approach	Location, size, transaction date, plot ratio and the perfect degree of infrastructure
3-Dec-2024	Beijing Media Corporation Limited (1000)	Disposal of property	Six office units located in Beijing, PRC	Market approach	Date of transaction, building age, floor level, size, view, and property rights status
29-Nov-2024	Jinke Smart Services Group Co., Ltd. (9666)	Acquisition of property	Commercial properties and car parking spaces in multiple cities in PRC	Market approach	Date of transaction, market conditions, size, location, building age, building quality

Date of circular	Company name (stock code)	Asset to be acquired/disposed	Description of property	Valuation approach for the subject property	Adjustment factors
7-Nov-2024	China Wantian Holdings Limited (1854)	Disposal of 100% equity interests in a subsidiary	Industrial units in Hong Kong	Market approach	Date of transaction, layout, floor level, size, and location

Based on the information presented in the table above, it is observed that (i) seven out of nine Listed Comparables utilized the market approach for property valuation; and (ii) among the seven transactions that adopted the market approach, the adjustment factors employed by the independent valuers in the Listed Comparables generally align with the practices of the Valuer when assessing the Property.

As shown in the table above, given the market approach in the Valuation Report is adopted by a large majority, and the major assumptions made in relation to the market approach are reasonable, we concur with the Valuer that the market approach was appropriate for the valuation of the Property and we concurred with the Valuer that the selection of the Comparable Properties used in the valuation of the Property and the basis of the adjustments made are fair and reasonable.

Taking into account of the above, we are of the view that the methodology, together with the underlying bases and assumptions for the valuation of the Property, are fair and reasonable and that the Valuation Report is an appropriate reference for determining the valuation of the Property. Given that the Consideration of approximately HK$79.8 million is equivalent to (i) the agreed value of the Property of approximately HK$80.3 million as at 13 February 2025, as stated in the Valuation Report, plus (ii) the carrying value/book value of the tangible assets of the Target Group (but excluding the Property and the fittings and equipment, if any) of approximately HK$0.1 million as at 31 January 2025, and minus (iii) the amount of all liabilities of the Target Group (but excluding the Sale Loan) of approximately HK$0.6 million as at 31 January 2025, we consider the Consideration to be on normal commercial terms, fair and reasonable so far as the Company and Independent Shareholders as a whole are concerned.

Having considered the above and the reasons of the Acquisition and the transactions contemplated thereunder, we are of the view that the terms of the Acquisition are on normal commercial terms, are fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

5. Financial effects of the Acquisition

Upon Completion, the Target Group will be wholly-owned subsidiaries of the Company and their respective financial results will be consolidated into the consolidated financial statements of the Group.

As the Consideration of HK$79.8 million will be funded by the Group's internal resources, the Group's cash and bank balances are expected to decrease by the same amount which represents approximately 8.7% of the Group's cash and cash equivalents balance as at 31 December 2024 of approximately HK$916.4 million. Further, it was noted that the Group had net cash (being cash and bank balances less total interest-bearing borrowings) of approximately HK$916.4 million and hence a zero net gearing ratio (being net debt divided by total equity) as at 31 December 2024. Therefore, it is expected that the Acquisition would not have any material adverse impact on the working capital and gearing ratio of the Group upon its completion.

RECOMMENDATION

Having considered the principal factors and reasons referred to above, we are of the opinion that the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms and were entered into in the ordinary and usual course of business of the Group. We are also of the view that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and its Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favor of the resolution(s) to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. We also recommend the Independent Shareholders to vote in favour of the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
Pelican Financial Limited

Charles Li*
Managing Director

* *Charles Li is a responsible person registered under the SFO to carry out Type 6 (advising on corporate finance) regulated activity for Pelican Financial Limited and has over 30 years of experience in the accounting and financial services industry.*