

華富建業企業融資有限公司

QUAM CAPITAL LIMITED

於香港註冊成立之有限公司 Incorporated in Hong Kong with limited liability

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6 November 2024

To the Independent Board Committee

Capital Estate Limited

13/F. Bonham Majoris

40 Bonham Strand

Sheung Wan, Hong Kong

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
SOMERLEY CAPITAL LIMITED FOR AND ON BEHALF OF
CEDARWOOD VENTURES LIMITED TO ACQUIRE ALL THE ISSUED
SHARES IN CAPITAL ESTATE LIMITED (OTHER THAN THOSE
ALREADY BENEFICIALLY OWNED AND/OR AGREED TO BE
ACQUIRED BY CEDARWOOD VENTURES LIMITED AND PARTIES
ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect to the Offer. Details of the Offer are set out in the “Letter from the Board” contained in the composite document of the Company dated 6 November 2024 (the “**Composite Document**”), of which this letter forms a part. Unless otherwise stated, terms defined in the Composite Document have the same meanings in this letter.

On 27 August 2024 (before trading hours), the Offeror and the Vendors entered into the Sale and Purchase Agreement, pursuant to which the Vendors had agreed to sell, and the Offeror had agreed to purchase, a total of 42,172,000 Sale Shares, free from Encumbrances, at an aggregate consideration of HK\$16,868,800.000, which is equivalent to HK\$0.400 per Sale Share. The Sale Shares represent approximately 21.700% of the total issued share capital of the Company as at the date of the Announcement. The Acquisition was completed on the same date as the Sale and Purchase Agreement, being 27 August 2024.

As at the date of the Announcement, the Company has 194,337,559 Shares in issue. Immediately prior to Completion, the Offeror and parties acting in concert with it were interest in 55,000,000 Shares, representing approximately 28.301% of the total issued share capital of the Company. Immediately upon Completion, the Offeror and parties acting in concert with it were interested in 97,172,000 Shares, representing approximately 50.002% of the total issued share capital of the Company. The Offeror is therefore required under Rule 26.1 of the Takeovers Code to make a mandatory unconditional cash offer for all the issued Shares (other than those already owned and/ or agreed to be acquired by the Offeror and parties acting in concert with it).

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising (i) Mr. Hung Ka Hai, Clement; (ii) Mr. Yeung Chi Wai; (iii) Mr. Wong Kwong Fat; and (iv) Mr. Chan Shu Yan, Stephen, each of whom being an independent non-executive Director who has no relationship with the Offeror and/or Ms. Lina Sio and has no direct and indirect interest in the Offer, has been established by the Company pursuant to Rule 2.1 of the Takeovers Code to make a recommendation to the Independent Shareholders in respect of the Offer, as to whether the Offer is fair and reasonable and as to the acceptance of the Offer.

As Ms. Lina Sio is the sole director of the Offeror, Ms. Ali Sio, being the non-executive Director and the sister of Ms. Lina Sio, is presumed to be acting in concert with the Offeror under class 2 of the definition of “acting in concert” under the Takeovers Code and is accordingly regarded as being interested in the Offer, and therefore has not been appointed as a member of the Independent Board Committee.

THE INDEPENDENT FINANCIAL ADVISER

We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in relation to the Offer and in particular as to whether the Offer is fair and reasonable and as to the acceptance of the Offer. Our appointment has been approved by the Independent Board Committee pursuant to Rule 2.1 of the Takeovers Code.

As at the Latest Practicable Date, we did not have any relationships with or interests in the Company, the Offeror, or any of their respective controlling shareholders and any party acting, or presumed to be acting, in concert with any of them, and accordingly, are qualified to give independent advice to the Independent Board Committee. Save for our appointment as the Independent Financial Adviser, we did not act as a financial adviser to the Company and the Offeror in the past two years prior to the Latest Practicable Date.

Pursuant to Rule 13.84 of the Listing Rules and Rule 2.6 of the Takeovers Code, and given that (i) remuneration for our engagement to opine on the Offer is at market level and not conditional upon the outcome of the Offer; (ii) no arrangement exists whereby we shall receive any fees or benefits from the Company (other than our said remuneration) or the Offeror, their respective controlling shareholders or any parties acting in concert with any of them; and (iii) our engagement is on normal commercial terms and approved by the Independent Board Committee, we are independent of the Company or the Offeror, their respective controlling shareholders or any parties acting in concert with any of them and can act as the Independent Financial Adviser to the Independent Board Committee in respect of the Offer.

BASIS OF OUR ADVICE

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Composite Document; (ii) the information provided by the Directors and the management of the Company (the “**Management**”); (iii) the opinions expressed by and the representations of the Directors and the Management; and (iv) our review of the relevant public information, including but not limited to the historical share prices, financial results or reports and other announcements of the Company. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Composite Document were true, accurate and complete 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 Composite Document are true in all material respects at the time they were made and continue to be true in all material respects as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the Management and those as set out or referred to in the Composite Document were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of such information and representations provided to us by the Directors and the Management. Should there be any material changes to the statements, information and/or representation affecting our opinion after the Latest Practicable Date, the Independent Shareholders would be notified as soon as possible in compliance with Rule 9.1 of the Takeovers Code.

We have reviewed, among others, (i) the annual results of the Company for the year ended 31 July 2024 (the “**2024 Annual Results**”); (ii) the annual report of the Company for the year ended 31 July 2023 (the “**2023 Annual Report**”); (iii) the annual report of the Company for the year ended 31 July 2022 (the “**2022 Annual Report**”); (iv) the Joint Announcement; and (v) other information contained or referred to in the Composite Document. 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 Composite 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 opinions expressed

by the Directors and the Management, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position, financial forecast or future prospects of the Company.

PRINCIPAL TERMS OF THE OFFER

The Offer

Somerley is making the Offer for and on behalf of the Offeror to acquire all the Offer Shares in compliance with the Takeovers Code on the following basis:

For each Offer Share
HK\$0.400 in cash

The Offer Price of HK\$0.400 per Offer Share is equal to the purchase price per Sale Share paid by the Offeror under the Sale and Purchase Agreement.

The Offer Shares to be acquired under the Offer shall be fully paid and shall be acquired free from all Encumbrances and together with all rights attaching thereto, including the rights to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date on which the Offer is made, being the date of despatch of the Composite Document. As set out in the Letter from the Board, as at Latest Practicable Date, the Company had not declared any dividend and the Board did not have any intention to make, declare or pay any dividend or other distribution before the close of the Offer Period of the Offer. If, after the Latest Practicable Date but before the Offer closing date, any dividend or other distribution is made or paid in respect of the Offer shares, the Offeror reserves the right to reduce the Offer Price by an amount equal to the gross amount of such dividend or other distribution. Further details of the terms and conditions of the Offer, including the procedures for acceptance of the Offer, are set out in the Composite Document.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background information of the Group

The Group is principally engaged in property development, consumer finance, hotel operation, financial investment and related activities.

1.1 Financial Information of the Group

Set out below is a summary of the audited consolidated financial information of the Group for the years ended 31 July 2022 (“FY2022”), 2023 (“FY2023”) and 2024 (“FY2024”) as extracted from the 2022 Annual Report, 2023 Annual Report and 2024 Annual Results.

	FY2022	FY2023	FY2024
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Revenue	87,273	36,876	56,399
Cost of sales	(32,598)	(510)	(9,644)
Direct operating costs	(2,402)	(3,070)	(4,005)
Gross profit	52,273	33,296	42,750
Other losses	(38,436)	(5,242)	(6,271)
Impairment losses under expected credit loss model, net	(15,183)	(13,794)	(9,406)
Other income	11,363	14,510	17,298
Marketing expenses	(5,470)	(5,637)	(3,959)
Administrative expenses	(42,056)	(45,283)	(45,127)
Other hotel operating expenses	(13,825)	(11,385)	(11,069)
Share of profit/(loss) of an associate	(25,264)	(991)	20,287
Finance costs	(101)	(33)	(49)
Profit/(Loss) before income tax	(76,699)	(34,559)	4,454
Income tax credit/(expense)	(27,617)	862	(667)
Profit/(Loss) for the year	(104,316)	(33,697)	3,787
Profit/(Loss) for the year attributable to owners of the Company	(98,255)	(29,967)	5,569
	FY2022	FY2023	FY2024
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Revenue by segments			
Hotel operations	4,144	7,037	13,880
Property	55,655	1,111	15,181
Consumer finance	27,474	28,728	27,338
Total	87,273	36,876	56,399

	As at 31 July		
	2022	2023	2024
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Non-current assets	417,251	390,939	429,726
Current assets	563,633	413,003	377,423
Total assets	980,884	803,942	807,149
Non-current liabilities	23,357	20,901	19,119
Current liabilities	139,455	17,131	21,593
Total liabilities	162,812	38,032	40,712
Net assets	818,072	765,910	766,437

FY2023 as compared with FY2022

The Group recorded a decrease in revenue of approximately 57.7% from approximately HK\$87.3 million for FY2022 to approximately HK\$36.9 million for FY2023. The revenue decrease was mainly due to the drop in revenue from the sale of a residential development project from approximately HK\$55.7 million for FY2022 to approximately HK\$1.1 million for FY2023. As at 31 July 2023, the unsold saleable floor area of this residential development project amounted to approximately 7.2% of total saleable floor area, which was mainly attributable to car park space. The revenue from consumer finance, which represented the interest income from loans, of the Group increased slightly by approximately 4.4% from approximately HK\$27.5 million for FY2022 to approximately HK\$28.7 million for FY2023. Such increase was mainly due to (i) the increase in number of users of consumer finance business from approximately 3,400 users as at 31 July 2022 to approximately 3,500 users as at 31 July 2023; and (ii) the increase in the value of net loan portfolio from approximately HK\$67.2 million as at 31 July 2022 to approximately HK\$77.8 million as at 31 July 2023. The revenue from hotel operations increased by approximately 69.8% from approximately HK\$4.1 million for FY2022 to HK\$7.0 million for FY2023. Such increase was mainly attributable to the growth in occupancy rate of the Group's hotel in Foshan from approximately 6.6% for FY2022 to approximately 12.4% for FY2023.

The Group's loss for the year attributable to owners of the Company decreased from approximately HK\$98.3 million in FY2022 to approximately HK\$30.0 million in FY2023, which was mainly attributable to the decrease in other losses and share of loss of an associate of the Group, which was partially offset by the decrease in profit from the property business segment due to the decrease in sales of the residential development project as discussed above. The Group's other losses decreased from approximately HK\$38.4 million for FY2022 to approximately HK\$5.2 million for FY2023, which was mainly due to the decrease in fair value loss on the Group's financial investment portfolio. The Group's associate is principally engaged in hotel operations and property investment in Macau and the Group holds 32.5% interest in this associated company. The decrease in the Group's share of loss of the associate from approximately HK\$25.3 million for FY2022 to approximately HK\$1.0 million for FY2023 was mainly due to the increase in revenue of the associated company's hotel operation in Macau from approximately HK\$89.5 million in FY2022 to approximately HK\$134.3 million in FY2023, as a result of recovery from the COVID-19 pandemic.

FY2024 as compared with FY2023

The Group recorded an increase in revenue of approximately 52.8% from approximately HK\$36.9 million for FY2023 to approximately HK\$56.4 million for FY2024. The revenue increase was mainly due to the surge in revenue from the Group's hotel operations and sales of properties from a residential development project. As at 31 July 2024, the unsold saleable floor area of this residential development project amounted to approximately 5.4% of total saleable floor area, which was mainly attributable to car park space. The revenue from consumer finance, which represented the interest income from loans, of the Group decreased slightly by approximately 4.8% from approximately HK\$28.7 million for FY2023 to approximately HK\$27.3 million for FY2024. Such decrease was mainly due to (i) the decrease in number of users of consumer finance business from approximately 3,500 users as at 31 July 2023 to approximately 3,000 users as at 31 July 2024; and (ii) the decrease in the value of net loan portfolio from HK\$77.8 million as at 31 July 2023 to HK\$65.1 million as at 31 July 2024.

The Group has recorded a profit for the year attributable to owners of the Company of approximately HK\$5.6 million in FY2024, as compared with a loss of approximately HK\$30.0 million for FY2023. The change from loss to profit was mainly attributable to the increase in revenue as discussed above, and the Group's share of profit of its associate, Tin Fok Holding Company Limited, in FY2024, as compared with sharing a loss in FY2023, which was mainly due to the increase in revenue of the associated company's hotel operation in Macau from approximately HK\$134.3 million in FY2023 to HK\$231.2 million in FY2024.

Financial position

As at 31 July 2024, total assets of the Group was approximately HK\$807.1 million, which mainly consisted of (i) property, plant and equipment of approximately HK\$211.7 million; (ii) bank balances and cash of approximately HK\$175.0 million; (iii) interest in an associate of approximately HK\$165.2 million; (iv) financial assets at fair value through profit or loss of approximately HK\$99.8 million; and (v) receivables from customers of consumer finance service of approximately HK\$65.1 million.

As at 31 July 2024, total liabilities of the Group was HK\$40.7 million, which mainly consisted of (i) deferred tax liability of approximately HK\$19.1 million; (ii) trade and other payables of approximately HK\$15.2 million; and (iii) tax payable of approximately HK\$4.1 million.

As at 31 July 2024, the consolidated net assets attributable to owners of the Group was approximately HK\$823.0 million, representing approximately HK\$4.235 per share.

Qualified opinion of auditor

The Group's auditor issued a qualified opinion for the consolidated financial statements of the Group for FY2024, the basis of which was in relation to the Group's interest in an associate, amounts due from an associate and dividend receivables from an associate, i.e. Tin Fok Holding Company Limited ("**Tin Fok**", together with its subsidiary, the "**Tin Fok Group**"). Pursuant to Note 3 to Rule 2 of the Takeovers Code, the Board would like to draw the attention of the Independent Shareholders to this qualified opinion. For details, please refer to Appendix II to the Composite Document.

The predecessor independent auditor of the Group (the "**Predecessor**") in its report dated 30 October 2023 stated that they were unable to obtain sufficient appropriate audit evidence it considered necessary to assess the amounts of (i) expected credit loss ("**ECL**") allowance on a loan to and interest receivable (the "**Loan**") of HK\$689,488,000 from a private company ("**Entity A**"), a related company of the former director of the Company, Mr. Sio Tak Hong ("**Mr. Sio**") that should be recognised in the unaudited consolidated financial statements of Tin Fok Group (the "**Books**") for FY2023 and (ii) ECL allowance on amount due from and dividend receivables from Tin Fok (collectively the "**Receivables**") recognised in the consolidated financial statements of the Group for FY2023. No ECL allowance on the Loan or the Receivables was made during FY2023, as the management was of the view the amounts were recoverable. As the Predecessor considered that it was unable to obtain sufficient appropriate audit evidence of the foregoing, the Predecessor was unable to determine whether (i) the consequential share of loss and interest in the

associate for and as at the year ended 31 July 2023 and (ii) the Receivables as at 31 July 2023 are free from material misstatements. The Predecessor's opinion on the Group's consolidated financial statements for FY2023 was qualified accordingly.

On 31 July 2024, certain shareholders of Tin Fok (the "Indemnifiers") and Entity A entered into a deed of indemnity (the "Deed") in favour of Tin Fok. Pursuant to the Deed, the Indemnifiers jointly agreed to, indemnify Tin Fok against all and any sums owed by Entity A under the Loan.

Accordingly, during the year the management of Tin Fok and the management of the Group had assessed the ECL of the Loan carried in the Books of Tin Fok Group, by taking into consideration of the financial position of Entity A and the fair value of the indemnity granted by the Indemnifiers. Taking into account of the foregoing, the management of the Group is of the view that the credit risk related to the Loan was not significantly increased and the amounts are still recoverable. Therefore, no ECL allowance was recognised in respect of the Loan in the Books of Tin Fok Group for FY2024.

During FY2024, the dividend receivables from the associate amounting to HK\$12,621,000 was fully settled by Tin Fok. Also during the year, the management of the Group has assessed the financial position of Tin Fok Group and is of the view that the credit risk of the amount due from the associate of HK\$7,434,000 as at 31 July 2024 is not significantly increased and the amount is still recoverable. Therefore, no ECL was recognised in respect of the Receivables for the year ended 31 July 2024.

As stated in the auditor's opinion, the opinion on the consolidated financial statements of the Group for FY2024 is qualified only to the extent of the possible effects of the foregoing matter on the comparative financial information, the opening balances of interest in an associate and the Receivables as at 1 August 2023 and the consequential effect on the share of profit of the associate and the ECL allowance on the Receivables for the year ended 31 July 2024. Given that the qualified opinion does not extend to any possible effects on the ending balances of the relevant items as at 31 July 2024, which are supported by the Management's assessment as discussed in the above paragraphs, and as such the Company's financial position as at 31 July 2024 are not affected, we concur with the Board that the qualified opinion issued by the auditor of the Company for FY2024 would not have any material implication on the Offer and the Company.

1.2 Property valuation

The valuation report (the “**Valuation Report**”) prepared by Kroll (HK) Limited (the “**Valuer**”) relating to the valuation (the “**Valuation**”) of property interests held by the Group (the “**Properties**”) as at 31 August 2024 is set out in Appendix III to the Composite Document.

We have conducted an interview with the Valuer to assess its qualifications and experiences in valuing similar property interests and we casted no doubt that the Valuer and the signor of the Valuation Report have sufficient qualifications and experiences in valuing the Properties. The Valuer has also confirmed its independence from the Company and the Offeror and their respective concert parties. Save for the Valuation engagement, the Valuer has no current or prior relationships with the core connected persons of the Company or the Offeror. We are not aware the Company or the Offeror has made any formal or informal representation to the Valuer. In addition, we have reviewed the Valuer’s terms of engagement and noted that the scope of work is appropriate for arriving at the opinion in the Valuation and there are no limitations on the scope of work which might adversely affect the degree of assurance given by the Valuer in the Valuation Report. As noted in the Valuation Report, in valuing the Properties, the Valuer has complied with all requirements contained in Paragraph 34(2) and (3) of Schedule 3 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap.32), Chapter 5 and Practice Note 12 of the Listing Rules; Rule 11 of the Takeovers Code; and the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors.

We have reviewed the Valuation Report and discussed with the Valuer, among others, the bases and assumptions and the methodology adopted, and the major procedures performed by the Valuer for the Valuation. With reference to the Valuation Report, the Properties consist of four properties located in the PRC. Following discussions with the Valuer, we noted that the Valuer has adopted direct comparison method. As advised by the Valuer, such method is commonly adopted for valuing properties of similar nature as the Properties. Based on our discussion with the Valuer and our review of the Valuation Report, we consider the principal bases and assumptions adopted by the Valuer in respect of the Valuation are appropriate.

1.3 Adjusted NAV

In evaluating the Offer Price, we have taken into account the Group's adjusted unaudited consolidated net asset value ("NAV") attributable to owners of the Company, which is provided by the Company and calculated based on the audited consolidated NAV of the Group as at 31 July 2024, adjusted with reference to the Valuation as at the valuation date (i.e. 31 August 2024). With reference to the paragraph headed "PROPERTY INTEREST AND ADJUSTED NET ASSET VALUE" in Appendix II to the Composite Document, details of the adjustments are set out in the table below:

	<i>HK\$'000</i>
Audited consolidated NAV attributable to owners of the Company as at 31 July 2024	823,048
<i>Adjustment:</i>	
– Fair value gain attributable to owners of the Company arising from the Valuation ⁽¹⁾	<u>127,834</u>
Adjusted unaudited consolidated NAV attributable to owners of the Company ("Adjusted NAV")	950,881
Adjusted NAV per Share ⁽²⁾:	HK\$4.893
Discount of the Offer Price to the Adjusted NAV per Share	91.825%

Notes:

1. The fair value gain attributable to the owners of the Company represents the increase in the market value of the property interest of the Group as at 31 August 2024 as compared to its corresponding net book value as at 31 July 2024.
2. It is calculated based on 194,337,559 Shares in issue.

1.4 Outlook of the Group

Although the general economic activity is still below pre-COVID-19 level, the Management is of the view that the Group's business, especially the hotel operation, has continued to show improvement after the relaxation of COVID-19 restrictions, which together with the financial performance of property business, helped the Company to turnaround from a loss recorded in FY2023 to a profit in FY2024. Nonetheless, in respect of the property business, we understand that the Group's residential project in the PRC with unsold saleable floor area amounted to approximately 5.4% of total saleable floor area mainly attributable to car park space as at 31 July 2024 is the only property project of the Group that could bring in revenue in the near term. We understand that the Management is

dedicated to develop consumer finance service as a new source of revenue of the Group. While consumer finance has become the Group's largest revenue contributor since FY2023, such business segment is yet to reach a breakeven since it was launched in 2018, which was mainly due to impairment losses recorded on the receivables from the provision of consumer loan to customers and cost incurred on credit control for reducing such losses, according to the Management.

Looking ahead, the economic outlook for Hong Kong and the PRC remains uncertain and will be influenced by factors such as the interest rate adjustments, political turmoil and other uncertainties, posing challenges for the Group's business performance. Overall, having considered that, among others, (i) the Group was loss-making in FY2022 and FY2023 and just turned around from loss to profit in FY2024; (ii) the Group only has one property project with small amount of unsold units left as at the Latest Practicable Date that could bring in revenue in the near term; (iii) the Group's consumer financing business, being a key revenue source of the Group in recent years, has not been breakeven since it was launched in 2018; and (iv) the uncertainties faced by the Group arising from the overall market conditions, we maintain a cautious view on the outlook of the Group in the near term.

2. Background information of the Offeror

2.1 The Offeror and its controlling shareholders

The Offeror is an investment holding company incorporated in the British Virgin Islands with limited liability and is wholly and beneficially owned by Ms. Lina Sio, being an executive Director and the chairlady of the Board. As at the Latest Practicable Date, Ms. Lina Sio is the sole director of the Offeror and she beneficially owns 42,172,000 Shares through the Offeror, representing approximately 21.700% of the total issued share capital of the Company.

As at the Latest Practicable Date, Ms. Lina Sio also beneficially owns 55,000,000 Shares through Nichrome Limited, representing approximately 28.301% of the total issued share capital of the Company. Nichrome Limited is wholly and beneficially owned by Ms. Lina Sio, who is also the sole director of Nichrome Limited. Ms. Lina Sio, in aggregate, beneficially owns 92,172,000 Shares through the Offeror and Nichrome Limited, representing approximately 50.002% of the total issued share capital of the Company as at the Latest Practicable Date.

Ms. Lina Sio, aged 30, has more than six years of experience in the consumer finance business, and is the founder of the Group's consumer finance operation. As at the date of this Composite Document, Ms. Lina Sio is a director and chief executive officer of Grantit Limited and a director of Shiny Rising Limited, which are both subsidiaries of the Company that operates an online lending mobile application and provides consumer finance to customers, respectively.

2.2 The Offeror's intention in relation to the Group

As at the Latest Practicable Date, it is the intention of the Offeror that, after the close of the Offer, (i) the Group will continue with the existing business of the Group; and (ii) it has no current intention to (a) introduce any major changes to the existing business of the Group or (b) discontinue the employment of any of the Group's employees or (c) other than as disclosed by the Company, redeploy the fixed assets of the Group other than in its ordinary course of business.

The Offeror will continue to ensure good corporate governance and monitor and review the Group's business and operations from time to time. However, the Offeror reserves the right to make any changes that it deems necessary or appropriate to the Group's business and operations to optimise the value of the Group. As at the Latest Practicable Date, the Offeror has no intention, understanding, negotiation or arrangement (concluded or otherwise) to downsize, cessation or disposal of existing business of the Group; and to acquire or inject any new business to the Group.

As at the Latest Practicable Date, the Board comprises (i) Ms. Lina Sio and (ii) Mr. Chu, as executive Directors, (iii) Ms. Ali Sio as non-executive Director, and (iv) Mr. Hung Ka Hai, Clement, (v) Mr. Yeung Chi Wai, (vi) Mr. Wong Kwong Fat and (vii) Mr. Chan Shu Yan, Stephen as independent non-executive Directors. The Offeror has no intention to change the composition of the Board following the close of the Offer.

2.3 Listing status of the Group

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares (excluding treasury shares), are held by the public; or if the Stock Exchange believes that:

- (i) a false market exists or may exist in the trading of the Shares; or
- (ii) there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealing in the Shares.

The Offeror intends the Company to remain listed on the Stock Exchange. The director of the Offeror and the Directors will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares. No such arrangements have been confirmed or put in place as at the Latest Practicable Date.

3. Offer Price

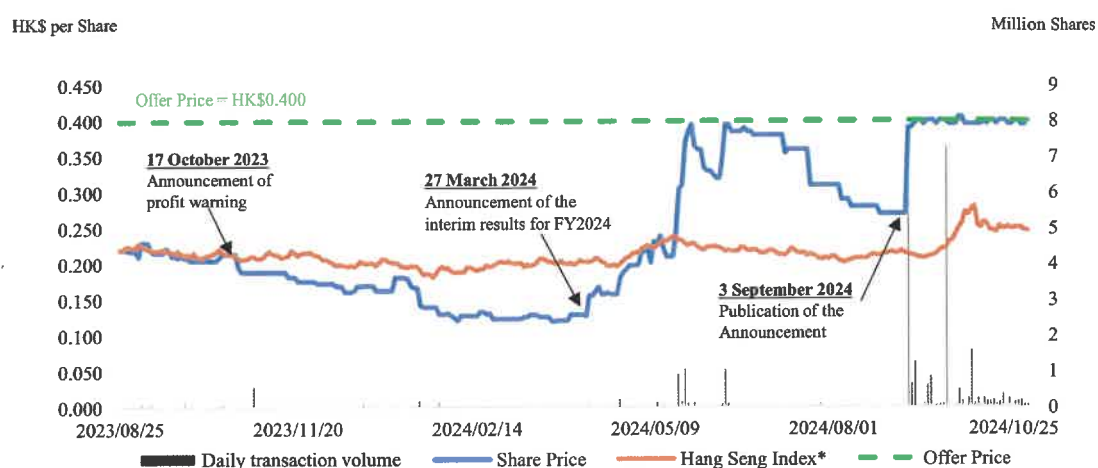
3.1 Offer Price comparison

The Offer Price of HK\$0.400 per Offer Share is equal to the purchase price per Sale Share paid by the Offeror under the Sale and Purchase Agreement, which represents:

- (i) the closing price of HK\$0.400 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 48.148% over the closing price of HK\$0.270 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 45.985% over the average closing price of HK\$0.274 per Share based on the daily closing prices as quoted on the Stock Exchange for the five (5) trading days immediately prior to and including the Last Trading Day;
- (iv) a premium of approximately 44.404% over the average closing price of approximately HK\$0.277 per Share based on the daily closing prices as quoted on the Stock Exchange for the ten (10) consecutive trading days immediately prior to and including the Last Trading Day;
- (v) a premium of approximately 32.013% over the average closing price of approximately HK\$0.303 per Share based on the daily closing prices as quoted on the Stock Exchange for the thirty (30) consecutive trading days immediately prior to and including the Last Trading Day;
- (vi) a discount of approximately 90.555% to the audited consolidated net assets attributable to owners of the Company per Share of approximately HK\$4.235 as at 31 July 2024, which was calculated based on the Group's audited consolidated net assets attributable to owners of the Company of approximately HK\$823,048,000 as at 31 July 2024 and a total of 194,337,559 Shares in issue as at the Latest Practicable Date; and
- (vii) a discount of approximately 91.825% to the Adjusted NAV per Share of approximately HK\$4.893 as at 31 July 2024, which the Adjusted NAV per Share as at 31 July 2024 is set out under the paragraph "PROPERTY INTEREST AND ADJUSTED NET ASSET VALUE" in Appendix II to the Composite Document.

3.2 Analysis of historical price performance of Shares

Set out below is the movement of the closing price of the Shares and Hang Seng Index from 25 August 2023 to the Last Trading Day (i.e. 26 August 2024), being approximately 12 months period, and up to the Latest Practicable Date (the “**Review Period**”). We consider the length of such period is sufficient and representative to provide a general overview of the recent market performance of the Shares, which reflects the prevailing market sentiment for conducting a reasonable comparison between the closing prices of the Shares and the Offer Price.



Source: the website of the Stock Exchange (www.hkex.com.hk)

* Hang Seng Index is rebased to the closing price of Shares as at 25 August 2023

From the beginning of the Review Period until the Last Trading Day, the closing price of the Shares fluctuated within the range of HK\$0.120 (20 March 2024) and HK\$0.395 (28 May, 13 June and 14 June 2024), and the Offer Price represents a premium of approximately 80.7% over the average closing price during such period of HK\$0.221 per Share.

Since the beginning of the Review Period until mid-October 2023, the closing price of the Shares exhibited a mild descending trend generally in line with the trend of Hang Seng Index. The descending trend of the closing Share prices become more substantial since mid-October 2023, which may be attributable to the profit warning announcement of the Company on 17 October 2023 in respect of the loss for the year recorded by the Group for FY2023. The closing Share price rebounded since end March 2024, which may be attributable to the positive interim results announced by the Group on 27 March 2024, as the Group has recorded a profit for the six months ended 31 January 2024 as compared to a loss for the corresponding period in 2023. The rebound continued until end-May 2024, after that the closing price of the Shares started to drop until the Last Trading Day, which was generally in line with the downward trend of the Hang Seng Index.

From the day when the trading of Shares resumed on 4 September 2024 until the Latest Practicable Date, the closing share price fluctuated within a higher range between HK\$0.390 and HK\$0.405, which was likely to be associated with the market response to the Offer. There is no assurance that the closing price of the Shares will remain at the current level or continue to rise if the Offer closes or lapses for any reason.

Save as disclosed above, we did not notice any other announcements of the Group during the Review Period which may have correlation to the share price movement shown in the chart above.

3.3 Trading volume analysis

The table below sets out the average daily trading volume of the Shares on a monthly basis during the Review Period and the respective percentages of the average daily trading volume of the Shares as compared to the total number of issued Shares and the number of Shares held by Independent Shareholders.

Period/month	Average daily trading volume (number of Shares) (Note 1)	Approximate percentage of average daily trading volume to total number of issued Shares % (Note 2)	Approximate percentage of average daily trading volume to total number of issued Shares held by the Public Shareholders % (Note 3)
2023			
August (from 25 August 2023)	7,527	*	0.01%
September	19,261	0.01%	0.02%
October	35,086	0.02%	0.04%
November	1,073	*	*
December	8,443	*	0.01%
2024			
January	15,790	0.01%	0.02%
February	3,153	*	*
March	3,393	*	*
April	22,413	0.01%	0.02%
May	128,359	0.07%	0.14%
June	68,035	0.04%	0.07%
July	8,581	*	0.01%
August	1,348	*	*
September	1,016,024	0.52%	1.11%
October and November (up to and including the Latest Practicable Date)	206,527	0.11%	0.23%

* Less than 0.01%

Source: the website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days in the respective month/period.
2. Based on total number of Shares in issue as at the respective month/period end.
3. Based on the number of issued Shares held by the public Shareholders as at the Latest Practicable Date.

As illustrated in the above table, the average daily trading volume was low for each month/period during the Review Period, with a range from less than 0.01% to approximately 0.52% of the total number of Shares in issue and less than 0.01% to approximately 1.11% of the issued Shares held by the Independent Shareholders. We noted that the higher average daily volume for September 2024, which we believe that the increase in trading volume of the Shares was possibly due to the market reaction to the publication of Joint Announcement. The improvement of liquidity of the Shares indicated that, without the Offer, the Shares were generally illiquid in the open market and that the higher level of trading volume may not be sustainable after the Offer Period.

In view of the above, the Offer provides an opportunity for Independent Shareholders to realize their investment in the Company for cash regardless of the number of Shares they hold without exerting downward pressure on the market price of the Shares.

3.4 Analysis of discount represented by the Offer Price to the NAV attributable to the owners of the Company per Share

The Offer Price of HK\$0.400 per Share represents a discount of (i) approximately 90.555% to the audited consolidated NAV attributable to owners of the Company per Share of approximately HK\$4.235 as at 31 July 2024; and (ii) approximately 91.825% to the Adjusted NAV per Share of approximately HK\$4.893. In assessing the Offer Price compared against the NAV, set out below is a table illustrating the historical Share prices against the published NAV for the 12-month period before the Last Trading Day:

From	To	NAV per Share (Note 1) (HK\$)	Average closing Share price (HK\$)	Highest closing Share price (HK\$)	Lowest closing Share price (HK\$)	Approximate discount of average closing Share price to NAV per Share	Approximate discount of highest closing Share price to NAV per Share	Approximate discount of lowest closing Share price to NAV per Share
25 August 2023	31 October 2023	4.391	0.211	0.230	0.189	(95.20)%	(94.76)%	(95.70)%
<i>(i.e. the period immediately before and up to the date when the annual results announcement of the Company for FY2023 was published)</i>								
1 November 2023	27 March 2024	4.219	0.152	0.189	0.120	(96.40)%	(95.52)%	(97.16)%
<i>(i.e. the period immediately before and up to the date when the interim results announcement of the Company for the six months ended 31 January 2024 was published)</i>								
28 March 2024	26 August 2024	4.248	0.286	0.395	0.127	(93.27)%	(90.70)%	(97.01)%
<i>(i.e. the period up to the Last Trading Day)</i>								

Source: the website of the Stock Exchange (www.hkex.com.hk)

Note 1: The latest published audited or unaudited consolidated NAV attributable to owners of the Company for respective period.

With reference to the table above, we noted that the Shares had been traded at a substantial discount to the NAV at all times during the 12-month period before the Last Trading Day ranging from approximately 90.70% to 97.16%, which was similar to the discount to NAV represented by the Offer Price. It can also be seen that the trading price of the Shares did not correlate to with the changes of the NAV. This may indicate that investors might not have valued the Shares based solely on the value of the Group's net assets and the Shareholders may not be able to realise their investments in the Shares through an on-market transaction at a price equal or similar to the NAV per Share.

Accordingly, in assessing the Offer Price, it would only be appropriate to consider the discount represented by the Offer Price to the NAV per Share, in conjunction with other factors including but not limited to the financial performance and business prospects of the Company and more particularly, the comparison of the Offer Price to the historical and prevailing Share prices and thin liquidity of Shares, which are more relevant from the perspective of Shareholders in considering the return from their investments in the Shares.

3.5 Comparables analysis

In order to assess the fairness and reasonableness of the Offer Price, we have attempted to assess the fairness and reasonableness of the Offer Price from the perspective of price-to-earnings (“P/E”) ratio and price-to-book (“P/B”) ratio, which are commonly used benchmarks in assessing the valuation of a company.

The Group’s principal businesses include consumer financing, hotel operations and property development which have contributed to the Group’s revenue for FY2024. In respect of the property development business, the Group only has one property project with small amount of unsold units left as at the Latest Practicable Date that could bring in revenue in the near term. As such, for selecting the comparable companies, we set out criteria including companies (i) with principal businesses including both consumer financing and hotel operations businesses; and (ii) being listed on the Main Board of the Stock Exchange with market capitalisation of less than HK\$200 million as at the Latest Practicable Date. We have only identified one comparable company, namely Rich Goldman Holdings Ltd (stock code: 70.HK) (the “Comparable Company”), which is exhaustive based on the above criteria.

Independent Shareholders should note that despite the aforesaid criteria, the business, scale of operation, trading prospect, location of projects and capital structure of the Group are not exactly the same as those of the Comparable Company, and we have not conducted any in-depth investigation into the businesses and operations of the Comparable Company.

Company name (Stock code)	Principal businesses	Market	P/E ratio	P/B ratio
		capitalisation (Note 1) HK\$’ million	(Note 1) times	(Note 1) times
Rich Goldman Holdings Ltd (70.HK)	Principally engaged in money lending business, hotel operations business, property leasing business and casino leisure, gaming, entertainment services businesses	111	N/A (Note 2)	0.10
The Company		78 (Note 3)	14.0 (Note 4)	0.08 (Note 5)

Source: Bloomberg, website of the Stock Exchange

Notes:

1. The market capitalization of the Comparable Company is based on information extracted from Bloomberg as at the Latest Practicable Date. The P/B ratio of the Comparable Company is based on the market capitalization as at the Latest Practicable Date and the net asset value attributable to shareholders as at the latest financial period end reported in the company's financial reports or results.
2. Not applicable as the Comparable Company was loss-making for its latest financial year.
3. The implied market capitalization of the Company is calculated by multiplying the Offer Price of HK\$0.400 per Share and the number of issued Shares of 194,337,559 Shares as at the Latest Practicable Date.
4. The implied P/E ratio of the Company is calculated based on the implied market capitalization divided by the profit attributable to owners of the Company for FY2024.
5. The implied P/B ratio of the Company is calculated based on the implied market capitalization divided by the Adjusted NAV attributable to owners of the Company.

Given that the Comparable Company was loss-making for its latest financial year, we could only use P/B ratio for comparison. As shown above, the implied P/B ratio of the Company of approximately 0.08 times is lower than 0.10 times of the Comparable Company. Nonetheless, the Independent Shareholders are reminded that the above comparables analysis may not be meaningful in view of the limited sample size, and therefore, such analysis is for illustrative purpose only.

We consider that other types of comparables analysis, such as a comparison with recent offer transactions would not be meaningful neither for assessing the fairness and reasonableness of the Offer Price considering that these companies are operating in industries which are not identical to that of the Company, which therefore have different market fundamentals and prospects compared to those faced by the Group at this moment. There are also variations in terms of scale of operations, financial performance and position as well as trading prospects and hence difference in risk premiums afforded by the market.

RECOMMENDATION

Having considered the factors and reasons set out in this letter, in particular,

- (i) the outlook of the Group in the near term should be viewed cautiously, having considered, among others, (a) the Group was loss-making in FY2022 and FY2023 and just turned around from loss to profit in FY2024; (b) the Group only has one property project with small amount of unsold units left as at the Latest Practicable Date that could bring in revenue in the near term; (c) the Group's consumer financing business, being a key revenue source of the Group in recent years, has not reached break-even since it was launched in 2018; and (d) the uncertainties faced by the Group arising from the overall market conditions;
- (ii) the Offer Price is higher than the closing prices of the Shares on most of the trading days throughout Review Period, and represents a premium of approximately 80.7% over the average closing prices from the beginning of the Review Period until the Last Trading Day;
- (iii) the liquidity of the Shares was thin during the Review Period, rendering it difficult for the Independent Shareholders to dispose of their Shares in the market without exerting downward pressure on the Share price; and
- (iv) notwithstanding that the Offer Price represents a discount to the NAV attributable to owners of the Company per Share, it is noted that the Shares had been consistently traded at a similar discount to the NAV during the 12-month period before the Last Trading Day and the trading price of the Shares did not correlate with the changes in NAV, and therefore it may not be appropriate to assess the Offer Price solely based on the comparison with the NAV per Share,

we are of the opinion that the terms of the Offer are fair and reasonable. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offer.

Independent Shareholders who intend to accept the Offer are reminded to closely monitor the market price and the liquidity of the Shares during the Offer Period for acceptance and should, having regard to their own circumstances and investment objectives, consider selling the Shares in the open market, instead of accepting the Offer, if the net proceeds from the sale of such Shares would be higher than the receivable under the Offer.

As different Independent Shareholders would have different investment criteria, objectives or risk appetite and profiles, we recommend any Independent Shareholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Quam Capital Limited

A handwritten signature in black ink, appearing to be 'Leo Chan', written over the company name.

Leo Chan
Head of Corporate Finance

Mr. Leo Chan is the Head of Corporate Finance of Quam Capital Limited and is licensed under the SFO as a Responsible Officer to carry out, among others Type 6 (advising on corporate finance) regulated activity and has approximately 28 years of experience in corporate finance.