RAINBOW CAPITAL (HK) LIMITED
浤博資本有限公司

16 December 2024

To the Independent Board Committee

Beijing Capital Grand Limited
10/F., Guangdong Investment Tower
148 Connaught Road Central
Hong Kong

Dear Sir or Madam,

(1) CONDITIONAL PROPOSAL FOR THE PRIVATISATION OF BEIJING CAPITAL GRAND LIMITED BY THE OFFEROR BY WAY OF A SCHEME OF ARRANGEMENT (UNDER SECTION 86 OF THE COMPANIES ACT); AND (2) PROPOSED VOLUNTARY WITHDRAWAL OF LISTING OF BEIJING CAPITAL GRAND LIMITED

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee in respect of the Proposal, the Scheme and the Perpetual CB Securities Offer, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the scheme document dated 16 December 2024 jointly issued by the Company and the Offeror (the "**Scheme Document**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meaning as those defined in the Scheme Document.

On 16 October 2024 (after trading hours), the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Act involving the cancellation of the Scheme Shares and, in consideration thereof, the payment to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share, and the withdrawal of the listing of the Shares on the Stock Exchange.

The Scheme will provide that all of the Scheme Shares will be cancelled in exchange for the Cancellation Price of HK$0.85 in cash for each Scheme Share.

The Offeror is making the Perpetual CB Securities Offer to the Perpetual CB Securities Holder in accordance with Rule 13 of the Takeovers Code to acquire all the outstanding Perpetual CB Securities which remain outstanding and have not otherwise been redeemed and/or converted into Shares pursuant to the conversion rights thereunder as at the Effective Date. The Perpetual CB Securities Offer is conditional upon the Scheme becoming effective.

In accordance with Practice Note 6 to the Takeovers Code, the offer price under the Perpetual CB Securities Offer is HK$0.40476190476 for every HK$1 face value of the Perpetual CB Securities, being the "see-through" consideration for each Perpetual CB Securities with a face value of HK$1 (i.e. being approximately 0.476190 Share for every HK$1 face value at the prevailing conversion price of HK$2.10 per Share, multiplied by the Cancellation Price per Scheme Share), and the total Perpetual CB Securities Offer is valued at HK$266,169,105, which is calculated by multiplying the number of Shares into which the Perpetual CB Securities are convertible into (being an aggregate of 313,140,124 Shares for all the outstanding Perpetual CB Securities at the conversion price of HK$2.10 per Share) by the Cancellation Price per Scheme Share.

Pursuant to Rule 2.8 of the Takeovers Code, the Independent Board Committee which comprises all the non-executive Directors who have no direct or indirect interest in the Proposal other than as a Shareholder, namely Mr. Zhai Senlin, Mr. Yeung Chi Tat, Dr. Huang Wei and Mr. Xu Weiguo, has been established by the Board to make a recommendation (i) to the Disinterested Shareholders as to whether the Proposal and the Scheme are, or are not, fair and reasonable and as to voting at the Court Meeting and the EGM; and (ii) to the Perpetual CB Securities Holder as to whether the Perpetual CB Securities Offer is, or is not, fair and reasonable and whether to accept the Perpetual CB Securities Offer. As each of Mr. Wang Hao and Ms. Qin Yi (each being a non-executive Director) holds certain positions in Capital Group and/or BCCDG (the parent companies of the Offeror), Mr. Wang Hao and Ms. Qin Yi do not form part of the Independent Board Committee. We, Rainbow Capital (HK) Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Proposal, the Scheme and the Perpetual CB Securities Offer and such appointment has been approved by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

As at the Latest Practicable Date, we did not have any relationships or interests with the Company, the Offeror, the Offeror Concert Parties, or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. Save for our appointment as the Independent Financial Adviser to the Independent Board Committee in connection with the Proposal, the Scheme and the Perpetual CB Securities Offer, there has been no engagement between the Group, the Offeror or the Offeror Concert Parties and us as at the Latest Practicable Date and in the last two years. Apart from normal professional fees paid or payable to us in connection with this engagement, no other arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror, the Offeror Concert Parties, or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered eligible to give an independent advice to the Independent Board Committee in respect of the Proposal, the Scheme and the Perpetual CB Securities Offer.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Scheme Document including the property valuation report (the "**Valuation Report**") set out in Appendix II to the Scheme Document; (ii) the annual report of the Company for the year ended 31 December 2023 (the "**2023 Annual Report**") and the interim report of the Company for the six months ended 30 June 2024 (the "**2024 Interim Report**"); (iii) the information supplied by the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Scheme Document were true and accurate in all material respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Scheme Document are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Scheme document were reasonably made after due and careful enquiry. We have no reason to doubt the truth and accuracy of such information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Scheme Document and that all information or representations provided to us by the Directors and the management of the Group are true and accurate in all material respects and not misleading in any material respect at the time they were made and continue to be so until the Latest Practicable Date. The Company will notify the Scheme Shareholders of any material changes to information contained or referred to in the Scheme Document as soon as possible in accordance with Rule 9.1 of the Takeovers Code. The Scheme Shareholders will also be informed as soon as practicable when there are any material changes to the information contained or referred to herein as well as changes to our opinion, if any, after the Latest Practicable Date.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Scheme Document so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of independent in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, the Offeror, the Offeror Concert Parties or any of their respective subsidiaries and associates.

PRINCIPAL TERMS OF THE PROPOSAL

Under the Proposal, the Scheme will provide that all of the Scheme Shares will be cancelled in exchange for the Cancellation Price of HK$0.85 in cash for each Scheme Share.

If, after the Announcement Date, any dividend and/or other distribution and/or other return of capital is announced, declared or paid in respect of the Shares, the Offeror will reduce the Cancellation Price by all or any part of the amount or value of such dividend, distribution and/or, as the case may be, return of capital, in which case any reference in the Announcement, the Scheme Document or any other announcement or document to the Cancellation Price will be deemed to be a reference to the Cancellation Price as so reduced (and the offer price of the Perpetual CB Securities Offer shall be reduced accordingly). As at the Latest Practicable Date, the Company has no declared but unpaid dividends and/or other distribution and/or other return of capital. In addition, the Company has confirmed that it does not intend to announce, declare or pay any dividend, distribution or other return of capital before the Effective Date or the lapse, withdrawal or termination of the Scheme (whichever is earlier).

The Perpetual CB Securities Offer is conditional upon the Scheme becoming effective. In accordance with Practice Note 6 to the Takeovers Code, the offer price under the Perpetual CB Securities Offer is HK$0.40476190476 for every HK$1 face value of the Perpetual CB Securities, being the "see-through" consideration for each Perpetual CB Securities with a face value of HK$1 (i.e. being approximately 0.476190 Share for every HK$1 face value at the prevailing conversion price of HK$2.10 per Share, multiplied by the Cancellation Price per Scheme Share), and the total Perpetual CB Securities Offer is valued at HK$266,169,105, which is calculated by multiplying the number of Shares into which the Perpetual CB Securities are convertible into (being an aggregate of 313,140,124 Shares for all the outstanding Perpetual CB Securities at the conversion price of HK$2.10 per Share) by the Cancellation Price per Scheme Share.

The Perpetual CB Securities to be acquired under the Perpetual CB Securities Offer shall be fully paid and shall be acquired free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the Effective Date or subsequently becoming attached to them, including the right to receive in full all PCBS Fixed Interests (subject to the right of the Company to defer such payment in accordance with the terms of the Perpetual CB Securities) and/or PCBS Variable Interests, if any, the record date of which is on or after the Effective Date.

If, after the Announcement Date, any dividend and/or other distribution and/or other return of capital is announced, declared or paid, the Offeror will reduce the offer price under the Perpetual CB Securities Offer by all or any part of the amount or value of the PCBS Variable Interests arising out of such dividend, distribution and/or, as the case may be, return of capital, in which case any reference in the Announcement, the Scheme Document or any other announcement or document to the offer price under the Perpetual CB Securities Offer will be deemed to be a reference to the offer price under the Perpetual CB Securities Offer as so reduced.

The Cancellation Price and the offer price under the Perpetual CB Securities Offer will not be increased, and the Offeror does not reserve the right to do so.

The implementation of the Proposal and the Scheme is subject to the Conditions being fulfilled or waived, as applicable, and the Perpetual CB Securities Offer is conditional upon the Scheme becoming effective. For details of the Conditions, please refer to the Letter from the Board.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Proposal, the Scheme and the Perpetual CB Securities Offer, we have taken into account the following principal factors and reasons:

1. Background information of the Group

The Group is principally engaged in (i) investment property development and operation; (ii) property development; and (iii) sale of merchandise inventories, with a focus on the development, operation and management of outlets-backed commercial integrated projects and non-outlets retail property projects in the PRC. The investment property development and operation business contributed approximately 72.55%, 43.84% and 68.51% of the Group's total revenue for the two years ended 31 December 2023 and the six months ended 30 June 2024 ("**FY2022**", "**FY2023**" and "**6M2024**", respectively). The segment of investment property development and operation derives its revenue primarily from rental income.

Set out in the table below is a summary of the audited consolidated financial performance of the Group for FY2022 and FY2023 as extracted from the 2023 Annual Report, and the unaudited consolidated financial information of the Company for the six months ended 30 June 2023 ("**6M2023**") and 6M2024 as extracted from the 2024 Interim Report:

(i) ***Financial performance***

	FY2022 *RMB'000* (audited) (restated)	**FY2023** *RMB'000* (audited)	**6M2023** *RMB'000* (unaudited)	**6M2024** *RMB'000* (unaudited)
Revenue	**935,898**	**2,123,739**	**624,962**	**746,386**
— Property development	46,737	998,163	49,891	157,205
— Investment property development and operation	678,958	930,997	463,386	511,378
— Sale of merchandise inventories	210,203	194,579	111,685	77,803
Cost of sales	(613,746)	(1,802,781)	(416,824)	(408,867)
Gross profit	**322,152**	**320,958**	**208,138**	**337,519**
Gross profit margin	34.4%	15.1%	33.3%	45.2%
Other gains — net	17,338	417,141	76,675	11,723
Other income	27,069	39,717	16,220	9,493
Selling and marketing expenses	(84,393)	(160,209)	(45,901)	(41,575)
Administrative expenses	(247,677)	(250,537)	(119,136)	(121,411)
Finance costs	(504,015)	(607,841)	(306,640)	(289,978)
Share of losses of investments accounted for using the equity method	(10,480)	(5,478)	(5,395)	(9,660)
Loss before income tax	**(480,006)**	**(246,249)**	**(176,039)**	**(103,889)**
Income tax expenses	(67,921)	(70,211)	(48,530)	(44,816)
Loss from continuing operations	**(547,927)**	**(316,460)**	**(224,569)**	**(148,705)**

FY2023 as compared to FY2022

The total revenue of the Group amounted to approximately RMB2,123.7 million for FY2023, representing an increase of approximately 126.9% as compared to that of approximately RMB935.9 million for FY2022. Such increase was primarily attributable to (a) the significant increase of approximately RMB951.4 million in the revenue of sale of properties due to the completion of properties under development in 2023; and (b) the increase of approximately RMB252.0 million in revenue generated from investment property development and operation as a result of the significant improvement of sales performance of outlets since the optimisation of the prevention and control policies for pandemic, offset by the decrease of approximately RMB15.6 million in revenue generated from sale of merchandise inventories. As a result of the significant increase in revenue generated from the sale of properties, the property development segment accounted for approximately 47.0% of total revenue for FY2023, whereas the investment property development and operation segment accounted for approximately 43.8% of total revenue for FY2023.

The Group's gross profit decreased by approximately 0.4% from approximately RMB322.2 million for FY2022 to approximately RMB321.0 million for FY2023, mainly due to the decrease in gross profit margin from 34.4% for FY2022 to 15.1% for FY2023. The Group's property development business recorded a gross loss margin of approximately 22% for FY2023. Since the significant increase in revenue generated from property development business with gross loss margin, the Group's gross profit margin decreased in 2023.

The Group's net other gains increased by approximately 2,305.9% from approximately RMB17.3 million for FY2022 to approximately RMB417.1 million for FY2023, mainly due to (a) the increase in fair value gains on investment properties from approximately RMB15.5 million for FY2022 to approximately RMB216.2 million for FY2023; and (b) the one-off gain on disposal of subsidiaries of approximately RMB231.4 million during the year of 2023. As disclosed in the 2023 Annual Report, the Group disposed its outlet projects in Wuhan and Jinan to repay the interest-bearing debts.

The Group's finance costs increased by approximately 20.6% from approximately RMB504.0 million for FY2022 to approximately RMB607.8 million for FY2023, mainly due to the increase in interest expenses on bank and other financial institution borrowings and the decrease in interests capitalised.

Owing to the factors as mentioned above, the Group recorded a decrease in loss from continuing operations of approximately 42.2% from approximately RMB547.9 million for FY2022 to approximately RMB316.5 for FY2023.

6M2024 as compared to 6M2023

The total revenue of the Group amounted to approximately RMB746.4 million for 6M2024, representing an increase of approximately 19.4% as compared to that of approximately RMB625.0 million for 6M2023. Such increase was primarily attributable to a significant increase in revenue generated from property development in the first half of 2024 as compared to the same period in 2023, as well as the continuous increase in revenue generated from investment property development and operation. The property development segment and the investment property development and operation segment accounted for approximately 21.1% and 68.5% of total revenue for 6M2024, and approximately 47.0% and 43.8% of total revenue for FY2023, respectively. The fluctuation in revenue composition as compared to FY2023 was mainly due to the revenue in property development segment were mostly recognised when the property completed their development and put for sale in the second half of 2023.

The Group's gross profit increased by approximately 62.2% from approximately RMB208.1 million for 6M2023 to approximately RMB337.5 million for 6M2024, primarily attributable to the turnaround in the gross profit margin of property development business from a gross loss margin of approximately 185% for 6M2023 to a gross profit margin of approximately 1% for 6M2024.

The Group's net other gains decreased by approximately 84.7% from approximately RMB76.7 million for 6M2023 to approximately RMB11.7 million for 6M2024, which was mainly due to the decrease in fair value gains on investment properties from approximately RMB131.0 million for 6M2023 to approximately RMB6.0 million for 6M2024.

Owing to the factors as mentioned above, the Group recorded a decrease in loss from continuing operations by approximately 33.8% from approximately RMB224.6 million for 6M2023 to approximately RMB148.7 million for 6M2024.

(ii) ***Financial position***

	As at 31 December		As at 30 June
	2022	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(unaudited)
Non-current assets	**15,452,783**	**13,718,748**	**13,706,485**
Property, plant and equipment	182,827	169,475	165,201
Right-of-use assets	10,694	7,893	6,799
Long-term prepaid expenses	65,704	45,441	40,040
Investment properties	14,725,509	13,143,600	13,149,600
Intangible assets and lease prepayment	34,555	33,058	31,964
Investments accounted for using the equity method	299,185	307,618	285,958
Derivative financial assets	105,386	—	—
Trade and other receivables and prepayments	28,923	11,663	26,923
Current assets	**4,357,510**	**4,212,493**	**3,603,156**
Inventories	2,690,328	2,143,262	2,035,832
Incremental costs of obtaining a contract	7,787	3,989	3,989
Trade and other receivables and prepayments	449,030	573,557	438,655
Restricted cash	72,705	21,177	31,239
Cash and cash equivalents	1,137,660	1,470,508	1,093,441
Total assets	**19,810,293**	**17,931,241**	**17,309,641**
Non-current liabilities	**11,502,127**	**6,605,876**	**6,050,498**
Borrowings	4,630,476	2,643,815	3,413,386
Lease liabilities	8,735	6,439	5,263
Other payables and accruals	5,959,018	3,148,467	1,799,979
Deferred income tax liabilities	903,898	807,155	831,870
Current liabilities	**3,914,691**	**6,926,188**	**7,008,671**
Trade payables	1,835,198	1,933,782	1,627,823
Other payables and accruals	363,653	3,187,984	4,480,903
Contract liabilities	319,165	195,564	69,054
Borrowings	1,314,301	1,553,354	773,124
Lease liabilities	2,861	1,797	2,338
Current income tax liabilities	79,513	53,707	55,429
Total liabilities	**15,416,818**	**13,532,064**	**13,059,169**

	As at 31 December		As at 30 June
	2022	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(unaudited)
Net current assets/(liabilities)	**442,819**	**(2,713,695)**	**(3,405,515)**
Net assets	**4,393,475**	**4,399,177**	**4,250,472**
Net assets attributable to owners of the Company	**4,339,124**	**4,344,384**	**4,193,504**
Gearing ratio *(Note)*	243.7%	194.6%	209.8%

Note: Being net debt divided by total equity. Net debt includes interest-bearing bank and other financial institution borrowings, loans under the asset support schemes, senior class asset-backed securities, and lease liabilities less cash and cash equivalents and restricted cash.

As at 30 June 2024, the total assets of the Group amounted to approximately RMB17,309.6 million, which primarily consisted of (a) investment properties of approximately RMB13,149.6 million; (b) inventories of approximately RMB2,035.8 million, which comprised properties under development, completed properties held for sale and merchandise inventories; and (c) cash and cash equivalents of approximately RMB1,093.4 million. The fair value of the Group's investment properties remained stable as at 30 June 2024 as compared to that as at 31 December 2023.

Investment properties

With reference to the 2024 Interim Report and the Valuation Report, the table below sets out the Group's investment properties as at 30 June 2024, which mainly comprised the Outlets operated by the Group that are located in 13 major cities in the PRC. As disclosed in the 2023 Annual Report, the Group disposed its outlet projects in Wuhan and Jinan to BCCDG in 2023 in order to optimise its asset and capital structure, and continued to be entrusted with the management of such two outlet projects. The Group's accounting policies stated that investment properties, including land use rights, buildings and investment properties under construction that are held for the purpose of leasing and buildings that is being constructed or developed for the purpose of leasing in future, are stated at fair values in the consolidated statement of financial position.

Project	**Approximate site area** *(sq.m.)*	**Total gross floor area** *(sq.m.)*	**Property type** *(sq.m.)*	**Attributable interests**
Fangshan Capital Outlets	90,765	175,510	Commercial, carpark and ancillaries: 175,510	100%
Kunshan Capital Outlets	45,847	49,361	Outlets: 49,361	100%
	46,257	48,871	Outlets: 48,628 Storage: 243	100%
Huzhou Capital Outlets	214,317	95,330	Outlets: 95,330	100%
Nanchang Capital Outlets	56,833	123,794	Outlets: 79,337 Parking space: 44,457	100%
	30,153	13,994	Commercial: 13,994	40%
Hangzhou Capital Outlets	101,691	112,271	Outlets: 88,966 Parking space: 23,305	100%
Xi'an Capital Outlets	81,301	116,238	Outlets and parking space: 116,238	100%
Zhengzhou Capital Outlets	80,790	99,413	Outlets: 82,766 Parking space: 15,513 Ancillaries: 1,134	100%
Hefei Capital Outlets	87,910	94,744	Outlets: 71,265 Parking space: 21,781 Others: 1,698	100%
Chongqing Capital Outlets	74,349	113,168	Outlets: 81,715 Parking space: 31,453	100%
Kunming Capital Outlets	67,920	98,631	Outlets: 82,045 Parking space: 14,100 Others: 2,486	85%
Qingdao Capital Outlets	93,972	95,329	Outlets: 95,329	100%
Nanning Capital Outlets	101,973	142,839	Outlets: 142,839	100%
Xiamen Capital Outlets	55,656	123,612	Outlets, carpark and ancillaries: 123,612	100%
Beijing China Railway Construction Plaza	58,020	29,266	Commercial: 3,463 Office: 22,318 Garage: 3,485	50%

Development properties

With reference to the 2024 Interim Report and the Valuation Report, the table below sets out the Group's development properties as at 30 June 2024. Properties under development are intended to be held for sale after completion. Both of properties under development and completed properties held for sale are stated at the lower of cost and net realisable value.

Project	**Approximate site area** *(sq.m.)*	**Unsold gross floor area** *(sq.m.)*	**Unsold ground floor area** *(sq.m.)*	**Property type**	**Attributable interests**
Xi'an Capitalland International City	326,940	203,910	92,920	Residential/ Commercial/ Office buildings/ Parking space and others	100%
Nanchang Capital Outlets	30,153	24,325	24,325	Commercial	40%
Chongqing Capital Outlets	74,349	261	261	Commercial	100%
Nanning Capital Outlets	101,973	5,951	5,951	Commercial	100%
Jinan Capital Outlets	114,929	0	0	Commercial	100%

As at 30 June 2024, the total liabilities of the Group amounted to approximately RMB13,059.2 million, which primarily consisted of (a) other payables and accruals of approximately RMB6,280.9 million, which mainly comprised the senior class asset-backed securities issued by the Group and the loans received by the Group under the asset support schemes; (b) borrowings of approximately RMB4,186.5 million; and (c) trade payables of approximately RMB1,627.8 million.

As at 30 June 2024, the Group had equity attributable to owners of the Company of approximately RMB4,193.5 million and net current liabilities of approximately RMB3,405.5 million. As disclosed in the 2024 Interim Report, the Group had a gearing ratio of approximately 209.8% as at 30 June 2024.

(iii) ***Overall comments***

Despite the increase in revenue from FY2022 to FY2023 and from 6M2023 to 6M2024, the Group still recorded a net loss for FY2023 and 6M2024. Although the Group recorded revenue generated from property development of approximately RMB998.2 million for FY2023 as compared to approximately RMB46.7 million for FY2022, the property development segment recorded a gross loss for FY2023. Inventories, which comprised properties under development, completed properties held for sale and merchandise inventories, only accounted for approximately 11.8% of the Group's total assets as at 30 June 2024. We expect the Group's revenue will continue to be derived mainly from investment property development and operation in the near future. However, the retail property market in China is subject to uncertainties and challenges in the near future as discussed in section headed "2. Industry overview and outlook" below.

The Group had a gearing ratio of approximately 209.8% as at 30 June 2024. It recorded finance costs of approximately RMB607.8 million for FY2023 and approximately RMB290.0 million for 6M2024, while gross profit was only approximately RMB321.0 million for FY2023 and RMB337.5 million for 6M2024. As mentioned in the 2024 Interim Report, the Group's current liabilities repayable within one year from 30 June 2024 amounted to RMB4,754.4 million, which comprised of other financial institution borrowings totalling RMB705.8 million repayable in July 2024, other payables related to the asset support scheme of RMB1,349.1 million repayable in April 2025, and other payables related to the senior class asset-backed securities of RMB2,699.6 million wholly redeemable in December 2024. Given the significant amount of liabilities payable within one year while the Group only had cash and cash equivalent of approximately RMB1,093.4 million as at 30 June 2024, the Group currently is under financial pressure. Having taking into account that (i) the Group had been loss making for years; (ii) the retail property market in China is subject to uncertainties and challenges in the near future; and (iii) the financial pressure the Group is under, we consider that the Group's prospect to be uncertain.

2. Industry overview and outlook

(i) *Economic growth and retail sales*

The table below sets out the PRC's (a) real gross domestic product ("**GDP**") growth; and (b) consumer goods retail sales growth for the years or period indicated:

year on year/period to period growth/(contraction) rate	2019	2020	2021	2022	2023	First three quarters of 2024
Real GDP	6.0%	2.2%	8.1%	3.0%	5.2%	4.8%
Consumer goods retail sales	8.0%	(3.9%)	12.5%	(0.2%)	7.2%	3.3%

Source: National Bureau of Statistics of China

Adversely affected by the COVID-19 outbreak since early 2020, the PRC's economic growth decelerated to 2.2% in 2020. Due to the recovery of the economy from the low base in 2020, the PRC's economy grew rapidly at 8.1% in 2021, but fell back to 3.0% in 2022 due to the resurgence of the epidemic. In 2023 and the first three quarters of 2024, the PRC's economy gradually recovered and the GDP mildly grew by 5.2% and 4.8%, respectively.

In the first three quarters of 2024, consumer goods retail sales increased by 3.3%, which represented a downturn in recovery as compared to the growth rate of 7.2% in 2023 and also underperformed as compared to the growth rate of 8.0% in 2019 prior to COVID-19. Such a slowdown in the recovery of consumer goods retail sales may adversely affect the rental demand of the Group's tenants and the sales volume of the Group's own merchandise.

(ii) ***Property development market***

The table below sets out the PRC's (a) the growth in investment in real estate development; (b) the growth in sales of newly built buildings; and (c) the growth in floor area of newly built buildings sold for the years or period indicated:

year on year/period to period growth/(contraction) rate	**2019**	**2020**	**2021**	**2022**	**2023**	**First three quarters of 2024**
— Investment in real estate development	9.9%	7.0%	4.4%	(10.0%)	(9.6%)	(10.1%)
— Sales of newly built buildings	6.5%	8.7%	4.8%	(26.7%)	(6.5%)	(22.7%)
— Floor area of newly built buildings sold	(0.1%)	2.6%	1.9%	(24.3%)	(8.5%)	(17.1%)

Source: National Bureau of Statistics of China

In the first three quarters of 2024, the investment in real estate development, sales of newly built buildings and floor area of newly built building sold decreased by approximately 10.1%, 22.7% and 17.1%, respectively, which continued the contracting trend since 2022. In August 2020, the PRC government imposed the three red lines guidance (the "**Three Red Lines Guidance**") on real estate developers by assessing their financial situation against three ratios, namely liability-to-asset ratio, net gearing ratio and cash-to-short-term debt ratio. Many property developers had to deleverage so as to comply with the requirements under the Three Red Lines Guidance, which has adversely affected their liquidity and therefore the investment in real estate development. Affected by the slowdown in economic growth, the willingness of residents to purchase residential properties and enterprises to purchase commercial properties has declined as well, resulting in a decrease in the sales amount and floor area of buildings sold.

(iii) ***Retail property market***

	Vacancy rate as at 30 June 2024	Vacancy rate change from 1 January 2024 to 30 June 2024 *(Note 1)*	Rent change from 1 January 2024 to 30 June 2024
Nationwide	10.3%	–0.3	–0.7%
— Beijing, Shanghai, Guangzhou, Shenzhen	7.1%	–0.3	–0.0% *(Note 2)*
— Chengdu, Wuhan, Chongqing, Nanjing, Hangzhou, Suzhou	10.8%	–0.4	–1.0%
— Tier two cities (Xi'an, Shenyang, Qingdao and other 8 cities)	12.6%	–0.2	–1.1%

Source: JLL research

Notes:

1. Shown in percentage points.

2. Less than 0.1%.

According to a China retail market report (https://www.joneslanglasalle.com.cn/content/dam/jll-com/documents/pdf/research/apac/china/jll-1h-2024-china-retail-market-report-en-v2.pdf) published on 13 August 2024 by JLL, a global real estate services firm specialising in commercial property and investment management, the average vacancy rate of the retail properties in 21 major cities in China was approximately 10.3% in the first half of 2024 as compared to approximately 7.6% as at 31 December 2019 before the epidemic. In particular, the retail properties in the tier two cities recorded higher average vacancy rate than those in the tier one cities. National premium retail property market supply amounted to approximately 2.9 million sq.m., representing a decrease of approximately 22.6% as compared to that for 6M2023. The decline in supply and high vacancy rate reflect a lack of demand for retail properties.

National rents also recorded a downward trend. The average ground floor rents in prime shopping centers fell by approximately 0.7% in the first half of 2024, which continued the downward trend in 2023 which recorded a decrease of approximately 1.0%, and still lack sustained growth momentum. As discussed in the subsection headed "(i) Economic growth and retail sales" above, retail sales of consumer goods recorded downturn in its recovery and grow at a rate significantly lower than the year prior to the pandemic. Given the slow in growth in consumer retail demand, JLL expected that the vacancy rate of retail properties will continue to increase in the second half of 2024 and the rents are on the other hand likely to face continued downward pressure.

(iv) ***Outlook***

The Group focuses on outlets-backed commercial integrated projects and non-outlets retail property projects in the PRC. The slowdown in economic growth and retail sales growth and inadequate consumer demand have adversely affected the vacancy rate and rent level of retail properties in the PRC, which in turn affected the Group's rental income derived from its retail property projects. The vacancy rate of retail properties is expected to continue to increase in the second half of 2024 and the rents are on the other hand likely to face continued downward pressure. In addition, the PRC property development market has been contracting since 2022. As such, we consider the operating performance of the Group is uncertain in the near term.

3. Information on the Offeror and the future intention of the Offeror

The Offeror is a company incorporated in Hong Kong with limited liability. As at the Latest Practicable Date, the Offeror directly holds approximately 60.38% of the issued share capital of the Company and is indirectly wholly-owned by BCCDG which is in turn wholly-owned by Capital Group. Capital Group is in turn under the direct supervision of the People's Government of Beijing Municipality. The principal business of the Offeror is investment holding.

As disclosed in the Letter from the Board, Capital Group, BCCDG and the Offeror will continue to review and consider the Company and its assets, corporate structure, capitalisation, operations, properties, policies, management and personnel and reserve the right to make changes which, if any, would be appropriate or desirable following the Proposal in order to best organise and optimise the activities of the Group, which may include, but are not limited to, any changes in the business and operations of the Group or the redeployment of fixed assets of the Group.

As at the Latest Practicable Date, the Offeror does not have any specific plan to make any significant changes to the continued employment of the employees of the Group as a result of the implementation of the Proposal, other than in the ordinary course of business of the Group.

4. Reasons for and benefits of the Proposal

The Group's principal business, which involves the development, operation, and management of outlet-backed commercial integrated projects, is inherently capital-intensive. As discussed in the section headed "Background information of the Group" above, the Group had a high gearing ratio of approximately 209.8% as at 30 June 2024. Finance costs have eroded the Group's profits. The Group recorded finance costs of approximately RMB607.8 million for FY2023 and approximately RMB290.0 million for 6M2024, while gross profit was only approximately RMB321.0 million for FY2023 and RMB337.5 million for 6M2024.

The trading liquidity of the Shares has been at a low level over a long period of time. The average daily trading volume of the Shares for the 12-month period, 24-month period and 36-month period up to and including the Last Trading Day were approximately 2.87 million, 1.44 million and 0.96 million Shares per day, representing only approximately 0.27%, 0.13% and 0.09% of the total number of the Shares as at the Announcement Date, respectively. Given the low trading liquidity of the Shares, we concur with the Directors that it is difficult for Scheme Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares. Further, due to the very low liquidity of the Shares, the price of the Shares may not fully reflect the intrinsic value of the Company and devalues the investment of the Scheme Shareholders. As such, the Proposal presents an immediate opportunity for Scheme Shareholders to monetize their investments for cash and redeploy the consideration received under the Scheme into other investment opportunities.

It is noted that during the period after the completion of the very substantial acquisition of the Company (the "**Acquisition**") which constituted a reverse takeover as detailed in the announcement of the Company dated 22 January 2015 and up to the Last Trading Day, the Share price exhibited a general downward trend from HK$2.93 on 22 January 2015, being the completion date of the Acquisition, to HK$0.58 on the Last Trading Day. Prior to the Acquisition, the Company was principally engaged in the production of chemicals. Given the change in principal business of the Group following the Acquisition, we consider the Share price performance prior to the completion of the Acquisition is not relevant to the investors' assessment of the Group's current property business performance.

As stated in the Letter from the Board, the Proposal allows an exit for the Scheme Shareholders at a compelling premium to the market price prior to the date of the Announcement. The Cancellation Price represents a significant premium of approximately 46.55% over the closing price of the Shares on the Last Trading Day of HK$0.58, approximately 41.75% and 65.44% over the average closing price of approximately HK$0.60 and HK$0.51 per Share for the 30 and 90 trading days up to and including the Last Trading Day, respectively. In addition, based on the median price-to-book multiple of the Comparable Companies (as defined below) of approximately 0.18 time on the Last Trading Day and the Reassessed NAV (as defined below) per Share of approximately HK$1.84, the implied Share price is HK$0.3312, over which the Cancellation Price represents a premium of approximately 156.64%. For our further analysis of the Cancellation Price, please refer to the section headed "Cancellation Price" below.

We have reviewed the announcements published by the Company and noted that the Company has not carried out any equity fundraising activities since the completion ("**Completion**") of the issue of new Shares and perpetual convertible bond securities in December 2016. Although the Company has discussed the feasibility of raising funds through equity financing following Completion, due to (a) the long-term underperformance in the prices and trading liquidity of the Shares; (b) the Group's loss-making position since 2018; and (c) the public float requirement of 25% limiting the subscription size of strategic investors and restricting the Offeror to participate in the placing given that the Offeror and the Offeror Concert Parties held approximately 75% of the total then issued Shares following Completion, the Company does not expect to be able to reach agreement with any potential investors with favourable terms that are in the interests of the

Shareholders and the Company as a whole. Given the Company has limited ability to raise funds through equity financing, which is one of the main benefits of being publicly listed while having to continue to incur various costs associated with the maintenance of its listing status, we concur with the Directors that there are limited benefits for the Company to maintain its listing status. Upon privatisation, the listing of the Shares will be withdrawn from the Stock Exchange, which will result in savings of costs associated with the maintenance of its listing status.

Based on the aforesaid, we consider that the Proposal (i) provides an opportunity for the Scheme Shareholders to dispose of their Shares at a price above the market prices prior to the issue of the Announcement, without having to suffer any illiquidity discount; (ii) upon its realisation, will allow the Group to focus its resources in formulating long-term growth strategies and executing its strategies more efficiently and effectively as a non-listed state-owned entity, without being subject to regulatory restrictions, compliance obligations, pressure of market expectations and share price fluctuations arising from being a publicly listed company; (iii) will allow the Group to reduce the costs associated with maintaining a listing platform with limited equity financing capabilities; and (iv) will allow the Group to utilise the support of Capital Group and BCCDG more efficiently.

5. Valuation on property interests of the Group and the Reassessed NAV

(i) *Valuation on property interests of the Group*

The Valuation Report prepared by Cushman & Wakefield Limited (the "**Valuer**") relating to the valuation of the properties held by the Group in the PRC (the "**Properties**"), is set out in Appendix II to the Scheme Document. According to the Valuation Report, the valuation of the properties interests in existing state as at 31 October 2024 attributable to the Group is approximately RMB15,510.9 million (the "**Valuation**").

We have reviewed the terms, including the scope of work, of engagement between the Company and the Valuer, which we consider to be appropriate. We noted that the Valuer carried out site inspections of the Properties in between June and November 2024.

We have reviewed the Valuation Report and discussed with the Valuer methodologies of and bases and assumptions adopted for the valuations and adjustments made to arrive at the valuation.

In valuing the Properties which are completed properties held for sale in the PRC ("**Properties in Group I**"), the Valuer have mainly adopted market comparison method assuming sale of each of these properties in its existing state by making reference to comparable sales transactions as available in the relevant market subject to suitable adjustments between the subject properties and the comparable properties. Given that the Properties in Group I are mostly strata residential units, ancillary commercial podium units and car parking spaces, comparable sales transactions and information about such sales are generally available. Therefore, we concur with the valuer that using market comparison method for the Properties in Group I is in line with the market practice.

In valuing the Properties which are completed properties held for investment in the PRC ("**Properties in Group II**"), the Valuer have adopted the investment method on the basis of capitalisation of rental incomes derived from the existing tenancies with due allowance for reversionary potential of each of the properties at appropriate capitalisation rates. We understand from the Valuer that for Properties in Group II, the market comparison approach is not appropriate in this case because transactions involving similar scale properties of the same nature and tenancy structure in the same districts are not frequent. As most Properties in Group II generate rental income from letting arrangements and such rental comparables are more readily available, we concur with the Valuer that the investment method, which is also commonly used in valuing properties for investment purpose, to be the best method to value these Properties in Group II. When using the investment method, the Valuer has mainly made reference to lettings within the subject property as well as other relevant comparable rental evidences of properties of similar use type subject to appropriate adjustments including but not limited to location, accessibility, age, quality, size, time and other relevant factors. We understand these consideration factors are commonly used in the industry and consider it to be reasonable.

As disclosed in the Valuation Report, the capitalisation rates adopted for the purpose of the valuation are based on the Valuer's analyses of the yields of properties of similar use type after due adjustments. We have discussed and understand such capitalisation rates are estimated with reference to the yields generally expected by the market for comparable properties of similar use type, which implicitly reflect the type and quality of the properties, the expectation of the potential future rental growth, capital appreciation and relevant risk factors. We are given to understand that the capitalisation rates adopted are reasonable and in line with the market norm having regard to the analysed yields of transactions of the relevant use type.

(ii) ***Reassessed NAV***

In evaluating the Proposal, we have taken into account the Group's reassessed net asset value attributable to the Shareholders (the "**Reassessed NAV**"), which is calculated based on the Group's unaudited net asset value as at 30 June 2024, adjusted with reference to the valuation of properties interests held by the Group as set out in Appendix II to the Scheme Document and assuming that all the Class A Convertible Preference Shares, Class B Convertible Preference Shares and Perpetual CB Securities are converted into Shares since the Class A Convertible Preference Shares, Class B Convertible Preference Shares and Perpetual CB Securities were accounted as equities of the Company. The total net assets of the Group are attributable to all holders of the Shares, Class A Convertible Preference Shares, Class B Convertible Preference Shares and Perpetual CB Securities.

With reference to the Scheme Document, details of the adjustments are set out in the table below:

	RMB'000
Unaudited net asset value of the Group as at 30 June 2024	4,193,504
Add: net revaluation surplus arising from the valuation of the property interests attributable to the Group as at 31 October 2024 *(Note 1)*	116,616
Subtract: net deferred tax on revaluation surplus attributable to the Group *(Note 2)*	29,154
Reassessed NAV	4,280,966
Reassessed NAV per Share (RMB) *(Note 3)*	1.68
Reassessed NAV per Share (HK$) *(Note 4)*	1.84

Notes:

1. Represents the net revaluation surplus arising from the net excess of the market value of the property interests held by the Group in existing state attributable to the Group as at 31 October 2024, as appraised by the Valuer, over their corresponding book values attributable to the Group as at 30 June 2024.

2. Based on the PRC corporate income tax of 25%.

3. Based on 2,547,652,479 Shares in issue and assuming that all the Class A Convertible Preference Shares, Class B Convertible Preference Shares and Perpetual CB Securities are converted into Shares as at the Latest Practicable Date.

4. Based on the exchange rate of HK$1:RMB0.91268, being the median exchange rate on 28 June 2024 (being the last business day in the PRC in June 2024) as announced by the People's Bank of China.

6. Cancellation Price

The Scheme will provide that all of the Scheme Shares will be cancelled in exchange for the Cancellation Price of HK$0.85 in cash for each Scheme Share. In order to assess the fairness and reasonableness of the Cancellation Price, we have considered the following principal factors:

(i) *Cancellation Price comparison*

The Cancellation Price of HK$0.85 per Scheme Share in cash represents:

(a) a premium of approximately 3.66% over the closing price per Share of HK$0.82 on the Stock Exchange on the Latest Practicable Date;

(b) a premium of approximately 46.55% over the closing price of HK$0.58 per Share as quoted on the Stock Exchange on the Last Trading Day;

(c) a premium of approximately 54.55% over the average closing price of HK$0.55 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Day;

(d) a premium of approximately 55.11% over the average closing price of HK$0.548 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;

(e) a premium of approximately 41.75% over the average closing price of approximately HK$0.60 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;

(f) a premium of approximately 47.85% over the average closing price of approximately HK$0.57 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;

(g) a premium of approximately 65.44% over the average closing price of approximately HK$0.51 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;

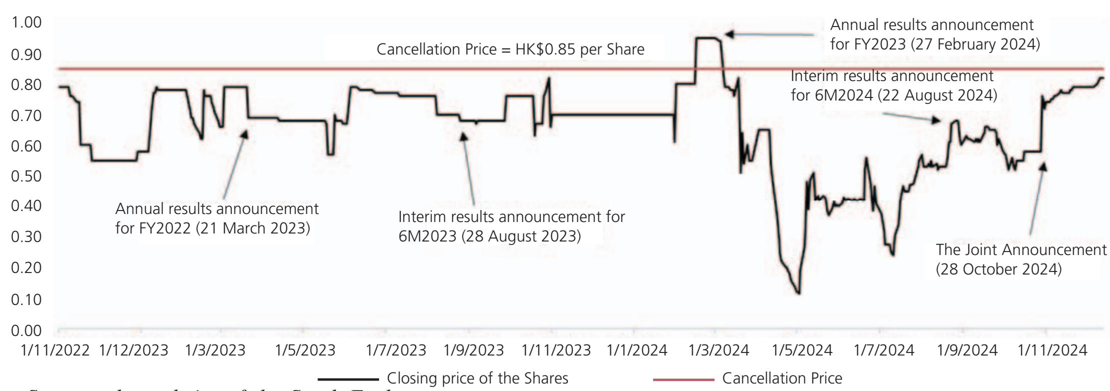
(h) a discount of approximately 52.87% to the NAV per Share of approximately HK$1.80 as at 30 June 2024 (equal to approximately RMB1.65, calculated based on the unaudited equity attributable to owners of the Company of RMB4,193,504,000 as at 30 June 2024 and 2,547,652,479 Shares in issue assuming that all the Class A Convertible Preference Shares, Class B Convertible Preference Shares and Perpetual CB Securities are converted into Shares); and

(i) a discount of approximately 53.83% to the Reassessed NAV per Share of approximately HK$1.84 as set out in Appendix I of the Scheme Document.

(ii) ***Historical price performance of the Shares***

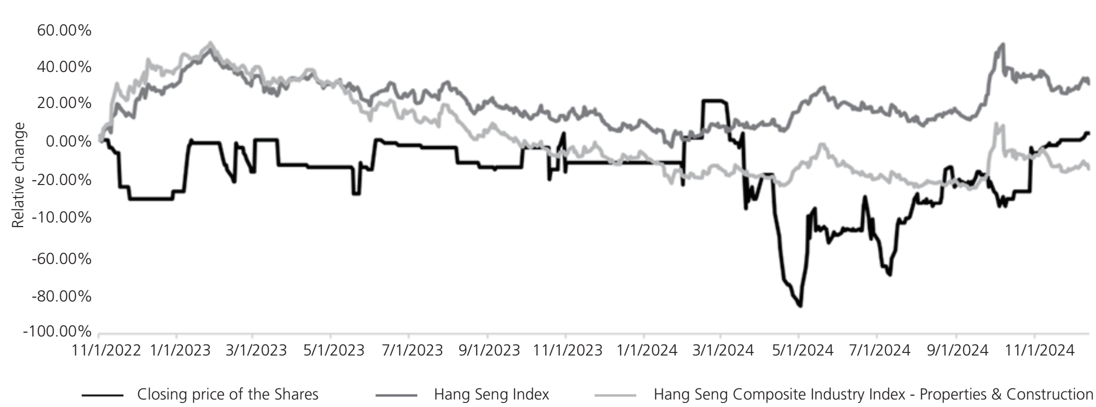
Set out below is the chart showing the movement of the daily closing prices of the Shares as quoted on the Stock Exchange during the period from 1 November 2022 up to the Last Trading Day (the "**Review Period**"), being approximately two years period prior to the Last Trading Day, and the period from the Last Trading Day up to the Latest Practicable Date (the "**Post-Announcement Period**"). We consider such Review Period to be fair, reasonable and representative as we consider it a sufficient period to illustrate the general trend and level of movement of the daily closing prices of the Shares for the purpose of this analysis, which reflects the prevailing market sentiment for conducting a comparison between the closing prices of the Shares and the Cancellation Price.

Chart 1: Historical price performance of the Shares during the Review Period and the Post-Announcement Period



Source: the website of the Stock Exchange

Chart 2: Comparison of performance of the Share price with the Hang Seng Index and the Hang Seng Composite Industry Index (Properties & Construction)



As illustrated in the Chart 1 above, the Shares traded at an average of approximately HK$0.65 per Share during the Review Period, with the highest of HK$0.95 per Share on 16 February 2024 and the lowest of HK$0.114 per Share on 2 May 2024. The Cancellation Price represents a premium of approximately 30.77% over the average closing price during the Review Period.

Out of 479 trading days during the Review Period, there were only 14 trading days (i.e. from 16 February 2024 to 6 March 2024, and during the period from 17 February 2024 to 5 March 2024 there was no trading in the Shares) on which the historical closing prices of the Shares were higher than the Cancellation Price of HK$0.85 per Share. The closing prices of the Shares fluctuated between HK$0.55 per Share and HK$0.82 per Share during the period from 1 November 2022 to 15 February 2024. The Share price increased by 18.75% to HK$0.95 per Share on 16 February 2024. However, following the announcement of the annual results for FY2023 on 27 February and KKR CG Judo Outlets, a former substantial Shareholder, began selling Shares on the market in April 2024, the Share price fell rapidly and reached the lowest of HK$0.114 per Share on 2 May 2024. Since then, the Share price has fluctuated and closed at HK$0.58 per Share on the Last Trading Day, over which the Cancellation Price represents a premium of approximately 46.55%.

As shown in the Chart 2 above, the Share price generally underperformed the Hang Seng Index and the Hang Seng Composite Industry Index for properties and construction sector during the Review Period, which we consider was mainly due to (a) the Group's unsatisfactory financial performance; and (b) the Group's uncertain prospect amidst the industry downturn. In addition, the sale of Shares on the market by KKR CG Judo Outlets caused the Share price to fall sharply in mid-April to early May 2024 and late June to mid-July 2024. In 2024, the Hang Seng Index demonstrated a general upward trend. The Hang Seng Index increased by approximately 54.40% from 14,961 points on 22 January 2024 to 23,100 points on 7 October 2024. The Hang Seng Index then dropped to 20,287 points on the Last Trading Day. The Hang Seng Composite Industry Index for properties and construction sector generally followed the Hang Seng Index with a greater decrease in 2023, then also surged in September 2024, increasing by approximately 45.7% from 1,294 points on 11 September 2024 to 1,885 points on 2 October 2024, and closed at 1,642 points on the Last Trading Day. During the Review Period, the Share price decreased by approximately 26.58% while the Hang Seng Index increased by approximately 31.26% and the Hang Seng Composite Industry Index for properties and construction sector decreased by approximately 5.31%.

Subsequent to the publication of the Announcement, the closing price of the Shares surged to HK$0.76 per Share on 29 October 2024. The closing price of the Shares was HK$0.82 per Share as at the Latest Practicable Date, over which the Cancellation Price represents a premium of approximately 3.66%.

The Cancellation Price is higher than the closing prices of the Shares on 465 out of 479 trading days during the entire Review Period, and represents a premium of approximately 30.77% over the average closing price during the Review Period. There was no trading in the Shares on 12 out of 14 trading days on which the Cancellation Price is lower than the closing prices of the Shares. From the Scheme Shareholders' perspective, the Cancellation Price represents an immediate uplift in the Shareholders' value as compared to the recent Share price. We are of the view that the aforesaid surge in the Share price subsequent to the publication of the Announcement was driven by the announcement of the Proposal, in particular, the Cancellation Price of HK$0.85 per Share. However, the Scheme Shareholders should note that the Shares were still traded below the Cancellation Price as at the Latest Practicable Date and the prevailing Share price may not be sustained if the Scheme is not approved or the Proposal lapses. Considering the Share price generally underperformed the Hang Seng Index and the Hang Seng Composite Industry Index for properties and construction sector during the Review Period, if the Scheme becomes effective and the Proposal is implemented, the Scheme Shareholders would have the opportunity to reinvest the proceeds in other companies to achieve higher returns.

(iii) ***Historical trading liquidity of the Shares***

The following table sets out the average daily trading volume of the Shares for each month or period and the percentages of such average daily trading volume to the total number of the Shares in issue and held by the public during the period from 1 November 2022 to the Latest Practicable Date:

	Number of trading days	**Approximate average daily trading volume of the Shares**	**Approximate percentage of average daily trading volume to the total number of the Shares in issue** *(Note 1)*	**Approximate percentage of average daily trading volume to the total number of the Shares held by the public** *(Note 2)*
2022				
November	22	20,091	0.0021%	0.0084%
December	20	500	0.0001%	0.0002%

	Number of trading days	Approximate average daily trading volume of the Shares	Approximate percentage of average daily trading volume to the total number of the Shares in issue *(Note 1)*	Approximate percentage of average daily trading volume to the total number of the Shares held by the public *(Note 2)*
2023				
January	18	1,111	0.0001%	0.0005%
February	20	1,400	0.0001%	0.0006%
March	23	87	0.0000%*	0.0000%*
April	17	—	—	—
May	21	1,619	0.0002%	0.0007%
June	21	6,000	0.0006%	0.0025%
July	20	100	0.0000%*	0.0000%*
August	23	—	—	—
September	19	3,053	0.0003%	0.0013%
October	20	23,100	0.0024%	0.0096%
November	22	—	—	—
December	19	—	—	—
2024				
January	22	273	0.0000%*	0.0001%
February	19	421	0.0000%*	0.0002%
March	20	7,300	0.0008%	0.0030%
April	20	3,135,500	0.3261%	1.3044%
May	21	14,788,110	1.5380%	6.1519%
June	19	2,406,526	0.2255%	0.6955%
July	22	9,218,902	0.8638%	2.6641%
August	22	1,701,636	0.1595%	0.4918%
September	19	1,547,263	0.1450%	0.4471%
October	13	7,342,231	0.6880%	2.1218%
November	21	3,039,837	0.2617%	0.6902%
From 1 December to the Latest Practicable Date	10	3,051,049	0.2627%	0.6927%

* Less than 0.0001%

Source: the website of the Stock Exchange

Notes:

1. Based on the total number of the Shares in issue at the end of each month or period as disclosed in the monthly return of the Company.

2. Based on the number of the Shares held by the public Shareholders as calculated by deducting the number of Shares held by the Offeror and the Offeror Concert Parties as at the Latest Practicable Date.

As illustrated in the above table, the trading of the Shares was generally inactive during the Review Period. No Shares were traded (a) in the months of April, August, November and December 2023; and (b) on 312 trading days out of 479 trading days during the Review Period.

The maximum average daily trading volume of the Shares during the Review Period was approximately 14,788,110 Shares in May 2024, representing approximately 1.5380% of the total issued Shares and approximately 6.1519% of the issued Shares held by the public. We consider the high trading volume in April, May and July 2024 was possibly due to the disposal of Shares on the market by KKR CG Judo Outlets, a former substantial Shareholder.

Given the historical thin liquidity of the Shares, it may be difficult for the Scheme Shareholders to dispose of a significant number of the Shares within a short period in the market without exerting downward pressure on the market prices of the Shares. In addition, the higher level of trading volume of the Shares after the publication of the Announcement may not be sustained if the Proposal lapses. As such, we consider that the Proposal represents an opportunity for the Scheme Shareholders, especially those with relatively sizeable shareholdings, to exit at the Cancellation Price which is above the prevailing trading price.

(iv) ***Comparable companies***

The Group is principally engaged in commercial property development and operation management, with a focus on the development, operation and management of outlets-backed commercial integrated projects and non-outlets retail property projects in the PRC.

Price-to-earnings ("**P/E(s)**"), price-to-book ("**P/B(s)**") and price-to-sale ("**P/S(s)**") multiples are the three most commonly used benchmarks in valuing a company. Given that (a) the Group was loss making for FY2023 and 6M2024; (b) the Group recorded net assets position as at 30 June 2024 and investment properties accounted for approximately 76.0% of the Group's total assets as at 30 June 2024, which indicated the Group's business being capital intensive; and (c) the Group recorded volatile revenue for the two years ended 31 December 2023, we consider the valuation methodology using P/B is more appropriate in valuing the Group. Based on (a) the Cancellation Price of HK$0.85 per Share; and (b) the Reassessed NAV per Share of approximately HK$1.84, the P/B implied by the Cancellation Price is approximately 0.46 time (the "**Implied P/B**").

In assessing the fairness and reasonableness of the Cancellation Price, we consider that it is relevant to assess the Cancellation Price by making reference to the market valuation of companies listed in Hong Kong which are principally engaged in business similar to that of the Group. We have, based on our search on Bloomberg and the website of the Stock Exchange, identified an exhaustive list of companies (the "**Comparable Companies**") which (a) are principally engaged in property investment in the PRC; (b) have their shares listed and traded on the Main Board of the Stock Exchange; and (c) have a market capitalisation ranging from HK$100 million to HK$1,000 million on the Last Trading Day, being approximately plus or minus HK$500 million range of the market capitalisation of the Company of approximately HK$619 million on the Last Trading Day, which we consider to be reasonable and appropriate to identify sufficient sample size of the Comparable Companies. Based on the aforesaid criteria, we have identified six Comparable Companies, which represents an exhaustive list. We consider that the Comparable Companies are fair and representative for comparison purpose as (a) all of them generated more than 50% of total revenue from the property investment in the PRC, as did the Group; and (b) their market capitalisation is generally comparable to that of the Group. We have not included asset size as one of the selection criteria for the Comparable Companies, given that if we set ranges for market capitalisation and asset size at the same time, the P/B of the Comparable Companies calculated based on the market capitalisation and asset size would also fall within a fixed range which may affect our analysis, whereas we consider the Comparable Companies with comparable market capitalisation could provide a more useful reference for the Shareholders. We have not included companies principally engaged in property development and sales, or companies principally engaged in retailing as comparable companies because (a) the property development business only contributed approximately 4.99%, 47.00% and 21.06% of the Group's total revenue for FY2022, FY2023 and 6M2024, respectively, which fluctuated significantly and may not be sustainable as it was dependent on the period of sales of completed properties and recorded gross loss in 2022 and 2023; (b) the sale of merchandise inventories contributed only approximately 22.46%, 9.16% and 10.42% of the Group's total revenue for FY2022, FY2023 and 6M2024, respectively; (c) the property investment business contributed approximately 72.55%, 43.84% and 68.51% of the Group's total revenue for FY2022, FY2023 and 6M2024, respectively; and (d) investment properties accounted for approximately 76.0% of the Group's total assets as at 30 June 2024 while inventories, which comprised properties under development, completed properties held for sale and merchandise inventories, only accounted for approximately 11.8%.

The following table set out the details of the Comparable Companies:

Company name (stock code)	Principal business	Market capitalisation on the Last Trading Day *(HK$ million)*	P/B *(Note 1)* *(times)*
Multifield International Holdings Limited (898.HK)	Property investment; provision of serviced apartment and property management services; and trading and investments.	702.3	0.09
China Asia Valley Group Limited (63.HK) ("**China Asia Valley**")	Property investment; horticultural services and sale of plants; and property management and other related services.	571.7	1.17 *(Note 3)*
Silver Grant International Holdings Group Limited (171.HK)	Investments and property leasing.	283.5	0.10
China City Infrastructure Group Limited (2349.HK)	Property development, property Investment, and property management.	212.7	0.35
Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited (1379.HK)	Property leasing and sales of completed properties.	180.0	0.21
Everbright Grand China Assets Limited (3699.HK)	Property leasing and provision of property management services.	169.9	0.16
		Maximum	1.17
		Minimum	0.09
		Average	0.35
		Median	0.18
	The Company	**619.0**	**0.46** *(Note 2)*

Source: the website of the Stock Exchange and Bloomberg

Notes:

1. For each of the Comparable Companies, its P/B is calculated based on (a) the market capitalisation on the Last Trading Day; and (b) the net asset value attributable to its shareholders as at the end of the latest financial year or period;

2. Being the Implied P/B; and

3. Based on our review of the financial reports of China Asia Valley, it was mainly engaged in property management for FY2023, but started to engage in sub-leasing business in the first half of 2024. The sub-leasing business contributed to over 50% of China Asia Valley's total revenue for the last twelve months ended 30 June 2024. The leased properties in relation to operating lease used in sub-leasing business, meet the definition of investment properties. We consider the high P/B of China Asia Valley as compared to other Comparable Companies may be due to that the share price has not fully reflected the sudden change in its business model.

As shown in the table above, the P/Bs of the Comparable Companies ranged from approximately 0.09 time to approximately 1.17 times, with an average and a median of approximately 0.35 time and 0.18 time, respectively, on the Last Trading Day. The Implied P/B of approximately 0.46 time is higher than the average and the median of those of the Comparable Companies.

Although only in FY2023 the Group generated a considerable portion of revenue from property development and this may not be sustainable, the Group's significant property interests are considered to be similar to and comparable with property development companies, whose assets also substantially consist of property interests. Therefore, we have prepared another list of companies primarily engaged in property development for the Scheme Shareholders' reference.

We have, based on our search on Bloomberg and the website of the Stock Exchange, identified an exhaustive list of companies (the "**Property Development Companies**") which (a) generated more than 50% of total revenue from property development in the PRC; (b) have their shares listed on the Main Board of the Stock Exchange and trading has not been suspended; (c) have a market capitalisation ranging from HK$100 million to HK$1,000 million on the Last Trading Day; and (d) have a net asset position. Based on the aforesaid criteria, we have identified 29 Property Development Companies, which represents an exhaustive list.

The following table set out the details of the Property Development Companies:

Company name (stock code)	**Market capitalisation on the Last Trading Day** *(HK$ million)*	**P/B** *(Note 1)* *(times)*
Road King Infrastructure Ltd. (1098.HK)	959.2	0.07
China Sce Group Holdings Limited (1966.HK)	886.8	0.15
Zhong An Group Limited (672.HK)	851.0	0.08
China New Town Development Company Limited (1278.HK)	797.6	0.17
Guangdong Land Holdings Limited (124.HK)	753.1	0.16
Top Spring International Holdings Ltd. (3688.HK)	706.4	0.10
Zhongliang Holdings Group Company Limited (2772.HK)	643.9	0.12
Jy Grandmark Holdings Limited (2231.HK) ("**Jy Grandmark**")	576.2	4.54 *(Outlier)*
Weiye Holdings Limited (1570.HK)	568.8	0.43
Glory Health Industry Limited (2329.HK)	551.1	0.05
Chinney Investments, Ltd. (216.HK)	435.6	0.06

Company name (stock code)	Market capitalisation on the Last Trading Day *(HK$ million)*	P/B *(Note 1)* *(times)*
Krp Development Holdings Limited (2421.HK)	353.8	0.38
Redsun Properties Group Limited (1996.HK)	350.6	0.11
Chen Xing Development Holdings Limited (2286.HK)	342.0	0.25
Ganglong China Property Group Limited (6968.HK)	311.4	0.07
Cosmopolitan International Holdings Ltd. (120.HK)	309.9	0.32
Hua Yin International Holdings Limited (989.HK)	280.9	1.97
Sino Harbour Holdings Group Limited (1663.HK)	278.4	0.15
China Tangshang Holdings Limited (674.HK)	253.7	0.38
Million Cities Holdings Limited (2892.HK)	232.5	0.34
Guangdong-Hong Kong Greater Bay Area Holdings Limited (1396.HK)	232.0	0.18
China Sandi Holdings Limited (910.HK)	229.0	0.05
Leading Holdings Group Limited (6999.HK)	225.9	0.14
Applied Development Holdings Limited (519.HK)	220.0	0.29
Y. T. Realty Group Ltd. (75.HK)	207.9	0.20
Jiande International Holdings Limited (865.HK)	122.6	0.14
Zhong Jia Guo Xin Holdings Company Limited (899.HK)	119.6	0.09
Golden Wheel Tiandi Holdings Company Limited (1232.HK)	115.1	0.61
Talent Property Group Limited (760.HK)	100.4	0.06
	Maximum	1.97
	Minimum	0.05
	Average	0.25
	Median	0.15
The Company	**619.0**	**0.46** *(Note 2)*

Source: the website of the Stock Exchange and Bloomberg

Notes:

1. For each of the Property Development Companies, its P/B is calculated based on (a) the market capitalisation on the Last Trading Day; and (b) the net asset value attributable to its shareholders as at the end of the latest financial year or period.

2. Being the Implied P/B.

3. Jy Grandmark's NAV per share decreased from approximately HK$0.24 as at 31 December 2023 to approximately HK$0.08 as at 30 June 2024, which resulted in a significant increase in its P/B ratio following its publication of the interim results for 6M2024.

As shown in the table above, the Property Development Companies had a range of P/B from approximately 0.05 time to 1.97 times, with an average and a median of approximately 0.25 time and 0.15 time, respectively, on the Last Trading Day. The Implied P/B of approximately 0.46 time is higher than the average and the median of those of the Property Development Companies.

In view of the above, we consider the Cancellation Price to be fair and reasonable as far as the Scheme Shareholders are concerned.

(v) ***Dividend payout ratio and dividend yield***

For FY2023 and 6M2024, the Company did not declare any interim and final dividend. As such, the dividend payout ratio and dividend yield of the Company are both nil for FY2023 and 6M2024. We have reviewed the dividend payout ratios and dividend yields of the Comparable Companies on the Last Trading Day, as illustrated below:

Comparable Companies (stock code)	**Dividend payout ratio** *(Note 1)*	**Dividend yield** *(Note 2)*
Multifield International Holdings Limited (898.HK)	13.0%	2.4%
China Asia Valley Group Limited (63.HK)	Not applicable*	Nil
Silver Grant International Holdings Group Limited (171.HK)	Not applicable*	Nil
China City Infrastructure Group Limited (2349.HK)	Not applicable*	Nil
Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited (1379.HK)	Nil	Nil
Everbright Grand China Assets Limited (3699.HK)	30.1%	2.2%

* *Those companies recorded net loss for 6M2024.*

Notes:

1. Calculated based on the total dividends per share (excluding any special dividend) and the basic earnings per share of the Comparable Companies for the latest financial year or period.

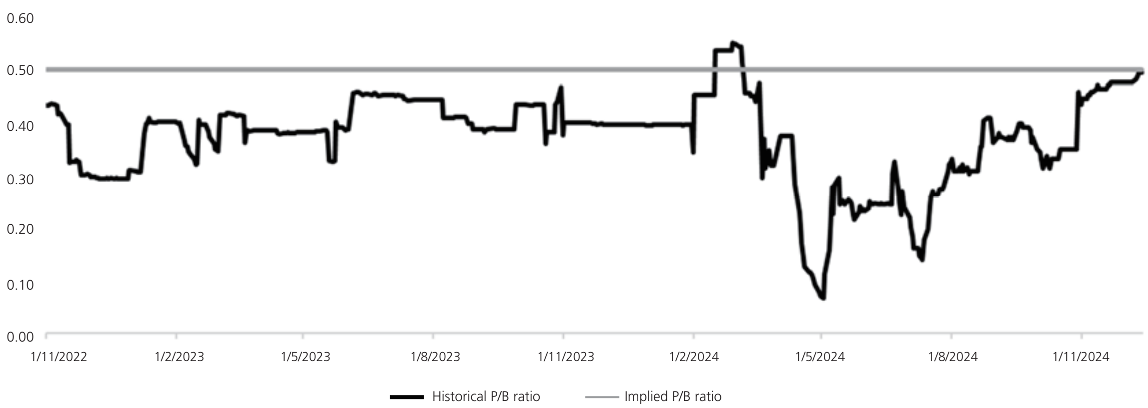
2. Calculated based on the total dividends per share (excluding any special dividend) for the latest financial year or period and the closing share prices of the Comparable Companies on the Last Trading Day.

As shown above, the dividend yields of the Comparable Companies ranged from nil to approximately 2.4%, with an average and median of approximately 0.8% and nil, respectively. The dividend payout ratio of the Comparable Companies ranged from nil to approximately 30.1%.

Taking into the Group's unsatisfactory financial performance and high gearing ratio, we expect the company's ability to pay dividends to be limited. If the Scheme becomes effective and the Proposal is implemented, the Scheme Shareholders who place a high priority on dividend income would have the opportunity to re-invest the proceeds in similar companies that have higher historical dividend payout ratios and dividend yields.

(vi) ***Comparison of the closing prices of the Shares with the NAV per Share***

Historical P/B ratio of the Shares



Note: The historical P/B of the Shares were calculated based on the then latest net asset value of the Group as disclosed in the annual reports or interim reports of the Company, and the number of Shares in issue and assuming that all the Class A Convertible Preference Shares, Class B Convertible Preference Shares and Perpetual CB Securities are converted into Shares.

The P/B ratio measures the market's valuation of a company relative to its net asset value. As shown in the chart above, the Shares were traded at discounts to the NAV per Share at almost all of the times during the Review Period. The P/B ratio of the Shares ranged approximately 0.06 time on 2 May 2024 to approximately 0.51 time on 28 February 2024, indicating that the Scheme Shareholders could not realise their investment in the Shares at the entire underlying NAV per Share in the market.

The Implied P/B of approximately 0.46 time is higher than the historical P/B of the Shares on 465 out of 479 trading days during the Review Period and is close to the highest historical P/B of the Shares during the Review Period. Based on the above, we consider that the discount of approximately 53.83% as represented by the Cancellation Price to the Reassessed NAV per Share is fair and reasonable.

(vii) ***Privatisation precedents***

In order to further assess the fairness and reasonableness of the Cancellation Price, we have reviewed privatisation precedents of companies listed on the Main Board of the Stock Exchange based on the following selection criteria: (a) the privatisation was announced during the period from 1 November 2014 (being approximately 10 years period prior to the Last Trading Day) and up to the Last Trading Day. Due to the scarcity of successful privatisation precedents for companies engaged in property development and investment businesses during the Review Period, we extended the review period to capture sufficient precedents for comparable analysis; (b) the privatisation was settled by cash only; (c) the privatisation has been completed or approved by disinterested shareholders or the required acceptance level was achieved; and (d) the companies are engaged in property development and investment (i.e. more than 50% of their total revenues are generated from property development and investment), so that their discounts represented by the cancellation price to the reassessed NAV per share were available for comparison with the discount represented by the Cancellation Price. Based on the aforesaid criteria, we have identified, on a best effort basis, an exhaustive list of nine privatisation precedents (the "**Privatisation Precedents**"). Although the market sentiment and macro environment were different over the past 10 years, as shown in the table below, there is no obvious time trend in the premiums represented by the cancellation/offer price over the respective closing price of the successful privatisation precedents. Therefore, we consider that a review period of 10 years is adequate and appropriate to (a) capture the successful market practice involving privatisation with cash consideration under the prevailing market conditions; and (b) provide a sufficient and reasonable sample for comparison with the Proposal.

Although the issuers involved in the Privatisation Precedents have different market capitalisations as compared to that of the Company, taking into account that (a) the Privatisation Precedents would provide us with the relevant information to demonstrate the pricing of successful privatisation of the Main Board listed property companies in Hong Kong; and (b) the review period is adequate and appropriate as discussed above, we consider the Privatisation Precedents to be a fair and representative sample which can serve as a useful reference to the market pricings of privatisation proposals in the Hong Kong capital market, so as to determine whether the Cancellation Price is in line with market practices. We consider that the Privatisation Precedents are fair, representative and exhaustive samples for our assessment of the Cancellation Price for illustrative purpose.

The table below illustrates the premiums/discounts of the cancellation/offer prices offered by the Privatisation Precedents over/to the prevailing share prices prior to the last trading day of the Privatisation Precedents as well as the premiums/discounts represented by the cancellation/offer prices over/to the respective reassessed NAV per share:

Date of initial announcement	Company (stock code)	Principal business	Premium of the cancellation/offer price over the closing price on the last trading day *(Notes 1&2)*	Premium of the cancellation/offer price over the average closing price for the last 5 trading days up to and including the last trading day *(Notes 1&2)*	for the last 30 trading days up to and including the last trading day *(Notes 1&2)*	for the last 60 trading days up to and including the last trading day *(Notes 1&2)*	for the last 90 trading days up to and including the last trading day *(Notes 1&2)*	Premium/ (discount) of the cancellation/offer price over/to the reassessed NAV per share
8 May 2023	Hailan Holdings Limited (2278.HK)	Development and sales of properties as well as development and lease of properties	5.00%	5.00%	5.05%	10.04%	10.28%	(60.19%)
9 June 2022	China VAST Industrial Urban Development Company Limited (6166)	Land development and development and operation of large-scale industrial towns	30.43%	29.17%	31.39%	36.90%	42.07%	(41.89%)
9 July 2021	Beijing Capital Land Limited (2868.HK)	Real estate development and investment, commercial real estate operation, property consulting services and investment holding	62.79%	61.85%	127.64%	150.00%	143.48%	(49.04%)
21 January 2021	Polytec Asset Holdings Limited (208.HK)	Property business, ice and cold storage business, the oil business and the financial investment business	61.29%	57.89%	72.55%	94.23%	104.14%	(54.61%)
17 January 2021	HKC (Holdings) Limited (190.HK)	Property development and investment and renewable energy investment and operation	120.39%	122.22%	119.78%	109.42%	100.00%	(68.27%)
5 December 2018	Hopewell Holdings Limited (54.HK)	Property development, property investment, investments in power plants, hotel ownership and management	46.69%	48.83%	55.51%	54.09%	49.63%	(42.98%)
20 March 2017	Goldin Properties Holdings Limited (283.HK) ("**Goldin Properties**")	Property development, property investment and operation of hotel and polo club	36.78%	39.97%	33.93%	30.43%	36.57%	28.57% *(Outlier)*
30 March 2016	Dalian Wanda Commercial Properties Company Limited (3699.HK)	Property leasing and management, development and sales of properties	36.08%	40.09%	50.17%	44.62%	32.66%	(10.81%)
6 January 2016	New World China Land Limited (917.HK)	Property arm of New World Development in the PRC and is one of the large-scale national developers in the PRC	25.60%	28.50%	40.79%	45.79%	53.85%	(29.41%)
	Maximum		120.39%	122.22%	127.64%	150.00%	143.48%	(10.81%)
	Minimum		5.00%	5.00%	5.05%	10.04%	10.28%	(68.27%)
	Average		47.23%	48.17%	59.65%	63.95%	63.63%	(44.65%)
	Median		36.78%	40.09%	50.17%	45.79%	49.63%	(46.01%)
28 October 2024	The Company (1329.HK)		46.55%	54.55%	41.75%	47.85%	65.44%	(53.83%)

Source: the website of the Stock Exchange

Notes:

1. Subject to rounding differences.

2. Up to and including the last trading day/unaffected price date of the shares prior to the publication of the first announcement pursuant to Rule 3.5 or Rule 3.7 of the Takeovers Code (where applicable).

The comparison of the cancellation price to market prices and NAV per share, in our view, serves to demonstrate the premium over market prices and the discount to NAV per share in successful privatisations in Hong Kong in the past, i.e. how much the shareholders are being offered and the level of premium/discount that is acceptable to shareholders in terms of historical share price ranges and NAV per share.

As shown in the table above, the premiums represented by the Cancellation Price over the closing price on the Last Trading Day, and over the average closing prices for the last 5, 30, 60 and 90 trading days ("**LTD Premium**", "**5 Days Premium**", "**30 Days Premium**", "**60 Days Premium**" and "**90 Days Premium**", respectively) are all within the range of the Privatisation Precedents. In particular, the LTD Premium, the 5 Days Premium, the 60 Days Premium and the 90 Days Premium are higher than the median premiums of the Privatisation Precedents. The 30 Days Premium ranks sixth out of 9 Privatisation Precedents and is close to the median premium of the Privatisation Precedents.

We noted that other than Goldin Properties, the offer/cancellation prices offered by the Privatisation Precedents ranged from a discount of approximately 10.81% to approximately 68.27% to the then reassessed NAV per share of the respective companies. We consider the premium of approximately 28.57% as represented by the offer price of the privatisation of Goldin Properties to the then reassessed NAV per share was primarily because the shares of Goldin Properties had been traded above the then NAV per share before the initial announcement of the privatisation and as a result, the offer price had to be set at a premium to the then prevailing share price and NAV per share to enhance the attractiveness of the privatisation proposal. In contrast, for all the other Privatisation Precedents, their shares were traded below their respective NAV per share before the initial announcement of the privatisation, which is analogous to the situation of the Company. The Shares were traded at discounts to the underlying NAV per Share at all times during the Review Period. Given the premium represented by the offer price of the privatisation of Goldin Properties to the then reassessed NAV per share is due to its unique trading position as aforesaid, we consider that Goldin Properties is an outlier and should be excluded for the analysis. Excluding Goldin Properties, the discount represented by the Cancellation Price to the Reassessed NAV per Share is within the range of the Privatisation Precedents and is close to the median discount of the Privatisation Precedents. Therefore, we consider that the Cancellation Price is in line with the market practice, and is fair and reasonable.

7. Offer price under the Perpetual CB Securities Offer

As stated in the Letter from the Board, the offer price under the Perpetual CB Securities Offer is HK$0.40476190476 for every HK$1 face value of the Perpetual CB Securities, being the "see-through" consideration for each Perpetual CB Securities with a face value of HK$1 (i.e. being approximately 0.476190 Share for every HK$1 face value at the prevailing conversion price of HK$2.10 per Share, multiplied by the Cancellation Price per Scheme Share), and the total Perpetual CB Securities Offer is valued at HK$266,169,105, which is calculated by multiplying the number of Shares into which the Perpetual CB Securities are convertible into (being an aggregate of 313,140,124 Shares for all the outstanding Perpetual CB Securities at the conversion price of HK$2.10 per Share) by the Cancellation Price per Scheme Share. The table below sets out the calculation of the offer price:

	HK$
Face value of the Perpetual CB Securities (A)	1.00
Conversion price per Share (B)	2.10
Number of Shares into which each Perpetual CB Securities with a face value of HK$1 is convertible into (C=A/B)	0.47619047619
Cancellation Price (D)	0.85
Offer price (E=C*D)	0.40476190476

Given that (i) the Cancellation Price is fair and reasonable as illustrated in our analysis in the above section headed "6. Cancellation Price" above; and (ii) the offer price under the Perpetual CB Securities Offer is the "see-through" consideration calculated based on the Cancellation Price and the conversion price of the Perpetual CB Securities, we consider the offer price under the Perpetual CB Securities Offer to be fair and reasonable.

RECOMMENDATION AND OPINION

In arriving at our recommendation in respect of the Proposal, the Scheme and the Perpetual CB Securities Offer, we have considered the principal factors and reasons as discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- **The Proposal provides an opportunity for the Scheme Shareholders to dispose of their Shares for cash at premiums over the closing prices of the Shares prior to the issue of the Announcement without having to suffer any illiquidity discount**

The premiums as represented by the Cancellation Price were approximately 46.55%, 54.55%, 41.75%, 47.85% and 65.44% over the closing price on the Last Trading Day, and the average closing prices for the periods of 5, 30, 60 and 90 trading days up to and including the Last Trading Day, respectively.

Subsequent to the publication of the Announcement, the closing price of the Shares surged to HK$0.76 per Share on 29 October 2024. The Share price closed at HK$0.82 as at the Latest Practicable Date. We consider such price hike is due to the announcement of the Proposal and there is no assurance that the prevailing Share price will remain at the current level if the Proposal lapses.

The monthly average daily trading volume of the Shares during the Review Period has been generally thin.

From the Scheme Shareholders' perspective, in particular those holding large blocks of the Shares, the Proposal will provide a good opportunity for the Scheme Shareholders to realise their holdings at a premium over the prevailing market price, which would not normally be available through the market.

- **The prospects of the Group's business and financial performance**

Despite the increase in revenue from FY2022 to FY2023 and from 6M2023 to 6M2024, the Group still recorded a net loss for FY2023 and 6M2024. The Group recorded finance costs of approximately RMB607.8 million for FY2023 and approximately RMB290.0 million for 6M2024, while gross profit was only approximately RMB321.0 million for FY2023 and RMB337.5 million for 6M2024.

The slowdown in economic growth and retail sales growth and inadequate consumer demand have adversely affected the vacancy rate and rent level of retail properties in the PRC, which in turn affected the Group's rental income derived from its retail property projects.

Taking into account (a) the Group's unsatisfactory financial performance and high gearing ratio; and (b) the uncertain retail property market in China, we maintain a cautious view on the outlook of the Group in the near term.

- **The Cancellation Price is fair and reasonable**

For the evaluation of the Cancellation Price, we have taken into consideration of the following:

(i) the Cancellation Price is higher than the closing prices of the Shares on 465 out of 479 trading days during the entire Review Period. There was no trading in the Shares on 12 out of 14 trading days on which the Cancellation Price is lower than the closing prices of the Shares;

(ii) the Implied P/B is higher than the average and median of those of the Comparable Companies on the Last Trading Date;

(iii) the Shares were traded at discounts to the underlying NAV per Share during the Review Period. The Implied P/B is higher than the historical P/B of the Shares on 465 out of 479 trading days during the Review Period and is close to the highest historical P/B of the Shares during the Review Period;

(iv) the LTD Premium, 5 Days Premium, 30 Days Premium, 60 Days Premium and 90 Days Premium are all within the range of the Privatisation Precedents. The LTD Premium, the 5 Days Premium, the 60 Days Premium and the 90 Days Premium are higher than the median premiums of the Privatisation Precedents;

(v) the discount represented by the Cancellation Price to the Reassessed NAV per Share of is within the range of the discounts of the Property Privatisation Precedents, and is close to the median discount of the Privatisation Precedents.

- **The offer price under the Perpetual CB Securities Offer to be fair and reasonable**

The offer price under the Perpetual CB Securities Offer is the "see-through" consideration calculated based on the Cancellation Price and the conversion price of the Perpetual CB Securities.

Based on the above, we consider that the terms of the Proposal, the Scheme and the Perpetual CB Securities Offer (including the Cancellation Price and the offer price under the Perpetual CB Securities Offer) are fair and reasonable so far as the Disinterested Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Disinterested Shareholders to vote in favour of the relevant resolutions to be proposed at the Court Meeting and the EGM to approve and implement the Proposal and the Scheme, and the Perpetual CB Securities Holder to accept the Perpetual CB Securities Offer.

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited

Larry Choi
Managing Director

Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry.