
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in The 13 Holdings Limited (the "Company"), you should at once hand this circular to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

This circular appears for information purposes only and does not constitute an invitation or offer to the shareholders of the Company or any other person to acquire, purchase or subscribe for Shares or other securities of the Company.

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The 13 Holdings Limited

十三集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00577)

**(I) PROPOSED CAPITAL REORGANISATION;
(II) PROPOSED CHANGE IN BOARD LOT SIZE;
(III) PROPOSED RIGHTS ISSUE ON THE BASIS OF
TEN (10) RIGHTS ISSUE SHARES FOR EVERY ONE (1) ADJUSTED SHARE
HELD ON THE RECORD DATE; AND
(IV) NOTICE OF SPECIAL GENERAL MEETING**

Financial Adviser to the Company



Underwriter of the Rights Issue



Sub-underwriters of the Rights Issue



**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



Capitalised terms used on this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 12 to 60 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 61 to 62 of this circular. A letter from Lego Corporate Finance Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 63 to 94 of this circular.

The Shares will be dealt in on an ex-rights basis from Tuesday, 13th February, 2018. Any Shareholder or other person dealing in the Shares from the Latest Practicable Date up to the date on which all conditions of the Rights Issue are fulfilled (which is expected to be at 4:00 p.m. on Tuesday, 13th March, 2018) and any dealings in the Rights Issue Shares in their nil-paid form from Wednesday, 28th February, 2018 to Wednesday, 7th March, 2018 (both days inclusive), will accordingly bear the risk that the Rights Issue will not become unconditional and may not proceed. Any Shareholders or other persons contemplating dealings in the securities of the Company are recommended to consult their own professional advisers.

The Underwriting Agreement contains provisions granting the Underwriter the right to terminate the obligations of the Underwriter thereunder on the occurrence of certain events including force majeure. These certain events are set out in the section headed "Termination of the Underwriting Agreement" on pages 10 to 11 of this circular. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Rights Issue will not proceed.

A notice convening the SGM to be held at 10:00 a.m. on Friday, 9th February, 2018 at 1804A, 18/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong is set out on pages SGM-1 to SGM-5 of this circular. A form of proxy for use by the Shareholders at the SGM or any adjournment thereof (as the case may be) is enclosed with this circular.

Whether or not you are able to attend the SGM, you are requested to complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish, and in such case, the form of proxy previously submitted shall be deemed to be revoked.

24th January, 2018

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EXPECTED TIMETABLE

The expected timetable for the Capital Reorganisation, change in board lot size, and the Rights Issue and the associated trading arrangement is set out below.

All times and dates in this circular refer to Hong Kong local times and dates. The expected timetable set out below is for indicative purposes only assuming the Capital Reorganisation will be approved by the Shareholders and the Rights Issue will be approved by the Independent Shareholders at the SGM. The expected timetable may be subject to change, and any such change will be further announced by the Company as and when appropriate.

Event	2018
Publication of notice of reduction of share capital in Bermuda (which shall be not less than 15 days and not more than 30 days prior to the date on which the Capital Reduction becomes effective)	Not earlier than Saturday, 13 th January and not later than Saturday, 27 th January
Latest time for lodging proxy forms to qualify for attending and voting at the SGM	10:00 a.m. on Wednesday, 7 th February
Latest time for lodging transfers of the Existing Shares to attend and vote at the SGM	4:30 p.m. on Wednesday, 7 th February
Closure of register of members of the Company for determining the identity of the Shareholders entitled to attend and vote at the SGM (both dates inclusive)	From Thursday, 8 th February to Friday, 9 th February
Record date for attending and voting at the SGM	Friday, 9 th February
Expected date and time of the SGM	10:00 a.m. on Friday, 9 th February
Announcement of results of the SGM	Friday, 9 th February
Effective date of the Capital Reorganisation	Monday, 12 th February
Commencement of dealings in the Adjusted Shares	9:00 a.m. on Monday, 12 th February
Original counter for trading in the Existing Shares in board lots of 500 Existing Shares temporarily closes	9:00 a.m. on Monday, 12 th February

EXPECTED TIMETABLE

Temporary counter for trading in board lots of 50 Adjusted Shares (in the form of existing share certificates) opens	9:00 a.m. on Monday, 12 th February
First day of free exchange of existing share certificates for new share certificates for the Adjusted Shares	Monday, 12 th February
Last day of dealings in the Adjusted Shares on cum-rights basis	Monday, 12 th February
First day of dealings in the Adjusted Shares on ex-rights basis	Tuesday, 13 th February
Latest time for the Shareholders to lodge transfer of the Adjusted Shares in order to qualify for the Rights Issue.	4:30 p.m. on Wednesday, 14 th February
Closure of register of members of the Company for determining entitlements under the Rights Issue (both dates inclusive).	From Thursday, 15 th February to Friday, 23 rd February
Record Date for determining entitlements to the Rights Issue	Friday, 23 rd February
Register of members of the Company re-opens	Monday, 26 th February
Despatch of Prospectus Documents	Monday, 26 th February
First day of dealings in nil-paid Rights Issue Shares	Wednesday, 28 th February
Original counter for trading in board lots of 2,000 Adjusted Shares (in the form of new share certificates) re-opens	9:00 a.m. on Wednesday, 28 th February
Parallel trading in the Adjusted Shares (in the form of existing share certificates and new share certificates) commences	9:00 a.m. on Wednesday, 28 th February
Designated broker starts to stand in the market to provide matching services for the odd lots of Adjusted Shares	9:00 a.m. on Wednesday, 28 th February
Latest time for splitting nil-paid Rights Issue Shares.	4:30 p.m. on Friday, 2 nd March

EXPECTED TIMETABLE

Last day of dealings in nil-paid Rights Issue Shares	Wednesday, 7 th March
Latest time for acceptance of, and payment for, the Rights Issue Shares and the applications for excess Rights Issue Shares	4:00 p.m. on Monday, 12 th March
Latest time to terminate the Underwriting Agreement and for the Rights Issue to become unconditional.	4:00 p.m. on Tuesday, 13 th March
Announcement of results of the Rights Issue	Monday, 19 th March
Refund cheques to be despatched in relation to wholly or partially unsuccessful applications for excess Rights Issue Shares on or before.	Tuesday, 20 th March
Certificates for fully-paid Rights Issue Shares to be despatched on or before	Tuesday, 20 th March
Temporary counter for trading in board lots of 50 Adjusted Shares (in the form of existing share certificates) closes.	4:00 p.m. on Tuesday, 20 th March
Parallel trading in the Adjusted Shares (in the form of existing share certificates and new share certificates) ends	4:00 p.m. on Tuesday, 20 th March
Designated broker ceases to stand in the market to provide matching services for the odd lots of the Adjusted Shares	4:00 p.m. on Tuesday, 20 th March
Commencement of dealings in the fully-paid Rights Issue Shares	9:00 a.m. on Wednesday, 21 st March
Last day of free exchange of existing share certificates for new share certificates for the Adjusted Shares	Friday, 23 rd March

EXPECTED TIMETABLE

EFFECTS OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE RIGHTS ISSUE SHARES

The Latest Time for Acceptance of and payment for the Rights Issue Shares and for application and payment for excess Rights Issue Shares will not take place if there is a tropical cyclone warning signal no. 8 or above, or a “black” rainstorm warning:

- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Last Acceptance Date. Instead the Latest Time for Acceptance of and payment for the Rights Issue Shares and for application and payment for excess Rights Issue Shares will be extended to 5:00 p.m. on the same Business Day; or
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Last Acceptance Date. Instead the Latest Time for Acceptance of and payment for the Rights Issue Shares and for application and payment for excess Rights Issue Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 4:00 p.m..

If the latest time for acceptance of, and payment for the Rights Issue Shares and the application for excess Rights Issue Shares does not take place on the Last Acceptance Date, the dates mentioned in the “Expected timetable” section above may be affected. The Company will notify Shareholders by way of announcement(s) on any change to the expected timetable as soon as practicable.

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“2013 Circular”	the circular of the Company dated 5 th January, 2013 in relation to, among other things, the proposed allotment and issue of shares and issue of convertible bonds requiring a specific mandate, proposed acquisition of Falloncroft Investments Limited constituting a very substantial acquisition and connected transaction, proposed distribution in specie of a 49% interest in its existing businesses, with the offer of a cash alternative, proposed special cash dividend of HK\$0.26 per share with a scrip alternative and notice of special general meeting
“acting in concert”	has the meaning ascribed thereto under the Takeovers Code
“Adjusted Share(s)”	ordinary share(s) of HK\$0.20 each in the issued and unissued share capital of the Company upon the Capital Reorganisation becoming effective
“Announcement”	the announcement of the Company dated 20 th October, 2017 in relation to, among other things, the Capital Reorganisation, change in board lot size, and the Rights Issue
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Bridge Loan”	the bridge loan granted by Get Nice Finance in the principal amount of up to HK\$250 million pursuant to the Bridge Loan Agreement
“Bridge Loan Agreement”	the bridge loan agreement entered into between the Company and Get Nice Finance dated 19 th October, 2017 in relation to the Bridge Loan
“Business Day(s)”	any day (other than a Saturday, Sunday or public holiday) on which banks are generally open for business in Hong Kong
“Capital Reduction”	the proposed reduction of the nominal value of the issued Consolidated Shares from HK\$20.00 to HK\$0.20 each by cancelling the paid-up capital to the extent of HK\$19.80 on each of the issued Consolidated Shares
“Capital Reorganisation”	the Share Consolidation, Capital Reduction and Share Subdivision
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

DEFINITIONS

“Companies Act”	the Companies Act 1981 of Bermuda
“Companies Miscellaneous Provisions Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	The 13 Holdings Limited (Stock Code: 577), a company incorporated in Bermuda with limited liability and the Shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Rights Issue
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consolidated Share(s)”	ordinary share(s) of HK\$20.00 each in the share capital of the Company immediately following the Share Consolidation becoming effective but prior to the Capital Reduction and Share Subdivision
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Convertible Securities”	the Share Options, the Existing CBs and the Exchange Right
“DICJ”	Direcção de Inspecção e Coordenação de Jogos, also known as the Gaming Inspection and Coordination Bureau of Macau
“Director(s)”	director(s) of the Company
“Disposal”	the proposed sale of the Company’s interest in the PYE Group, as referred to in the announcement of the Company dated 28 th June, 2017
“DSEC”	Direcção dos Serviços de Estatística e Censos, also known as, Government of Macao Special Administrative Region Statistics and Census Service of Macau
“EAF(s)”	the form(s) of application for use by the Qualifying Shareholders who wish to apply for the excess Rights Issue Shares, being in such usual form as may be agreed between the Company and the Underwriter
“Exchange Right”	the prospective right exercisable by Chief Wise Limited to exchange shares in Falloncroft Investments Limited (to be allotted on exercise of the Falloncroft Share Options) for up to 88,235,294 new Existing Shares (pre-adjustment)

DEFINITIONS

“Excluded Shareholder(s)”	the Overseas Shareholder(s) to whom the Board, after making enquiries, considers it necessary or expedient not to offer the Rights Issue Shares on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
“Existing Bridge Loan”	the HK\$300 million bridge loan facility granted to a subsidiary of the Company by an investment fund in December, 2016
“Existing CBs”	(a) the zero coupon convertible bonds due 2025 issued by the Company on 5 th February, 2013 with an outstanding principal amount of HK\$1,163,300,000 and conversion price of HK\$6.55 per Existing Share (subject to adjustment); (b) the zero coupon convertible bonds due 2025 issued by the Company on 16 th December, 2013 with an outstanding principal amount of HK\$299,942,350 and conversion price of HK\$8.23 per Existing Share (subject to adjustment); and (c) the zero coupon convertible bonds due 2025 issued by the Company on 8 th January, 2015 with an outstanding principal amount of HK\$755,300,000 and conversion price of HK\$3.00 per Existing Share (subject to adjustment). A total of 465,814,719 new Existing Shares (pre-adjustment) shall be issued upon full conversion of the Existing CBs
“Existing Share(s)”	the ordinary share(s) of HK\$2.00 each in the share capital of the Company prior to the Capital Reorganisation becoming effective
“Falloncroft Share Options”	the share options granted to Chief Wise Limited to subscribe for shares in Falloncroft Investments Limited which shall expire and lapse on 4 th February, 2018 pursuant to the relevant share option scheme
“FF&E”	furniture, fixtures and equipment (i.e. movable furniture, fixtures and equipment, such as beds, chairs, tables and cabinets that have no permanent connection to the structure of a building or utilities)
“Gaming Operation”	the proposed management and operation of the casino by the Licensed Operator at THE 13 Hotel, subject to the entering into a formal agreement between the Company and the Licensed Operator and the approval by the Macau Government
“Get Nice Finance”	Get Nice Finance Company Limited, a fellow subsidiary of Get Nice
“Group”	the Company and its subsidiaries

DEFINITIONS

“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising five independent non-executive Directors, namely Ir James Chiu, Professor Lee Chack Fan, Mr. Iain Ferguson Bruce, Mr. Francis Goutenmacher and Mr. Chan Kok Chung, Johnny, established to give a recommendation to the Independent Shareholders in respect of the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder at the SGM
“Independent Financial Adviser” or “Lego Corporate Finance”	Lego Corporate Finance Limited, a corporation licensed to carry on type 6 (advising on corporate finance) regulated activity under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons and their respective associates
“Independent Shareholder(s)”	any Shareholder(s) who are not required to abstain from voting at the SGM under the Listing Rules
“Irrevocable Undertaking”	an irrevocable undertaking given by each of Paul Y. Investments Limited, Advance Tech Limited and Mr. Peter Lee Coker Jr. in favour of the Company
“Last Acceptance Date”	Monday, 12 th March, 2018, being the last day for acceptance and payment of the Rights Issue Shares, or such other date as the Company and the Underwriter may agree in writing
“Latest Practicable Date”	Monday, 22 nd January, 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining information contained herein
“Last Trading Day”	Thursday, 19 th October, 2017, being the last trading day of the Existing Shares on the Stock Exchange immediately prior to the publication of the Announcement
“Latest Time for Acceptance”	4:00 p.m. on the Last Acceptance Date

DEFINITIONS

“Latest Time for Termination”	4:00 p.m. on the next Business Day after the Latest Time for Acceptance or such later time or date as may be agreed between the Underwriter and the Company in writing, being the latest time to terminate the Underwriting Agreement
“Licensed Operator”	the operator, which is one of the six concessionaires or sub-concessionaires in Macau licensed and authorised by the Macau Government through concessions or subconcessions to operate games of fortune and chance or other cash games in Macau, whose affiliate entered into the MOU with Falloncroft Investments Limited
“Listing Committee”	has the same meaning ascribed thereto under the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Notes”	the loan notes in the aggregate principal amount of up to HK\$740 million to be issued by the Company
“Macau”	the Macau Special Administrative Region of the PRC
“Macau Government”	the government of Macau
“MEP”	the mechanical, electrical, and plumbing works for the development of THE 13 Hotel
“MGTO”	the Macau Government Tourism Office
“MOP”	Macau Pataca, the lawful currency of Macau
“MOU”	the memorandum of understanding dated 16 th April, 2008, as supplemented by a confirmation letter dated 3 rd November, 2010 and a letter dated 5 th September, 2012, entered into between a subsidiary of the Company and an affiliate of the Licensed Operator in respect of the Gaming Operation at THE 13 Hotel
“Non-undertaken Convertible Securities”	(i) a total of 540,000 outstanding Share Options; and (ii) Existing CBs in the outstanding principal amount of HK\$466,000,000, the holders of which may elect to exercise their conversion rights for a total of 127,186,260 new Existing Shares (pre-adjustment), as further detailed in the section headed “Irrevocable undertakings” in the letter from the Board
“Occupation Permit”	the occupation permit for THE 13 Hotel issued by the Macau Government on 29 th March, 2017

DEFINITIONS

“OS&E”	operating supplies and equipment (i.e. consumable items such as toiletries, cleaning materials, napkins, towels and bedding)
“Overseas Shareholder(s)”	the Shareholder(s) whose address(es) on the register of members of the Company on the Record Date is, or are outside Hong Kong
“PAL(s)”	the provisional allotment letter(s) for the Rights Issue proposed to be issued to the Qualifying Shareholders being in such usual form as may be agreed between the Company and the Underwriter
“Placee(s)”	any independent professional, institutional or other private investors selected and procured by or on behalf of the Placing Agent to subscribe for the Loan Notes pursuant to the Placing Agreement
“Placing”	the placing of the Loan Notes pursuant to the Placing Agreement
“Placing Agent”	Opus Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“Placing Agreement”	the placing agreement dated 19 th October, 2017 and entered into between the Company and the Placing Agent in relation to the Placing
“Placing Period”	a period of 120 days starting from the date of the Placing Agreement, or such other period as may be agreed between the Company and the Placing Agent in writing
“Posting Date”	Monday, 26 th February, 2018 or such other day as may be agreed between the Company and the Underwriter, being the date of despatch of the Prospectus Documents to the Qualifying Shareholders or the Prospectus to the Excluded Shareholders (as the case may be)
“PRC”	the People’s Republic of China, for the purposes of this circular, excluding Hong Kong, Macau and Taiwan
“Prospectus”	the prospectus to be despatched to the Qualifying Shareholders (and the Excluded Shareholder(s) for information only) on the Posting Date in connection with the Rights Issue in such form as may be agreed between the Company and the Underwriter
“Prospectus Documents”	the Prospectus, the PAL(s) and the EAF(s)

DEFINITIONS

“PYE Group”	Paul Y. Engineering Group Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect and non wholly-owned subsidiary of the Company
“Qualifying Shareholder(s)”	the Shareholder(s), other than the Excluded Shareholders, whose name(s) appear(s) on the register of members of the Company on the Record Date
“Record Date”	Friday, 23 rd February, 2018, being the date by reference to which entitlements to the Rights Issue will be determined
“Registrar”	the Company’s branch share registrar and transfer office in Hong Kong, which is Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong
“Rights Issue”	the proposed issue by way of rights on the basis of ten (10) Rights Issue Shares for every one (1) Adjusted Share held on the Record Date at the Subscription Price on the terms to be set out in the Prospectus and summarised herein
“Rights Issue Share(s)”	new Adjusted Share(s) to be allotted and issued under the Rights Issue
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“SGM”	the special general meeting of the Company to be convened and held on Friday, 9 th February, 2018 at which resolutions will be proposed to consider, and, if thought fit, to approve, among other things, the Capital Reorganisation, the Rights Issue and the transactions contemplated thereunder
“Share(s)”	the Existing Share(s), Consolidated Share(s), or Adjusted Share(s) (as the case may be)
“Share Consolidation”	the proposed consolidation of every ten (10) issued and unissued Existing Shares of HK\$2.00 each into one (1) Consolidated Share of HK\$20.00
“Share Option(s)”	the share option(s) granted under the Share Option Schemes

DEFINITIONS

“Share Option Schemes”	(i) the share option scheme approved by the Shareholders on 7 th September, 2005 and which expired on 7 th September, 2015 (the outstanding Share Options granted thereunder will continue to be valid and exercisable); and (ii) the existing share option scheme approved by the Shareholders on 11 th August, 2015
“Share Subdivision”	the proposed sub-division of each authorised but unissued Consolidated Share of HK\$20.00 (including those arising from the Capital Reduction) into one hundred (100) Adjusted Shares of HK\$0.20 each
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price in respect of each Rights Issue Share, being HK\$1.10
“Sub-Underwriting Agreements”	the sub-underwriting agreements dated 19 th October, 2017 and entered into between the Underwriter and the Sub-Underwriters in relation to the Rights Issue
“Sub-Underwriter(s)”	(i) CS Wealth Securities Limited, a corporation licensed to carry on business in type 1 regulated activity (dealing in securities) under the SFO; (ii) Koala Securities Limited, a corporation licensed to carry on business in type 1 regulated activity (dealing in securities) and type 4 regulated activity (advising on securities) under the SFO; (iii) Opus HK Advisors Limited; (iv) Opus Securities Limited, a corporation licensed to carry on business in type 1 regulated activity (dealing in securities) under the SFO; and (v) Supreme China Securities Limited, a corporation licensed to carry on business in type 1 regulated activity (dealing in securities) under the SFO
“Supplemental Agreement”	the supplemental underwriting agreement dated 6 th December, 2017 and entered into between the Company and the Underwriter in relation to the Rights Issue
“Takeovers Code”	the Code on Takeovers and Mergers
“THE 13 Hotel”	a luxury hotel and entertainment complex development in Macau of the Company
“Trading Day(s)”	a day on which the Stock Exchange is open for dealing business

DEFINITIONS

“Underwriter” or “Get Nice”	Get Nice Securities Limited, a corporation licensed to carry on business in type 1 regulated activity (dealing in securities), type 4 regulated activity (advising on securities), type 6 regulated activity (advising on corporate finance) and type 9 regulated activity (asset management) under the SFO
“Underwriting Agreement”	the underwriting agreement dated 19 th October, 2017 and entered into between the Company and the Underwriter in relation to the Rights Issue (as supplemented and amended by the Supplemental Agreement)
“Underwritten Share(s)”	the Rights Issue Shares, other than those agreed to be taken up by Paul Y. Investments Limited, Advance Tech Limited and Mr. Peter Lee Coker Jr. pursuant to the Irrevocable Undertaking, subject to the terms and conditions of the Underwriting Agreement
“Untaken Shares”	any of the Rights Issue Shares not taken up by the Qualifying Shareholders under the Rights Issue
“Valuer” or “GCA”	Greater China Appraisal Limited, the independent valuer appointed by the Company for valuation assessment on THE 13 Hotel project
“%”	per cent

TERMINATION OF THE UNDERWRITING AGREEMENT

The Underwriter may terminate the arrangements set out in the Underwriting Agreement by notice in writing issued by the Underwriter to the Company at any time prior to the Latest Time for Termination if there occurs:

- (i) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or
- (ii) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and, or after the date of the Underwriting Agreement) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not such are of the same nature as any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or
- (iii) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out;

and in the opinion of the Underwriter, acting reasonably, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue.

If, at or prior to the Latest Time for Termination:

- (i) the Company commits any material breach of or omits to observe any of the obligations, undertakings, representations or warranties expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or
- (ii) the Underwriter shall receive notification from the Company pursuant to the Underwriting Agreement, or shall otherwise become aware of, the fact that any of the representations, warranties or undertakings pursuant to the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate, and the Underwriter shall, in its reasonable opinion, determine that any such untrue representation, warranty or undertaking represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a material adverse effect on the Rights Issue; or
- (iii) if, prior to the despatch of the Prospectus Documents or on or prior to the Latest Time for Acceptance, any matter or event comes to the attention of the Company, as a result of which any representation or warranty, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any material respect or which would or might render untrue, inaccurate in any material respect or misleading any statement, whether of fact or opinion, contained in the Prospectus Documents if the same were issued immediately after such occurrence, the Company fails to promptly to send out any announcement or circular (after the despatch of the Prospectus Documents), in such manner (and as appropriate with such contents) as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company;

TERMINATION OF THE UNDERWRITING AGREEMENT

the Underwriter shall be entitled (but not bound) by notice in writing issued by the Underwriter to the Company to elect to treat such matter or event as releasing and discharging the Underwriter from its obligations under the Underwriting Agreement.

Upon the giving of notice of termination pursuant to the terms of the Underwriting Agreement, all obligations of the Underwriter thereunder shall cease and determine (but without prejudice to the rights of any party in respect of antecedent breach) and none of the parties thereto shall have any claim against the other parties in respect of any matter or thing arising out of or in connection with the Underwriting Agreement provided that the Company shall remain liable to pay to the Underwriter such fees and expenses (but not the underwriting commission) in accordance with the terms of the Underwriting Agreement.

LETTER FROM THE BOARD



The 13 Holdings Limited

十三集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00577)

Executive Directors

Mr. Stephen Hung (*Joint Chairman*)
Mr. Peter Lee Coker Jr. (*Joint Chairman*)
Mr. Lau Ko Yuen, Tom (*Deputy Chairman*)
Mr. Walter Craig Power (*Chief Executive Officer*)

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Independent non-executive Directors

Ir James Chiu, *OBE, JP*
Professor Lee Chack Fan, *GBS, SBS, JP*
Mr. Iain Ferguson Bruce
Mr. Francis Goutenmacher
Mr. Chan Kok Chung, Johnny

Principal place of business:

2901 AIA Central
1 Connaught Road Central
Hong Kong

24th January, 2018

To the Shareholders

Dear Sir or Madam,

**(I) PROPOSED CAPITAL REORGANISATION;
(II) PROPOSED CHANGE IN BOARD LOT SIZE; AND
(III) PROPOSED RIGHTS ISSUE ON THE BASIS OF
TEN (10) RIGHTS ISSUE SHARES FOR EVERY ONE (1) ADJUSTED SHARE
HELD ON THE RECORD DATE**

INTRODUCTION

Reference is made to the Announcement in relation to, among others, the Capital Reorganisation, change in board lot size and the Rights Issue.

The Group has been developing a luxury hotel and entertainment complex, THE 13 Hotel, in Macau since 2013. THE 13 Hotel was originally expected to open by the end of 2016. However due to delays in obtaining various licences and permits, and more costs requiring to be incurred on the hotel decoration, acquisition of FF&E and OS&E in order to meet the market expectations for a unique ultra-luxury hotel, further funding is required for completion of THE 13 Hotel.

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The Company has been exploring various options to finance this final development phase and successfully obtained a HK\$300 million Existing Bridge Loan in December, 2016 as a temporary measure. The Company is proposing to raise the further capital required through the Rights Issue, the Placing and the Bridge Loan. The Rights Issue will be fully underwritten and it is expected that the proceeds from the Rights Issue will be sufficient for completion of THE 13 Hotel. The Placing will be on a best effort basis and will enable the Group to service its existing debt. The Bridge Loan provides temporary financial relief to the Group, enabling the Group to resume the remaining fitting-out works of THE 13 Hotel before the completion of the Rights Issue. The Bridge Loan will be repaid from the proceeds of the Rights Issue, and hence is in essence an advance on the proceeds of the Rights Issue.

As further detailed in the section headed “Reasons for and benefits of the Rights Issue, the Placing and the Bridge Loan; and the proposed use of proceeds”, due to a shortage of funding, the remaining works on THE 13 Hotel were temporarily suspended in July, 2017. The drawdown of the Bridge Loan was completed on 25th October, 2017, and with the proceeds from the Bridge Loan, the Group was able to resume works on THE 13 Hotel on 21st November, 2017. Pursuant to a facility agreement for a bank loan granted by a lending bank to the Group, among other things, the Group was required to open THE 13 Hotel by no later than 31st March, 2017. The Group had previously successfully applied to extend this date to 31st July, 2017, and has been in discussions with the lending bank to further extend the opening date. As at the Latest Practicable Date, the Company is still in discussions with the lending bank regarding possible options. As a result, the Group remains in need of financing and the Rights Issue (together with the Bridge Loan) is expected to provide the funding required to complete the remaining works on THE 13 Hotel and avoid triggering a call on the loan.

As disclosed in the Announcement, the hotel opening was expected to be on or before 31st March, 2018. Nevertheless, as additional time was required by both the Company and the Valuer for the preparation and the due diligence works in respect of the valuation assessment on THE 13 Hotel project, which resulted in delays in the expected timetable for the Rights Issue, the hotel opening, as at the Latest Practicable Date, is expected to be on or before 30th April, 2018, subject to keeping to the Rights Issue timetable and the confirmation of the key contractors, suppliers and vendors on the hotel works delivery and completion program upon the publication of this circular.

The Company’s intention is to include the Gaming Operation at THE 13 Hotel as soon as practicable, subject to the progress of the Licensed Operator in submitting an application for and obtaining approval for the Gaming Operation after the licences for the operation of THE 13 Hotel have been granted or when it is clear such licences are almost certain to be granted as a matter of procedure. The authorisation to install and operate a casino in THE 13 Hotel is subject to the approval of Macau Government, and therefore its success remains an uncertainty. However, the Company would like to reiterate that although it is the Company’s intention to include the Gaming Operation in THE 13 Hotel, it is subject to, among other things, the entering into a formal agreement with the Licensed Operator, and the approval of Macau Government. As such, the Gaming Operation may or may not commence at THE 13 Hotel, but will not affect the opening and the hotel operation of THE 13 Hotel. Please refer to the section headed “THE 13 Hotel’s development after the Rights Issue – After completion of THE 13 Hotel” for further details of the progress of the Gaming Operation, and Appendix I to the circular for further details about the Gaming Operation at THE 13 Hotel.

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The purpose of this circular is to provide you with, among other things, (i) further details of the Capital Reorganisation, change in board lot size and the Rights Issue; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Rights Issue; (iii) a letter of advice from Lego Corporate Finance to the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder; (iv) further information on the Gaming Operation and the valuation assessment on THE 13 Hotel project; (v) financial information and other general information of the Group; and (vi) the notice of SGM, at which special and ordinary resolutions will be proposed to consider and, if thought fit, approve, among other things, the Capital Reorganisation and the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder.

PROPOSED CAPITAL REORGANISATION

Introduction

Reference is made to the Announcement. The Board proposes to put forward a proposal to the Shareholders to effect the Capital Reorganisation which will comprise:

- (i) the Share Consolidation on the basis of every ten (10) issued and unissued Existing Shares of par value HK\$2.00 each into one (1) Consolidated Share of par value HK\$20.00 each;
- (ii) the Capital Reduction involving a reduction of the issued share capital of the Company through a cancellation of the paid-up capital of the Company to the extent of HK\$19.80 on each of the issued Consolidated Shares so that the nominal value of each issued Consolidated Share will be reduced from HK\$20.00 to HK\$0.20; and
- (iii) the Share Subdivision of each authorised but unissued Consolidated Share of HK\$20.00 (including those arising from the Capital Reduction) into one hundred (100) Adjusted Shares of HK\$0.20 each.

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$5,000 million divided into 2,500 million Existing Shares of HK\$2.00 each. Following the Capital Reorganisation becoming effective, the authorised share capital would be HK\$5,000 million divided into 25,000 million Adjusted Shares of HK\$0.20 each. Following the Capital Reorganisation becoming effective, the issued share capital of the Company would be reduced from HK\$1,841,734,020 divided into 920,867,010 Existing Shares of HK\$2.00 each to HK\$18,417,340.20 divided into 92,086,701 Adjusted Shares of HK\$0.20 each.

The credit of HK\$1,823,316,679.80 arising from the Capital Reduction will be credited to the contributed surplus account of the Company, and the Board will be authorised to utilise credits in the contributed surplus account in such manner as permissible under the bye-laws of the Company and the Companies Act, including to set off accumulated losses of the Company.

LETTER FROM THE BOARD

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon, among other things:

- (i) the passing of the special resolution by the Shareholders approving the Capital Reorganisation and the transactions contemplated thereunder at the SGM;
- (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Adjusted Shares in issue arising from the Capital Reorganisation and the new Adjusted Shares which may fall to be issued upon exercise of the rights attaching to the Convertible Securities;
- (iii) compliance by the Company with the requirements under the Companies Act including the publication of a notice in relation to the Capital Reduction in Bermuda in accordance with section 46(2) of the Companies Act; and
- (iv) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Capital Reorganisation.

Assuming the above conditions are fulfilled, it is expected that the Capital Reorganisation will become effective on the next Business Day following the date of passing of the resolution approving the Capital Reorganisation.

Effects of the Capital Reorganisation

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$5,000,000,000 comprising 920,867,010 issued Existing Shares and 1,579,132,990 unissued Existing Shares of HK\$2.00 each. The Company has 59,997,500 outstanding Share Options exercisable by its holders to subscribe for up to 59,997,500 Existing Shares, Existing CBs convertible into 465,814,719 Existing Shares, and Exchange Right exercisable by its holders for up to 88,235,294 Existing Shares.

Save as disclosed above, the Company has no other outstanding warrants, options or convertible securities or other similar rights which are convertible or exchangeable into Shares.

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Upon the Capital Reorganisation becoming effective and assuming that there is no change in the number of issued Existing Shares prior to the SGM, the share capital structure of the Company will be as follows:

	As at the Latest Practicable Date	Immediately following the Share Consolidation becoming effective but prior to the Capital Reduction and Share Subdivision becoming effective	Immediately following the Share Consolidation, Capital Reduction and Share Subdivision becoming effective
Par value	HK\$2.00	HK\$20.00	HK\$0.20
Number of authorised Shares	2,500,000,000	250,000,000	25,000,000,000
Authorised share capital	HK\$5,000,000,000	HK\$5,000,000,000	HK\$5,000,000,000
Number of issued Shares	920,867,010	92,086,701	92,086,701
Number of unissued Shares	1,579,132,990	157,913,299	24,907,913,299
Issued share capital	HK\$1,841,734,020	HK\$1,841,734,020	HK\$18,417,340.20

Reasons for the Capital Reorganisation

The crediting of the amount of HK\$1,823,316,679.80 arising from the Capital Reduction to the contributed surplus account of the Company will facilitate the payment of dividends as and when the Directors consider it appropriate in the future. The lower par value of the Adjusted Shares will also allow the Company greater flexibility in setting the issue price for future equity fund raising exercises. Indeed, the lower par value is required in order to implement the Rights Issue.

The Capital Reorganisation will not, of itself, alter the underlying assets, business operations, management or financial position of the Group except for the payment of related expenses.

In view of the above, the Board considers that the Capital Reorganisation is in the best interests of the Company and the Shareholders as a whole.

Listing and dealings

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Adjusted Shares arising from the Capital Reorganisation.

Subject to the granting of listing of, and permission to deal in, the Adjusted Shares on the Stock Exchange, the Adjusted Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Adjusted Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second settlement day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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The Capital Reorganisation will not result in any change in the rights of the Shareholders. The Adjusted Shares will be identical in all respects and rank *pari passu* in all respects with each other as to all future dividends and distributions which are declared, made or paid. All necessary arrangements will be made for the Adjusted Shares to be admitted into CCASS.

Exchange of share certificates

Subject to the Capital Reorganisation becoming effective, which is expected to be on Monday, 12th February, 2018, Shareholders may on or after Monday, 12th February, 2018 and until Friday, 23rd March, 2018, (both dates inclusive) submit their existing share certificates for the Existing Shares, which is red in colour to the Registrar for exchange for share certificates for the Adjusted Shares at the expense of the Company. Thereafter, share certificates for the Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be specified by the Stock Exchange) for each share certificate issued for the Adjusted Shares or each existing share certificate for the Existing Shares submitted for cancellation, whichever the number of certificates issued or cancelled is higher. The new share certificates for the Adjusted Shares will be purple in colour.

After 4:00 p.m. on Tuesday, 20th March, 2018, existing share certificates for the Existing Shares will continue to be good evidence of legal title and may be exchanged for share certificates for Adjusted Shares at any time but are not acceptable for trading, settlement and registration purposes.

Trading arrangements for the Adjusted Shares

Subject to the Capital Reorganisation becoming effective, the arrangements proposed for dealings in the Adjusted Shares are expected to be as follows:

- (i) from 9:00 a.m. on Monday, 12th February, 2018, the original counter for trading in the Existing Shares in board lots of 500 Existing Shares will be temporarily closed and a temporary counter for trading in the Adjusted Shares in board lots of 50 Adjusted Shares will be set up and opened;
- (ii) with effect from 9:00 a.m. on Wednesday, 28th February, 2018, the original counter for trading in the Adjusted Shares will be re-opened in board lots of 2,000 Adjusted Shares;
- (iii) during the period from 9:00 a.m. on Wednesday, 28th February, 2018 to 4:00 p.m. on Tuesday, 20th March, 2018 (both dates inclusive), there will be parallel trading at the above two counters; and
- (iv) the temporary counter for trading in the Adjusted Shares in board lots of 50 Adjusted Shares will be removed after the close of trading at 4:00 p.m. on Tuesday, 20th March, 2018. Thereafter, trading will only be in board lots of 2,000 Adjusted Shares with new share certificates and the existing share certificates for the Existing Shares will cease to be marketable and will not be acceptable for dealing and settlement purposes. However, such certificates will remain as documents of title on the basis of ten (10) Existing Shares for one (1) Adjusted Share.

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Fractional Shares, odd lot arrangements and matching services

Fractional Adjusted Shares will not be issued by the Company to the Shareholders. Any fractional entitlements of the Adjusted Shares will be aggregated and sold for the benefit of the Company.

In order to facilitate the trading of odd lots (if any) of the Adjusted Shares arising from the Capital Reorganisation, Opus Securities Limited has been appointed to match the purchase and sale of odd lots of the Adjusted Shares arising from the Capital Reorganisation at the relevant market price per Adjusted Share for the period from 9:00 a.m. Wednesday, 28th February, 2018 to 4:00 p.m. on Tuesday, 20th March, 2018 (both dates inclusive). Holders of odd lots of the Adjusted Shares who wish to take advantage of this trading facility to dispose of or top up odd lots should contact Mr. Ricky Wong of Opus Securities Limited at 8th Floor, Fung House, 19-20 Connaught Road Central, Central, Hong Kong at telephone number (852) 2567 6600 during this period. Holders of odd lots of the Adjusted Shares should note that successful matching of the sale and purchase of odd lots of the Adjusted Shares is not guaranteed. Any Shareholder who is in any doubt about the odd lot arrangement is recommended to consult his, or her, or its own professional advisers.

CHANGE IN BOARD LOT SIZE

The Board proposes to change the board lot size for trading in the Shares from 500 Existing Shares to 2,000 Adjusted Shares upon the Capital Reorganisation becoming effective with effect from 9:00 a.m. on Wednesday, 28th February, 2018.

Reasons for the change in board lot size

At present, the Existing Shares are trading in board lots of 500 Existing Shares and the market value of each board lot is HK\$195 (based on the closing price of HK\$0.39 per Existing Share as quoted on the Stock Exchange as at the Latest Practicable Date). Based on the closing price of HK\$0.39 per Existing Share as at the Latest Practicable Date and assuming that the Capital Reorganisation and the Rights Issue having become effective and the dealings in the Adjusted Shares on an ex-rights basis having commenced, if the Adjusted Shares were continued to be trading in board lots of 500, the value of each board lot of Adjusted Shares would be approximately HK\$675.

In order to increase the value of each board lot so that the value of each board lot will be not less than HK\$2,000, the Board proposes to change the board lot size for trading in the Shares from 500 Existing Shares to 2,000 Adjusted Shares upon the Capital Reorganisation becoming effective. Had the change in board lot size become effective, the value of each board lot of Adjusted Shares would be approximately HK\$2,700 (based on the theoretical ex-entitlement price of approximately HK\$1.35 per Adjusted Share calculated based on the closing price of HK\$0.39 per Existing Share on the Latest Practicable Date and adjusted for the effect of Capital Reorganisation). The Board considers that the change in the board lot size will maintain the trading value for each board lot at a reasonable level to attract investors.

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The Board has considered different possible sizes of new board lot and concluded that the change in board lot size to 2,000 Adjusted Shares may, (i) taken together with the relevant trading requirements of having a board lot value of greater than HK\$2,000 and in an integral multiple of the original board lot size, and in order to maintain a reasonable trading value for each board lot, be the most appropriate board lot size which would minimise the odd lot of Adjusted Shares for those Qualifying Shareholders taking up the Rights Issue Shares; and (ii) facilitate the convenience of trading of the Adjusted Shares in the future, as it is comparatively easy to calculate the multiples of 2,000. The change in board lot size will not result in any change in the relative rights of the Shareholders. The Board is of the opinion that the change in board lot size is in the interests of the Company and its Shareholders as a whole.

Trading arrangement

In order to facilitate the trading of odd lots of the Adjusted Shares arising from the change in board lot size, the Company will procure an agent to arrange for the sale and purchase of odd lots on behalf of the Shareholders. Please refer to the section headed “Fractional Shares, odd lot arrangements and matching services” above for further details.

Shareholders should note that successful matching of the sale and purchase of odd lots of the Adjusted Shares is not guaranteed.

PROPOSED RIGHTS ISSUE

Subject to the Capital Reorganisation becoming effective, the Company proposes to implement the Rights Issue on the basis of ten (10) Rights Issue Shares for every one (1) Adjusted Share held at the close of business on the Record Date at the Subscription Price of HK\$1.10 per Rights Issue Share by issue of not less than 920,867,010 Rights Issue Shares (assuming no change in the number of issued Shares on or before the Record Date other than from the Capital Reorganisation becoming effective) and not more than 1,048,593,270 Rights Issue Shares (assuming no change in the number of issued Shares on or before the Record Date other than from the Capital Reorganisation becoming effective and other than the issue of new Shares upon the exercise in full of the subscription rights attaching to the Non-undertaken Convertible Securities on or before the Record Date).

Qualifying Shareholders may apply for any number of Rights Issue Shares, but are assured of allocations only up to the numbers in their assured allotments. Allocations of Rights Issue Shares to those who apply for more than their assured allotments will be made on an equitable basis. Please refer to the section headed “Application for excess Rights Issue Shares” below for details.

Set out below are the principal terms of the Rights Issue:

Basis of the Rights Issue	:	Ten (10) Rights Issue Shares for every one (1) Adjusted Share held on the Record Date
Subscription Price	:	HK\$1.10 per Rights Issue Share
Number of Existing Shares in issue as at the Latest Practicable Date	:	920,867,010 Existing Shares

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Number of Adjusted Shares in issue upon the Capital Reorganisation becoming effective	:	Not less than 92,086,701 Adjusted Shares (assuming no change in the number of issued Shares on or before the Record Date) and not more than 104,859,327 Adjusted Shares (assuming no change in the number of issued Shares on or before the Record Date, other than the issue of new Shares upon the exercise in full of the subscription rights attaching to the Non-undertaken Convertible Securities on or before the Record Date)
Number of Rights Issue Shares to be issued pursuant to the Rights Issue	:	Not less than 920,867,010 Rights Issue Shares (based on the number of Existing Shares in issue as at the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation, and assuming no change in the number of issued Shares on or before the Record Date) and not more than 1,048,593,270 Rights Issue Shares (based on the number of Existing Shares in issue as at the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation, and assuming no change in the number of issued Shares from the Latest Practicable Date up to the Record Date other than the issue of new Shares upon the exercise in full of the subscription rights attaching to the Non-undertaken Convertible Securities on or before the Record Date)
Total number of issued Adjusted Shares as enlarged by the Rights Issue Shares upon Completion	:	Not less than 1,012,953,711 Adjusted Shares and not more than 1,153,452,597 Adjusted Shares
Aggregate nominal value of the Rights Issue Shares	:	Not less than HK\$184,173,402 and not more than HK\$209,718,654
Total number of Rights Issue Shares being underwritten by the Underwriter	:	Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite all the Rights Issue Shares other than the Rights Issue Shares that are subject to the Irrevocable Undertaking on a fully underwritten basis subject to the terms and conditions of the Underwriting Agreement
Net proceeds to be raised upon Completion	:	Not less than approximately HK\$973 million and not more than approximately HK\$1,113 million

As at the Latest Practicable Date, the Company has 59,997,500 outstanding Share Options exercisable by its holders to subscribe for up to 59,997,500 Existing Shares, Existing CBs convertible into 465,814,719 Existing Shares, and Exchange Right exercisable by its holders for up to 88,235,294 Existing Shares. Save as disclosed above, the Company has no other outstanding warrants, options or convertible securities or other similar rights which are convertible or exchangeable into Shares.

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All the holders of the above Convertible Securities (except for holders of the Non-undertaken Convertible Securities) have provided irrevocable undertakings that they will not exercise their subscription or conversion rights under the Convertible Securities on or before the Record Date.

Assuming no change in the number of issued Shares on or before the Record Date, other than from the Capital Reorganisation becoming effective, the 920,867,010 Rights Issue Shares to be issued pursuant to the terms of the Rights Issue represents 1,000.00% of the number of issued Adjusted Shares upon completion of the Capital Reorganisation and approximately 90.91% of the number of issued Adjusted Shares as enlarged immediately upon Completion.

Assuming no change in the number of issued Shares on or before the Record Date, other than from the Capital Reorganisation becoming effective and other than the issue of new Shares upon exercise in full of the subscription rights attaching to the Non-undertaken Convertible Securities on or before the Record Date, the 1,048,593,270 Rights Issue Shares to be issued pursuant to the terms of the Rights Issue represents 1,000.00% of the number of issued Adjusted Shares upon completion of the Capital Reorganisation and approximately 90.91% of the number of issued Adjusted Shares as enlarged immediately upon Completion.

Subscription Price

The Subscription Price of HK\$1.10 per Rights Issue Share is payable in full by a Qualifying Shareholder upon acceptance of the relevant provisional allotment of the Rights Issue Shares under the Rights Issue, upon an application of excess Rights Issue Shares, or where a transferee of the nil-paid Rights Issue Shares subscribes for the Rights Issue Shares. The Subscription Price represents:

- (i) a discount of approximately 71.79% to the adjusted closing price of HK\$3.90 per Adjusted Share, based on the closing price of HK\$0.39 per Existing Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation;
- (ii) a discount of approximately 87.91% to the adjusted closing price of HK\$9.10 per Adjusted Share, based on the closing price of HK\$0.91 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (iii) a discount of approximately 87.91% to the adjusted 5-day average closing price of HK\$9.10 per Adjusted Share, based on the average closing price of HK\$0.91 per Existing Share as quoted on the Stock Exchange over the last five consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (iv) a discount of approximately 87.86% to the adjusted 10-day average closing price of HK\$9.06 per Adjusted Share, based on the average closing price of approximately HK\$0.91 per Existing Share as quoted on the Stock Exchange over the last ten consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;

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- (v) a discount of approximately 39.89% to the theoretical ex-entitlement price of approximately HK\$1.83 per Adjusted Share, based on the closing price of HK\$0.91 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation; and
- (vi) a discount of approximately 98.22% over the audited equity attributable to the owners of the Company per Adjusted Share of approximately HK\$61.69 as at 31st March, 2017 (based on the number of Existing Shares in issue as at the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation).

As detailed in the section headed “Reasons for and benefits of the Rights Issue, the Placing and the Bridge Loan; and the proposed use of proceeds – Background of fundraising activities – Rights Issue” below, the management of the Company concluded that when making decisions on the ratio for the rights issue and the subscription price, they would take into consideration the following factors:

- (a) the need to encourage underwriters to participate in the rights issue and to attract the Shareholders to participate into the rights issue;
- (b) the volatile market conditions and sentiment, in the context of the market price of the Shares decreasing significantly (i.e. around 50%) between June and July, 2017;
- (c) the stringent liquidity issues faced by the Group as set out in the Company’s 2017 annual report for the year ended 31st March, 2017 (“**2017 Annual Report**”), and the auditor of the Company drawing attention to a material uncertainty related to going concern of the Group in the 2017 Annual Report; and
- (d) the urgent requirement to finance completion of the facilities and amenities of THE 13 Hotel, and the pre-opening costs for the opening of THE 13 Hotel.

The Subscription Price was therefore determined, among others, after arm’s length negotiation between the Company and the Underwriter with reference to the market price of the Shares prior to and including the Last Trading Day, the capital needs of the Group as detailed in the sections headed “Reasons for and benefits of the Rights Issue, the Placing and the Bridge Loan; and the proposed use of proceeds” below, the financial position of the Group and the prevailing market conditions.

Given (i) each Qualifying Shareholder will be entitled to subscribe for the Rights Issue Shares at the same Subscription Price in proportion to his, or her, or its shareholding held on the Record Date; (ii) the Subscription Price has been set at a price with a view to encouraging existing Shareholders to participate in the potential growth of the Company; and (iii) the proceeds are to fulfil the funding needs of the Group as referred to in the sections below headed “Reasons for and benefits of the Rights Issue, the Placing and the Bridge Loan; and the proposed use of proceeds”, the Directors (including the independent non-executive Directors who have considered the advice of the Independent Financial Adviser) consider the terms of the Rights Issue, including the basis of determination of the Subscription Price, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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Please refer to the section head “Reasons for and benefits of the proposed Rights Issue, the Placing and the Bridge Loan; and the proposed use of proceeds – Background of fundraising activities” below for the details of the Rights Issue and other fundraising activities conducted by the Company during the past year.

Taking into account the estimated expenses in connection with the Rights Issue of approximately HK\$40 million, the net price per Rights Issue Share is expected to be approximately HK\$1.06, upon full acceptance of the relevant provisional allotment of Rights Issue Shares.

Basis of provisional allotments

The basis of the provisional allotment shall be ten (10) Rights Issue Shares (in nil-paid form) for every one (1) Adjusted Share held by the Qualifying Shareholders as at the close of business on the Record Date.

Application for all or any part of a Qualifying Shareholder’s provisional allotment should be made by completing a PAL and lodging the same with a remittance for the Rights Issue Shares being applied for with the Registrar on or before the Last Acceptance Date.

Conditions of the Rights Issue

The Rights Issue is conditional upon, among others, (i) the Capital Reorganisation becoming effective on or before the Record Date; (ii) the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms; and (iii) the passing of the relevant resolution by the Independent Shareholders at the SGM to approve the Rights Issue and the transactions contemplated thereunder. The conditions to the Underwriting Agreement are set out in the section headed “Underwriting Arrangement – Conditions of the Underwriting Agreement” below.

Qualifying Shareholders

To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company on the Record Date and not be an Excluded Shareholder on the Record Date. In order to be registered as members of the Company on the Record Date, all transfers of the Shares (together with the relevant share certificate(s) or indemnities thereof must be lodged with the Registrar no later than 4:30 p.m. (Hong Kong time) on Wednesday, 14th February, 2018, at Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong. It is expected that the last day of dealings in the Adjusted Shares on a cum-rights basis is Monday, 12th February, 2018 and the Adjusted Shares will be dealt with on an ex-rights basis from Tuesday, 13th February, 2018.

The Company will despatch the Prospectus Documents to the Qualifying Shareholders on the Posting Date.

Qualifying Shareholders who take up their pro rata entitlements in full will not suffer any dilution to their interests in the Company (except in relation to any dilution resulting from the taking up by third parties of any Rights Issue Shares arising from the aggregation of fractional entitlements). If a Qualifying Shareholder does not take up any of his, or her, or its entitlement in full under the Rights Issue, his, or her, or its proportionate shareholding in the Company will be diluted.

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Rights of Overseas Shareholders

The Prospectus Documents are not intended to be registered or filed under the applicable securities legislation or equivalent legislation of any jurisdictions other than Hong Kong.

According to the register of members of the Company, as at the Latest Practicable Date, there was one Overseas Shareholder with registered address as shown in the register of members of the Company in the PRC, in aggregate holding 483 Existing Shares. Pursuant to Rule 13.36(2)(a) of the Listing Rules, the Directors had made enquiries with the legal adviser of the Company as to the laws of the PRC regarding legal restrictions and regulatory requirements in the PRC in respect of extending the Rights Issue to the Overseas Shareholder in the PRC. Based on the legal opinion from the legal adviser of the Company as to the PRC laws, there is no restriction on extending the Rights Issue to the Overseas Shareholder under the PRC laws in the PRC and as such, there were no Excluded Shareholders for the Rights Issue as at the Latest Practicable Date. Save for the aforesaid Overseas Shareholder, all Shareholders on the Company's register of members as at the Latest Practicable Date have registered addresses in Hong Kong.

The Company will continue to ascertain whether there are any other Overseas Shareholder(s) in any other jurisdiction(s) on the Record Date. The Company will make further enquiries and, if necessary, seek legal advice from overseas legal adviser(s) regarding the legality and feasibility for extending the Rights Issue to the Overseas Shareholder(s). If, based on legal opinions, the Directors consider that it is necessary or expedient not to offer the Rights Issue Shares to the Overseas Shareholder(s) on account either of the legal restrictions under the laws of the relevant place(s) or the requirements of the relevant regulatory body or stock exchange in that (those) place(s), the Rights Issue will not be extended to such Overseas Shareholders. The basis for excluding the Excluded Shareholders, if any, from the Rights Issue will be set out in the Prospectus to be issued. The Company will send copies of the Prospectus to the Excluded Shareholders for their information only, but will not send any PAL and EAF to them.

Arrangements will be made for the Rights Issue Shares which would otherwise have been provisionally allotted to the Excluded Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the Rights Issue Shares in their nil-paid form commence and before dealings in the Rights Issue Shares in their nil-paid form end, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of more than HK\$100 will be paid to the Excluded Shareholders pro-rata to their shareholdings held at the Record Date. In light of administrative costs, the Company will retain individual amounts of HK\$100 or less for its own benefit.

Any unsold entitlement of Excluded Shareholders to the Rights Issue Shares, and any Rights Issue Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Issue Shares, will be made available for excess applications by Qualifying Shareholders under the EAF(s).

Fractional entitlement to the Rights Issue Shares

On the basis of provisional allotment of ten (10) Rights Issue Shares for every one (1) Adjusted Share held by the Qualifying Shareholders on the Record Date, no fractional entitlements to the Rights Issue Shares will arise under the Rights Issue.

LETTER FROM THE BOARD

Application for excess Rights Issue Shares

Qualifying Shareholders shall be entitled to apply by way of excess application, for (i) the Rights Issue Shares representing the entitlements of the Excluded Shareholders and which cannot be sold at a net premium; and (ii) any Rights Issue Shares provisionally allotted but not validly accepted by the Qualifying Shareholders. Applications for excess Rights Issue Shares may be made by completing the EAF for the excess Rights Issue Shares and lodging the same with a separate remittance for the excess Rights Issue Shares being applied for. The Board will allocate the excess Rights Issue Shares at its discretion, but on a fair and equitable basis as far as practicable on the following principles:

- (i) no preference will be given to applications for topping-up odd-lot holdings to whole-lot holdings as the giving of such preference may potentially be abused by certain investors by splitting their Shares and thereby receiving more Rights Issue Shares than they would receive if such preference is not given, which is an unintended and undesirable result; and
- (ii) subject to availability of the excess Rights Issue Shares, the excess Rights Issue Shares will be allocated to the Qualifying Shareholders who have applied for excess application on a pro rata basis based on the number of excess Rights Issue Shares applied for by them. No reference will be made to Rights Issue Shares subscribed through PALs, or the number of Shares held by the Qualifying Shareholders.

Beneficial owners of Shares whose Shares are held by a nominee company (including HKSCC Nominees Limited) should note that for the purpose of the Rights Issue, the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the beneficial owners of Shares whose Shares are registered in the name of nominee companies should note that the aforesaid arrangement in relation to the allocation of the excess Rights Issue Shares will not be extended to beneficial owners individually and are advised to consider whether they would like to arrange for registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

For those beneficial owners of Shares whose Shares are held by their nominee(s) (including HKSCC Nominees Limited) and who would like to have their names registered on the register of members of the Company, they must lodge all necessary documents with the Registrar, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for completion of the relevant registration not later than 4:30 p.m. on Wednesday, 14th February, 2018.

The Qualifying Shareholders who do not take up the Rights Issue Shares to which they are entitled should note that their interests in the Company will be diluted by the Rights Issue.

Closure of register of members

The register of members of the Company will be closed from Thursday, 8th February, 2018 to Friday, 9th February, 2018 (both dates inclusive) for determining the identity of the Shareholders entitled to attend and vote at the SGM.

LETTER FROM THE BOARD

The register of members of the Company will be closed from Thursday, 15th February, 2018 to Friday, 23rd February, 2018 (both dates inclusive) for determining the entitlements to the Rights Issue.

No transfer of the Adjusted Shares will be registered during the above book closure periods.

Status of the Rights Issue Shares

The Rights Issue Shares (when allotted, fully-paid and issued) will rank *pari passu* in all respects among themselves and with the Adjusted Shares then in issue on the date of allotment and issue of the Rights Issue Shares. Holders of fully-paid Rights Issue Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment of the Rights Issue Shares in their fully-paid form.

Certificates of the Rights Issue Shares and refund cheques for the Rights Issue

Subject to fulfilment of the conditions of the Rights Issue, share certificates for the fully-paid Rights Issue Shares are expected to be sent on or before Tuesday, 20th March, 2018, to those entitled thereto by ordinary post, at their own risk, to their registered addresses. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Issue Shares (if any) are expected to be posted on or before Tuesday, 20th March, 2018, by ordinary post to the applicants, at their own risk, to their registered addresses.

Application for listing of the Rights Issue Shares

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Issue Shares (in both nil-paid and fully-paid forms) to be issued and allotted pursuant to the Rights Issue. No part of the securities of the Company is listed or dealt in, and no listing of or permission to deal in any such securities is being or is proposed to be sought, on any other stock exchanges.

Subject to the granting of the listing of, and the permission to deal in, the Rights Issue Shares (in both their nil-paid and fully-paid forms) on the Stock Exchange, the Rights Issue Shares (in both their nil-paid and fully-paid forms) will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Issue Shares in each of their nil-paid and fully-paid forms on the Stock Exchange, or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their licensed securities dealer(s) or other professional adviser(s) for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Both the nil-paid Rights Issue Shares and the fully-paid Rights Issue Shares will be traded in board lots of 2,000 in the market.

LETTER FROM THE BOARD

Dealings in the Rights Issue Shares in both nil-paid and fully-paid forms will be subject to the payment of stamp duty, Stock Exchange trading fee, transaction levy or any other applicable fees and charges in Hong Kong.

Irrevocable undertakings

Pursuant to the Irrevocable Undertaking, each of Paul Y. Investments Limited, Advance Tech Limited and Mr. Peter Lee Coker Jr. has irrevocably undertaken to the Company (i) to accept or to procure the acceptance of their respective assured entitlements to the Rights Issue Shares under the Rights Issue in full; and (ii) the Shares held by them (either directly or indirectly) will remain so held by them from the date of the Irrevocable Undertakings to the Record Date.

All the holders of the Convertible Securities (except for the holders of the Non-undertaken Convertible Securities) have provided irrevocable undertakings that they will not exercise their subscription or conversion rights under the Convertible Securities on or before the Record Date.

The details of the Non-undertaken Convertible Securities, the holders of which have not, as at the Latest Practicable Date, given any undertakings that they will not exercise their subscription or conversion rights under the Non-undertaken Convertible Securities on or before the Record Date, are shown as follows:

(i) a total of 540,000 outstanding Share Options to subscribe for a total of 540,000 new Existing Shares:

Date of grant : 18th September, 2015

Exercise price of Share Options granted : HK\$3.00 per Share (subject to adjustment)

Validity period of the Share Options : 18th September, 2015 to 17th September, 2019 (both dates inclusive)

Grantees : 3 advisors of the Company each holding 180,000 Share Options

LETTER FROM THE BOARD

(ii) Existing CBs in the outstanding principal amount of HK\$466,000,000, the holders of which may elect to exercise their conversion rights for a total of 127,186,260 new Existing Shares (pre-adjustment):

- (a) Holders of Existing CBs and the corresponding principal amount : An investment fund and a private individual hold Existing CBs in the principal amount of HK\$155,000,000 and HK\$800,000 respectively
- Issue date : 5th February, 2013
- Maturity date : 5th February, 2025
- Conversion price : HK\$6.55 each (subject to adjustment)
- Conversion period : From 5th February, 2013 up to the close of business on a day no later than seven days prior to 5th February, 2025 (both dates inclusive)
- Interest : Zero coupon rate
- (b) Holder of Existing CBs and the corresponding principal amount : Three investment funds hold Existing CBs in the principal amount of HK\$59,600,000, HK\$95,500,000, and HK\$155,100,000 respectively
- Issue date : 8th January, 2015
- Maturity date : 5th February, 2025
- Conversion price : HK\$3.00 (subject to adjustment)
- Conversion period : From 8th January, 2015 up to the close of business on a day no later than seven days prior to 5th February, 2025
- Interest : Zero coupon rate

As at the Latest Practicable Date, in respect of those Shareholders (including but not limited to Pride Wisdom Group Limited, Omega Advisors, Inc., Janus Henderson, FIL Ltd. and Mr. Iain Ferguson Bruce) identified in the section headed “Effect on shareholding structure of the Company” in this circular who have not provided irrevocable undertakings to the Company (i) to accept or to procure the acceptance of their respective assured entitlements to the Rights Issue Shares under the Rights Issue in full; and (ii) the Shares held by them (either directly or indirectly) will remain so held by them up to the Record Date, the Company has not received any indication from the said Shareholders regarding their intentions in relation to their respective assured entitlements to the Rights Issue Shares under the Rights Issue. These Shareholders are entitled to make their own decisions as to whether or not to accept or to procure the acceptance of their respective assured entitlements to the Rights Issue Shares under the Rights Issue.

LETTER FROM THE BOARD

UNDERWRITING ARRANGEMENT

Underwriting Agreement

Date 19th October, 2017 (after trading hours)

Parties (i) the Company (the issuer); and

(ii) Get Nice (the Underwriter)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Underwriter and its ultimate beneficial owner(s) are Independent Third Party(ies).

Number of Rights Issue Shares Not less than 920,867,010 Rights Issue Shares (based on the number of Existing Shares in issue as at the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation, and assuming no change in the number of issued Shares on or before the Record Date) and not more than 1,048,593,270 Rights Issue Shares (based on the number of Existing Shares in issue as at the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation, and assuming no change in the number of issued Shares on or before the Record Date other than the issue of new Shares upon exercise in full of the subscription rights attaching to the Non-undertaken Convertible Securities on or before the Record Date).

Number of Underwritten Shares Not less than 770,076,180 Rights Issue Shares (based on the number of Existing Shares in issue as at the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation, and assuming no change in the number of issued Shares on or before the Record Date) and not more than 897,802,440 Rights Issue Shares (based on the number of Existing Shares in issue as at the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation, and assuming no change in the number of issued Share from the Latest Practicable Date up to the Record Date other than the issue of new Shares upon the exercise in full of the subscription rights attaching to the Non-undertaken Convertible Securities on or before the Record Date).

Taking into account the Irrevocable Undertakings by Paul Y. Investments Limited, Advance Tech Limited and Mr. Peter Lee Coker Jr., the Rights Issue is therefore fully underwritten.

The Underwriter will subscribe or procure subscribers for the Untaken Shares in accordance with the terms of the Underwriting Agreement.

LETTER FROM THE BOARD

Underwriting Commission 3% of the aggregate Subscription Price of the Underwritten Shares; save for the Underwritten Shares as would relate to any Shares arising on exercise of the rights attaching to the Non-undertaken Convertible Securities, in respect of which the underwriting commission is 0.5% of the aggregate Subscription Price (reflecting, as it does, the lower risk of any such underwriting being called upon).

The terms of the Underwriting Agreement, including the commission rate of 3% (and 0.5% in respect of the Underwritten Shares associated with the Non-undertaken Convertible Securities), were determined after arm's length negotiations between the Company and the Underwriter with reference to, among other things, the size of the Rights Issue, the current market conditions and the prevailing market rate for the underwriting commission of comparable transactions.

The Directors (including the independent non-executive Directors who have considered the advice of the Independent Financial Adviser) consider that the terms of the Underwriting Agreement including the underwriting commission rate are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions of the Underwriting Agreement

The obligations of the Underwriter under the Underwriting Agreement are conditional on, among others:

- (i) the passing of all the necessary resolution(s) by the Shareholders (or where applicable, the Independent Shareholders), in each case other than those who are required to abstain from voting or to vote in favour of the relevant resolutions, at the SGM approving and confirming:
 - (a) the Capital Reorganisation; and
 - (b) the Rights Issue and the transactions contemplated thereunder and authorising the Directors to allot and issue the Rights Issue Shares (in their nil-paid and fully-paid forms),

each in accordance with the bye-laws of the Company and the Listing Rules;

- (ii) the Capital Reorganisation having become effective;
- (iii) the delivery to the Stock Exchange for authorisation and registration by the Registrar of Companies in Hong Kong, respectively, on or prior to the Posting Date of each of the Prospectus Documents each duly certified in compliance with section 342C of the Companies Miscellaneous Provision Ordinance (and all other documents required to be attached thereto or otherwise filed or delivered) and otherwise complying with the requirements of the Companies Miscellaneous Provisions Ordinance and the Listing Rules;

LETTER FROM THE BOARD

- (iv) the posting of the Prospectus Documents to the Qualifying Shareholders and the posting of the Prospectus to the Excluded Shareholders, if any, for information purposes only, on or before the Posting Date;
- (v) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Rights Issue Shares in their nil-paid and fully-paid forms either unconditionally or subject to such conditions which the Company accepts and the satisfaction of such conditions (if any and where relevant) by no later than the Posting Date and such listings and permission to deal not having been withdrawn or revoked on or before the Latest Time for Termination;
- (vi) the Shares remaining listed on the Stock Exchange at all times and the current listing of the Shares not having been withdrawn or the trading of the Shares not having been suspended for a consecutive period of more than five (5) trading days;
- (vii) the execution and delivery of the Irrevocable Undertaking by each of Paul Y. Investments Limited, Advance Tech Limited and Mr. Peter Lee Coker Jr. in favour of the Company on the date of the Underwriting Agreement; and
- (viii) the obligations of the Underwriter under the Underwriting Agreement not being terminated by the Underwriter in accordance with the terms thereof.

In the event that the conditions precedent in (i) to (iv) have not been satisfied on or before the Posting Date or in the event that the conditions precedent (v) to (vi) have not been satisfied on or before the Latest Time for Termination (or, in each case, such later date as the Underwriter and the Company may agree in writing) all liabilities of the parties thereto shall cease and determine and neither party shall have any claim against the other (save in respect of any antecedent breaches and claims) save that all such reasonable costs, fees and other out of pocket expenses as have been properly incurred by the Underwriter in connection with the underwriting of the Underwritten Shares by the Underwriter (excluding the underwriting commission, sub-underwriting fees and related expenses) shall, to the extent agreed by the Company, be borne by the Company.

If the Underwriter terminates the Underwriting Agreement, the Rights Issue will not proceed.

Underwriter's undertaking

To the extent the Underwriter is called upon to subscribe for or procure subscription for the Untaken Shares, the Underwriter shall not subscribe, for its own account, such number of Untaken Shares which will result in the shareholding of it and parties acting in concert with it in the Company to be 29.9% (or such other percentage which shall trigger a general offer to be made for the Shares under the Takeovers Code) or more of the voting rights of the Company upon Completion.

LETTER FROM THE BOARD

The Underwriter has undertaken to the Company that it shall use all its best endeavours to ensure that each of the subscribers or purchasers (in each case together with their respective ultimate beneficial owners) of the Untaken Shares procured by it:

- (i) shall be third party(ies) independent of, not acting in concert (as such term is defined in the Takeovers Code) with and shall not be connected with the Directors, chief executive or substantial shareholders of the Company or their respective associates;
- (ii) shall not, together with party(ies) acting in concert (as such term is defined in the Takeovers Code) with each of them, hold 29.9% (or such other percentage which shall trigger a general offer to be made for the Shares under the Takeovers Code) or more of the voting rights of the Company upon completion of the Rights Issue; and
- (iii) will not own 10% or more of the issued share capital of the Company immediately after the Rights Issue and are not otherwise core connected persons (as such term is defined in the Listing Rules) of the Company.

Pursuant to the Underwriting Agreement, the Underwriter confirmed that it and the sub-underwriters (if any) (in each case together with their respective ultimate beneficial owners) do not have any shareholding in the Company which, in aggregate, represent 10% or more of the issued share capital of the Company, and that they are not otherwise connected persons (as such term is defined in the Listing Rules) of the Company.

The Underwriter shall and shall cause the sub-underwriters (if any) to procure independent places to take up such number of Rights Issue Shares as necessary to ensure that the public float requirements under the Listing Rules are complied with.

SUB-UNDERWRITING ARRANGEMENTS

On 19th October, 2017 (after trading hours), the Underwriter entered into five separate Sub-Underwriting Agreements with five Sub-Underwriters respectively in relation to all the Underwritten Shares in respect of which the Underwriter has not already procured subscribers (being a maximum of 789,726,260 Rights Issue Shares), namely, CS Wealth Securities Limited, Koala Securities Limited, Opus Securities Limited, and Supreme China Securities Limited (in respect of the Underwritten Shares other than Underwritten Shares as would relate to any new Shares arising on exercise of the rights attaching to the Non-undertaken Convertible Securities), and Opus HK Advisors Limited (in respect of the Underwritten Shares as would relate to any new Shares arising on exercise of the rights attaching to the Non-undertaken Convertible Securities).

LETTER FROM THE BOARD

The principal terms of the sub-underwriting arrangements are summarised below:

1. First Sub-Underwriting Agreement

Date : 19th October, 2017

Sub-Underwriter : CS Wealth Securities Limited

Total number of Rights Issue Shares sub-underwritten : Up to 182,000,000 Rights Issue Shares, representing approximately 17.97% (as enlarged by the issue of 920,867,010 Rights Issue Shares) and approximately 15.78% (as enlarged by the issue of 1,048,593,270 Rights Issue Shares) of the Company's issued Shares

2. Second Sub-Underwriting Agreement

Date : 19th October, 2017

Sub-Underwriter : Koala Securities Limited

Total number of Rights Issue Shares sub-underwritten : Up to 45,500,000 Rights Issue Shares, representing approximately 4.49% (as enlarged by the issue of 920,867,010 Rights Issue Shares) and approximately 3.94% (as enlarged by the issue of 1,048,593,270 Rights Issue Shares) of the Company's issued Shares

3. Third Sub-Underwriting Agreement

Date : 19th October, 2017

Sub-Underwriter : Opus Securities Limited

Total number of Rights Issue Shares sub-underwritten : Up to 389,000,000 Rights Issue Shares, representing approximately 38.40% (as enlarged by the issue of 920,867,010 Rights Issue Shares) and approximately 33.72% (as enlarged by the issue of 1,048,593,270 Rights Issue Shares) of the Company's issued Shares

LETTER FROM THE BOARD

Pursuant to the Underwriting Agreement, the Underwriter has undertaken that it shall use all its best endeavours to ensure that Opus Securities Limited (i) shall not, together with party(ies) acting in concert (as such term is defined in the Takeovers Code) with it, hold 29.9% (or such other percentage which shall trigger a general offer to be made for the Shares under the Takeovers Code) or more of the voting rights of the Company upon completion of the Rights Issue; and (ii) will not own 10% or more of the issued share capital of the Company immediately after the Rights Issue and is not otherwise a core connected person (as such term is defined in the Listing Rules) of the Company.

To the best knowledge of the Company, Opus Securities Limited has entered into further agreements with several parties in relation to all the Rights Issue Shares sub-underwritten by it.

4. *Fourth Sub-Underwriting Agreement*

Date	: 19 th October 2017
Sub-Underwriter	: Supreme China Securities Limited
Total number of Rights Issue Shares sub-underwritten	: Up to 45,500,000 Rights Issue Shares, representing approximately 4.49% (as enlarged by the issue of 920,867,010 Rights Issue Shares) and approximately 3.94% (as enlarged by the issue of 1,048,593,270 Rights Issue Shares) of the Company's issued Shares

LETTER FROM THE BOARD

5. *Fifth Sub-Underwriting Agreement*

Date	: 19 th October 2017
Sub-underwriter	: Opus HK Advisors Limited
Total number of Rights Issue Shares sub-underwritten	: Up to 127,726,260 Rights Issue Shares (relating only to the Rights Issue Shares to be issued in connection with any new Shares arising on exercise of the rights attaching to the Non-undertaken Convertible Securities on or before the Record Date), representing approximately 12.61% (as enlarged by the issue of 920,867,010 Rights Issue Shares) and approximately 11.07% (as enlarged by the issue of 1,048,593,270 Rights Issue Shares) of the Company's issued Shares

Pursuant to the Underwriting Agreement, the Underwriter has undertaken that it shall use all its best endeavours to ensure that Opus HK Advisors Limited (i) shall not, together with party(ies) acting in concert (as such term is defined in the Takeovers Code) with it, hold 29.9% (or such other percentage which shall trigger a general offer to be made for the Shares under the Takeovers Code) or more of the voting rights of the Company upon completion of the Rights Issue; and (ii) will not own 10% or more of the issued share capital of the Company immediately after the Rights Issue and is not otherwise a core connected person (as such term is defined in the Listing Rules) of the Company.

As the Latest Practicable Date, none of the holders of the Non-undertaken Convertible Securities have exercised their relevant subscription rights or conversion rights.

Pursuant to the respective Sub-Underwriting Agreements, each Sub-Underwriter has undertaken that it, and the subscribers it may procure in respect of any Rights Issue Shares sub-underwritten by it, (i) shall be third party(ies) independent of, and not acting in concert with and shall not be connected with the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates (all within the meaning of the Listing Rules), (ii) shall not for its own account, or in respect of subscribers or purchasers (in each case together with their respective ultimate beneficial owners) of such sub-underwritten Rights Issue Shares, together with party(ies) acting in concert (as defined in the Takeovers Code) with each of them, hold 29.9% (or such other percentage which shall trigger a general offer to be made for the Shares under the Takeovers Code) or more of the voting rights of the Company upon completion of the Rights Issue, and (iii) do not have any shareholding in the Company which, in aggregate, represent 10% or more of the issued share capital of the Company, and that they are not otherwise connected persons of the Company. Pursuant to the Sub-Underwriting Agreements, each of the Sub-Underwriters have also undertaken that it will procure that each of the subscribers of the Rights Issue Shares (including any direct and indirect sub-underwriters) and their respective associates will not hold 10% or more of the voting rights of the Company immediately upon completion of the Rights Issue.

LETTER FROM THE BOARD

Mr. Lau Ko Yuen, Tom, the deputy chairman and executive Director of the Company, is also the non-executive chairman and director of Opus Financial Holdings Limited, the ultimate holding company of Opus Securities Limited and Opus HK Advisors Limited.

Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Sub-Underwriters (a) is an Independent Third Party; and (b) is otherwise not a party acting (or presumed to be acting) in concert with any of the Directors, chief executive and substantial Shareholders of the Company or its subsidiaries or any of their respective associates.

Please refer to the section headed "Effect on shareholding structure of the Company" for the details of the effect on the shareholding structure of the Company upon the Completion.

Save for the sub-underwriting arrangements between the Underwriter and the Sub-Underwriters under the Sub-Underwriting Agreements as disclosed in this circular, to the best of the knowledge of the Directors, the Directors are not aware of any other sub-underwriting arrangements by the Underwriter.

Potential dilution effect

The Rights Issue is being made on the basis of ten (10) Rights Issue Shares for every one (1) Adjusted Share held at the close of business on the Record Date. The Board considers that any potential dilution impact should be balanced against the following factors:

- (i) each of the Independent Shareholders have a chance to express his, or her, or its views on the terms of the Rights Issue (including the Underwriting Agreement) through his, or her, or its votes at the SGM;
- (ii) Qualifying Shareholders will be provided with the choice whether to accept the Rights Issue or not;
- (iii) the Rights Issue offers each of the Qualifying Shareholders a chance to subscribe for his, or her, or its pro-rata Rights Issue Shares for the purpose of maintaining his, or her, or its respective existing shareholding interests in the Company at a relatively low price as compared to the prevailing market price of the Shares;
- (iv) those Qualifying Shareholders who choose to accept the Rights Issue in full can maintain their respective existing shareholding interests in the Company after the Rights Issue; and
- (v) the dire financial situation of the Group, which remains in need of funding to complete THE 13 Hotel, as detailed in the section headed "Reasons for and benefits of the Rights Issue, the Placing and the Bridge Loan; and the proposed use of proceeds".

LETTER FROM THE BOARD

Having considered the above, the Board considers the potential dilution effect on the shareholding interests of the Qualifying Shareholders, which may only happen when the Qualifying Shareholders do not subscribe for their pro-rata Rights Issue Shares, to be acceptable. Having taken into account the terms of the Rights Issue, the Directors consider that the Rights Issue is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Furthermore, it also offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company, and enables the Qualifying Shareholders to maintain their proportionate interests in the Company to participate in the future development of the Company should they wish to do so. Those Qualifying Shareholders who do not apply for the Rights Issue Shares to which they are entitled should note that their shareholdings in the Company will be diluted upon Completion.

PLACING

Reference is made to the Announcement in relation to the Placing. On 19th October, 2017 (after trading hours), the Company entered into the Placing Agreement with the Placing Agent pursuant to which the Placing Agent agreed to act as the placing agent, on a best effort basis, for the purposes of procuring Placee(s) who are not and whose ultimate beneficial owner(s), if applicable, are not connected persons of the Company to subscribe for the Loan Notes with an aggregate principal amount of up to HK\$740 million within the Placing Period. As the Placing is intended to take place concurrently with the Rights Issue, the Board expects that the success of the Placing will be subject to, among other things, the progress and success of the Rights Issue.

THE BRIDGE LOAN

Reference is made to the Announcement in relation to the Bridge Loan. On 19th October, 2017 (after trading hours), the Company and Get Nice Finance entered into the Bridge Loan Agreement pursuant to which Get Nice Finance intends to provide the Bridge Loan in the principal amount of up to HK\$250 million to the Company, bearing interest at a rate of 18% per annum for a period of one year from the date of the first drawdown under the Bridge Loan Agreement or the day following the Completion, whichever is the earlier. The Bridge Loan serves to provide temporary financial relief to the Group, enabling the Group to resume the remaining fitting-out works of THE 13 Hotel before the Completion. The Bridge Loan will be repaid from the proceeds of the Rights Issue, and hence is in essence an advance on the proceeds of the Rights Issue.

On 25th October, 2017, the drawdown of the Bridge Loan was completed, and with the proceeds from the Bridge Loan, the remaining fitting-out works resumed on 21st November, 2017. As at the Latest Practicable Date, approximately HK\$241 million out of the HK\$250 million Bridge Loan has been utilised for the remaining fitting-out works and general working capital of the Company.

REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE, THE PLACING AND THE BRIDGE LOAN; AND THE PROPOSED USE OF PROCEEDS

The Company is an investment holding company and its Group companies are principally engaged in hotel development, management contracting, property development management and property investment. The Board would like to provide further details about THE 13 Hotel, its development history, fundraising conducted and the current financial status of the Group to allow the Shareholders and potential investors to understand more about the rationale and background behind the Rights Issue.

LETTER FROM THE BOARD

Background of THE 13 Hotel development

The Group is currently working towards the opening of its luxury hotel and entertainment complex, THE 13 Hotel, which is located on a 65,000 square foot site on the Cotai Strip of Macau. The management of the Company intends to include gaming operations in THE 13 Hotel, subject to the approval of the Macau Government.

Since the grant of formal consent from the Macau Government to begin works on THE 13 Hotel in 2013 and up till the end of 2015, shell and core works, as well as the MEP works on THE 13 Hotel were all progressing as scheduled.

The Group also undertook the design works related to (i) ceilings, flooring, partitioning and walls, painting, as well as woodwork (“**1st stage fitting-out works**”); and (ii) the interior final decoration, including installation of FF&E, and OS&E (“**2nd stage fitting-out works**”).

The overall design of THE 13 Hotel was submitted to the Macau Government as statutory submissions for the Occupation Permit in late 2015. The Group received a qualification to the design in the first quarter of 2016 and worked with the Macau Government over the subsequent few months to address their comments. As a result of the foregoing, the Group was only able to complete the inspections for the issue of the Occupation Permit in the fourth quarter of 2016, which was later than originally planned.

In the second half of 2016, there was a change in the market conditions in the Macau hotel and entertainment industry with the opening of two large hotel and entertainment complexes. In order to increase the competitiveness of THE 13 Hotel and to cement its niche market position as an ultra-luxury hotel, the management of the Company decided to utilise the additional time from the delayed regulatory process mentioned above to revise and upgrade its interior design for the 2nd stage fitting-out works. The upgraded designs were finalised in the fourth quarter of 2016 and the budget for the development of THE 13 Hotel was therefore increased. To ensure sufficient funding for the increased investment costs in relation to such fitting-out upgrades and administrative and financing costs from the delay of the project, the Group secured a HK\$300 million Existing Bridge Loan from an investment fund in December, 2016 to provide immediate financial relief for the development of THE 13 Hotel.

By the end of the first quarter of 2017, all the shell and core works, the 1st stage fitting-out works, as well as the MEP works had been completed, and the 2nd stage fitting-out works, being the main remaining works to be done before completion of THE 13 Hotel, were progressing based on the upgraded designs adopted in the fourth quarter of 2016. Reference is made to the announcement of the Company dated 3rd April, 2017, which disclosed that the Group obtained the Occupation Permit on 29th March, 2017. However, the Group faced further difficulties from April 2017 on the progress of the 2nd stage fitting-out works, as the Macau Government has been implementing stricter policies on the importation of labour, which led to difficulty in recruiting workers.

Taking into account (i) the prolonged licensing process with the Macau Government; (ii) the upgraded designs for the 2nd stage fitting-out works; and (iii) difficulties with labour recruitment, the overall budget for the construction of THE 13 Hotel increased substantially. The Company was actively seeking but had yet to secure sufficient additional funding, as further detailed in the section headed

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“Background of fundraising activities” below, to complete the remaining works on THE 13 Hotel. As a result of insufficient funding, the remaining 2nd stage fitting-out works were temporarily suspended in July, 2017. As mentioned above, the drawdown of the Bridge Loan was completed on 25th October, 2017, and the 2nd stage fitting-out works resumed on 21st November, 2017.

As at the date of the Announcement, the project management team of the Company estimated that approximately 90% of the entire development of THE 13 Hotel has been completed, with the remaining works for the completion of THE 13 Hotel being the 2nd stage fitting-out works as discussed above, including installation of FF&E and OS&E. Since the resumption of 2nd stage fitting-out works, the project team of THE 13 Hotel has completed the following major items of fitting-out works, being (1) FF&E works including the application of featured painting, installation of chandeliers and wall lamps and load-in of furniture to the restaurants and hotel suites; and (2) procurement of the remaining OS&E and coordination and planning for their delivery.

The Group has obtained submission approval from the MGTO for all the required licenses for THE 13 Hotel, as set out below in the following table:

License for	Date of submission of the finalised plans for the respective licenses (“Final Plan Submission”) to the MGTO	Date of receipts of MGTO’s approval of Final Plan Submission
1. “Hotel” (THE 13 Hotel building in general)	18 th November, 2016	30 th December, 2016
2. “F&B serving Portuguese or Macanese meal” (Café, “Café Blanc” at G/F)	9 th January, 2017	20 th March, 2017
3. “F&B serving Oriental meal” (Chinese Restaurant, “Chinoiserie” at 3/F)	21 st November, 2016	3 rd February, 2017
4. “F&B serving International meal” (French Restaurant, “L’Ambroisie” at 3/F)	21 st November, 2016	7 th February, 2017
5. “Bar” (“Chairman’s Bar” at 3/F)	30 th August, 2016	8 th March, 2017
6. “Health Club” (“La Gym” at 20/F)	15 th December, 2016	14 th March, 2017

As disclosed in the Announcement, the opening date of THE 13 Hotel was expected to be on or before 31st March, 2018. Nevertheless, as additional time was required by both the Company and the Valuer for the preparation and the due diligence works in respect of the valuation assessment on THE 13 Hotel project, which resulted in delays in the expected timetable for the Rights Issue, as at the Latest Practicable Date, the procedures and requirements for the issuance of the outstanding licenses required for operation as a five-star hotel in Macau are as follows:

1. invite the MGTO to inspect on completion of the preparation works and delivery of FF&E and OS&E (expected to take place in mid-March, 2018);
2. pass the MGTO inspection against the approved submission plans and its standards (expected to be in mid-March, 2018); and
3. the MGTO issues all the relevant operational licenses (expected in April, 2018 for the opening of THE 13 Hotel on or before 30th April, 2018).

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Background of fundraising activities

Since March, 2016, the management of the Company has been attempting to raise new financing for completion of THE 13 Hotel. In considering the best interests of the Shareholders, the Company had prioritised obtaining funding through debt first, then through equity placements, and only as a last resort, through the rights issue. The Company had been exploring various fundraising activities before the final decision was made to proceed with the Rights Issue and the Placing.

High yield notes

In April, 2016, the Company engaged a financial adviser to explore fundraising through the issue of high yield notes. Over the period from April, 2016 till early 2017, the Company worked with this financial adviser, and approached a number of potential lenders worldwide. Nevertheless, despite extensive work done by several potential lenders, none of the potential lenders offered to take up the high yield notes.

During the first quarter of 2017, the Company received an indicative offer and the term sheet from an international investment bank (the “**Investment Bank**”) for a high yield notes financing on the condition that the financing would be secured by a second mortgage over THE 13 Hotel and the land over which THE 13 Hotel was situated. The Group had been granted a HK\$3,045 million loan from a lending bank in 2014, the terms of which restricted the creation of further security over THE 13 Hotel and the land over which it was situated as security to another lender, even in the form of a second mortgage. The Company engaged the Investment Bank as exclusive master lead arranger in early March, 2017. The Investment Bank subsequently commenced extensive due diligence involving parties from potential investors, but in June, 2017, the Investment Bank notified the Company that it was terminating its engagement.

Following the termination of the Investment Bank’s exclusivity under its engagement in June, 2017, the management of the Company then approached the investors and lenders it had contacted before, and the Company received two indicative offers of financing in late June, 2017. Both these indicative offers for high yield notes were conditional upon, among other things, obtaining (i) the consent to a second mortgage over THE 13 Hotel from the abovementioned lending bank; and (ii) raising additional equity. Although not explicitly stated in the term sheets provided, both of these two potential lenders indicated that their offers of financing required the Company to raise between approximately HK\$1,200 million and HK\$1,600 million in additional equity or convertible bonds to support their loans and to provide a substantial cash interest reserve. The Company therefore began seeking demand for an equity placement and, or underwriters for a rights issue, as the last resort.

Bridge loan

In December, 2016, a subsidiary of the Company entered into the Existing Bridge Loan with an investment fund. The initial maturity date of the Existing Bridge Loan was 5th June, 2017, and was subsequently extended in stages pursuant to negotiations with the lender. As at the Latest Practicable Date, the maturity date of the Existing Bridge Loan has been extended to 1st April, 2018.

Equity, convertible bonds, and, or structured convertible bonds placement

From June, 2017, the Company has further approached its current investors, holders of Convertible Securities, advisors and investors who expressed an interest in equity, and, or convertible bond investments before, to see if there was any interest in an equity or convertible bonds placement at or near

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the market price of the Shares. The Company received general feedback that they did not have any interest in such placing owing to the volatility of the price of the Shares and their downward trend, citing that the only condition under which they would potentially consider a placement was where the Company could definitively prove that the equity and, or convertible bonds placed represented the “last dollar in” prior to the opening of THE 13 Hotel.

Sale of interest in the PYE Group

Reference is made to the announcement of the Company dated 28th June, 2017. On 28th June, 2017, the Company agreed to sell its indirect shareholding in PYE Group to Precious Year Limited and Tycoon Bliss Limited for a consideration of HK\$300 million. As part of the agreement, a deposit in the total sum of HK\$179 million has been paid to the Company. As disclosed in the announcement of the Company dated 19th December, 2017, the long stop date for the Disposal has been extended to 31st March, 2018 (or such other date as the parties to the respective sale and purchase agreements may mutually agree in writing).

Rights Issue

Taking into account the fundraising efforts of the management of the Company during the past year, as mentioned above, the Board believes that the Company has no further options but to proceed with the Rights Issue, as the only viable option that can be executed on a timely basis. The Board believes it would demonstrate to the respective lenders under the Existing Bridge Loan and the HK\$3,045 million facility agreement that the Group has the capability to complete and open THE 13 Hotel, and thus avoid a call on the respective loans.

In May and June, 2017, the management of the Company had several meetings with two corporate financial advisers which advised the Company on strategies related to the urgent fundraising issue, including the rights issue. However, no concrete fundraising plan of any sort had crystallised by the end of June, 2017.

In mid-July, 2017, the management of the Company conducted several internal meetings regarding the potential fundraising options and during such meetings, further details on the rights issue, including but not limited to, the ratios for the rights issue, subscription prices, theoretical potential dilution impact on Shareholders, were discussed. Nevertheless, no concrete terms of the rights issue were fixed at that time, but the management of the Company concluded that when making decisions on the ratio for the rights issue and the subscription price, they would take into consideration the following factors:

- (a) the need to encourage underwriters to participate in the rights issue and to attract the Shareholders to participate into the rights issue;
- (b) the volatile market conditions and sentiment, in the context of the market price of the Shares decreasing significantly (i.e. around 50%) between June and July, 2017;
- (c) the stringent liquidity issues faced by the Group as set out in the 2017 Annual Report, and the auditor of the Company drawing attention to a material uncertainty related to going concern of the Group in the 2017 Annual Report; and

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- (d) the urgent requirement to finance completion of the facilities and amenities of THE 13 Hotel, and the pre-opening costs for the opening of THE 13 Hotel.

The Company initiated discussions with four brokers regarding underwriting a rights issue between May and July, 2017. One of them declined to participate shortly, and the management of the Company continued discussions with the remaining three brokers. At the end of June, 2017, one of them provided a written indicative offer to underwrite up to 40% of the rights issue shares under an approximately HK\$1,650 million proposed rights issue. However, it indicated it was no longer willing to consider the such underwriting following the significant fall in the price of the Shares during July, 2017 after the publication of the 2017 annual results announcement of the Company. As two brokers have declined to participate, the management of the Company continued discussions with the remaining two (one of them being Get Nice), which were willing to discuss and negotiate with the management of the Company regarding the detailed terms of a proposed rights issue between May and July, 2017 as follows:

Broker A

This broker (“**Broker A**”) was the first underwriter to propose the terms of the rights issue to the management of the Company, and various offer possibilities were discussed between the management of the Company and Broker A. It proposed a 3 for 1 rights issue to the Company in early June 2017, and it started to conduct pre-marketing to assess if their clients would be interested in such investment. In mid-June, 2017, it decided to withdraw its interest in underwriting a 3 for 1 rights issue due to poor pre-marketing responses. After arm’s length negotiations between the management of the Company and Broker A, including alternative proposals (i.e. a 4 for 1 rights issue and a 5 for 1 rights issue) which were rejected by Broker A, taking into account the market price of the Shares at that time and Broker A’s understanding of the market interest from the pre-marketing exercises it conducted, the Company and Broker A arrived at a 6 for 1 rights issue for further discussions.

Get Nice

The management of the Company approached Get Nice and held discussions with Get Nice about the rights issue around mid-June, 2017. The Company offered the terms of 6 for 1 rights issue to Get Nice, which was based on the latest proposed terms after discussions with Broker A.

In mid-July 2017, Broker A informed the Company that it declined to participate in underwriting a 6 for 1 rights issue; and Get Nice also declined to participate in underwriting such 6 for 1 rights issue because of the drop of the price of the Shares since 26th June, 2017.

At that time, Get Nice was the only underwriter which was willing to continue discussions with the management of the Company on the issue of underwriting the rights issue. The management of the Company and Get Nice had further discussions on the various terms of the rights issue, but alternative proposals (i.e. a 7 for 1 rights issue, an 8 for 1 rights issue and a 9 for 1 rights issue) were rejected by Get Nice because of the drop in market price of the Shares. In July, 2017, Get Nice indicated its informal offer to underwrite the entire rights issue on the basis of 10 Rights Issue shares for every 1 Adjusted Share held on the record date at a subscription price of HK\$1.10 per Share (assuming the Capital Reorganisation becoming effective) (i.e. the Rights Issue), raising gross proceeds amounting to approximately HK\$1,013 million.

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Taking into account (i) the market conditions; (ii) investors' appetite according to Get Nice's knowledge; (iii) the performance of the market price of the Shares; and (iv) the compensation for the risk of underwriting the Rights Issue, Get Nice accepted that a 82% premium for the 10 for 1 rights issue was justifiable and feasible to cover the risk of the underwriting, and accordingly, the management of the Company agreed with Get Nice on a 10 for 1 rights issue (i.e. the Rights Issue).

Considering the unfavorable financial and market conditions the Group was facing as mentioned above, and as this was the only available offer as provided by Get Nice, the management of the Company considered that the deep discount of the Subscription Price to the prevailing market price of the Shares was necessary (and the substantial dilution impact on non-participating Shareholders under the Rights Issue justifiable) to encourage the underwriter to participate in the rights issue on a fully underwritten basis, and to attract the Shareholders to further invest in the Group, so as to take part in the future growth of the Group upon the opening of THE 13 Hotel. Accordingly, the management of the Company, to the best of its endeavours, believes that it has taken all reasonable steps to obtain the best available terms for the Rights Issue.

Taking into account:

- (i) the exhaustive fundraising options explored, and, or considered, and discussed with different investors as detailed above, especially during the period between May and July, 2017;
- (ii) that the Board had endeavored but had not been able to secure underwriting commitments for any alternative (better) terms for a rights issue, with the current terms of the Rights Issue offered by Get Nice as the only available terms;
- (iii) the additional costs incurred due to the delay in opening of THE 13 Hotel; and
- (iv) the dire financial situation of the Group including material uncertainty related to its going concern as raised by the Company's auditor in its annual results announcement leading to the suspension of the fitting-out works on THE 13 Hotel since July, 2017,

the Board considers that the Rights Issue is justifiable on every basis in terms of its dilution effect and discount, and is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The Directors are attracted to the fact that the Rights Issue affords Qualifying Shareholders with the opportunity to increase their investment in the Company and benefit from the future growth and development of the Group. The Directors consider that taking into account the Group's working capital requirements and the costs and benefits, as well as the timing of different types of possible fundraising alternatives available to the Group, the Rights Issue is the most preferred means, as well as the only viable option for the Group to finance its future business growth. Accordingly, the Directors consider that the Rights Issue is in the interests of the Company and the Shareholders as a whole for the reasons above.

Financial condition of the Group

As disclosed in the 2017 Annual Report, the Group had net current liabilities of approximately HK\$301 million, with the auditor's report including a statement on a material uncertainty on going concern. As detailed above, the Company has been diligently exploring and considering various fundraising activities, and successfully secured the Existing Bridge Loan, as well as the proceeds from the Disposal up to July, 2017.

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As at 31st July, 2017, the Group had bank and cash balance of approximately HK\$483 million with only approximately HK\$4 million available for the development of THE 13 Hotel. In contrast, the remaining expenses required for the completion of THE 13 Hotel at that time was estimated to be approximately HK\$1,092 million. As a result of insufficient funding, the Group had temporarily suspended all works on THE 13 Hotel since July, 2017. Nonetheless, the Group incurs approximately HK\$31 million per month in working capital relating to rental, staff salaries, administrative and interest expenses. On 25th October, 2017, the drawdown of Bridge Loan has been completed, and the Group had bank and cash balance of approximately HK\$679 million with approximately HK\$251 million available for the development of THE 13 Hotel as at 31st October, 2017. As a result, the fitting-out works at THE 13 Hotel resumed on 21st November, 2017.

THE 13 Hotel's development after the Rights Issue

Completion and opening of THE 13 Hotel

As disclosed in the Announcement, the hotel opening was expected to be on or before 31st March, 2018. Due to the delays in the Rights Issue as mentioned before, the Company has further revised the expected opening date.

Subject to the successful fund raising through the Rights Issue on the time frame set out in this circular, as at the Latest Practicable Date, the latest estimated timetable for the development of THE 13 Hotel (which may be further adjusted according to the actual circumstances in respect of the development) is as follows:

From the date of this circular to mid-March, 2018	Completing remaining works and installation of FF&E and OS&E for inspection by the MGTO
Mid-March, 2018	MGTO inspection
Mid-March, 2018 to mid-April, 2018	Administrative time of the MGTO and issue of hotel licence
Mid-April, 2018 to end-April, 2018	Preparation works for the hotel opening
30 th April, 2018	Opening of THE 13 Hotel and operation of the restaurants

The Company shall make further announcement(s) regarding the progress of THE 13 Hotel as and when appropriate.

After completion of THE 13 Hotel

As disclosed in the 2013 Circular, a subsidiary of the Company has entered into the MOU with an affiliate of the Licensed Operator in relation to the management and operation of a casino proposed to be opened in THE 13 Hotel. The Company further received a letter on 24th February, 2017 and 17th January, 2018 respectively from such affiliate of the Licensed Operator acknowledging the MOU (the "Confirmation Letters").

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As at the Latest Practicable Date, no formal agreement has been entered into in respect of the arrangements under the MOU. It is expected that a formal agreement will be entered into by the relevant parties subject to, amongst other things, the Licensed Operator obtaining approval from the Macau Government regarding the gaming operation in THE 13 Hotel.

As disclosed in the 2013 Circular, the Company obtained a legal opinion from its Macau legal adviser, and as opined by the Macau legal adviser, it did not foresee any difficulties for obtaining approval from the Macau Government on the arrangements as contemplated under the MOU. It is the Company's intention to work with the Licensed Operator in submitting an application for the gaming operation after the licences for the operation of THE 13 Hotel have been granted or when it is clear such licences are almost certain to be granted as a matter of procedure. The management of the Company understands such timing to be in line with general market practice. However, the authorisation to install and operate a casino in THE 13 Hotel is subject to the approval of Macau Government, and therefore its success remains an uncertainty. The Company has obtained an updated legal opinion dated 9th October, 2017 from its Macau legal adviser, pursuant to which it opined that, among other things, there has been no new law, legislation, policy, rule or regulation enacted by the Macau Government since 2013 that negatively impacts the Licensed Operator in obtaining approval from the Macau Government for implementing the Gaming Operation envisaged under the MOU. As at the Latest Practicable Date and based on the Confirmation Letters, the Company has not received any negative feedback from the Licensed Operator in respect of the MOU.

Regarding the proposed casino, the management of the Company currently anticipates that it will comprise of 66 gaming tables, consisting of approximately 50 high stakes mass market tables and approximately 16 VIP room tables, as well as approximately 50 slot machines with minimum bets that are set at a comparatively high level. Given the requirement to obtain the approval of the Macau Government for all the important aspects of the business plan, there may be substantial changes to these plans to accommodate the requirements of the Macau Government. As estimated by the management of the Company, the capital required for the Gaming Operation, such as gaming operating supplies and equipment, and other casino-related pre-opening expenses, will be approximately HK\$352 million. Such costs have not been included into the current funding exercise. As at the Latest Practicable Date, the Company has not yet formulated further fund-raising plans to accommodate such costs, but the Board expects that once THE 13 Hotel is operational and has received approval of the Macau Government for the Gaming Operation, the Group will be in a better position to explore further funding options including but not limited to bank borrowing, if necessary. The management of the Company currently expects the casino and retail shops to open by 31st March, 2019, subject to, among other things, the entering into a formal agreement with the Licensed Operator and the approval of the Macau Government. Please refer to Appendix I to this circular for further details on the Gaming Operation at THE 13 Hotel.

The Valuer has performed an independent valuation assessment on THE 13 Hotel project, and adopted the income approach in such valuation assessment. Having considered 1) the principal factors about THE 13 Hotel project; 2) the general assumptions; 3) the limitations and specific assumptions; 4) the risk factors considered by the Valuer; and 5) the discount rate and its basis of determination under the valuation assessment on THE 13 Hotel project as contained in Appendix II to this circular, the Board considers the valuation methodology and basis of assumptions in assessing the value of THE 13 Hotel project to be fair and reasonable.

The Company would like to reiterate that, although it is the Company's intention to work with the Licensed Operator in submitting the application for the Gaming Operation, the application is to be made by the Licensed Operator, not by the Company. Furthermore, such application is subject to approval of the Macau Government, and therefore the Gaming Operation may or may not commence at THE 13 Hotel, but will not affect the decision to open and operate THE 13 Hotel. As at the Latest Practicable Date, the Licensed Operator has yet to submit the application to the Macau Government. The Company will make further announcement(s) regarding the progress of the Gaming Operation as and when appropriate.

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Use of proceeds from the Rights Issue, the Placing and the Disposal

The following summary table is the detailed allocation of net proceeds from the Rights Issue, the Placing and the Disposal:

<i>(in HK\$ million)</i>	Rights Issue	Placing	Disposal (for reference only)	Total
Gross proceeds	1,013	740	300	2,053
Estimated expenses	40	23	7	70
Net proceeds	973	717	293	1,983

Allocation of net proceeds				
<i>(in HK\$ million)</i>	Rights Issue	Placing	Disposal (for reference only)	Total
Pre-opening expenses for THE 13 Hotel	862 <i>(note)</i>	–	24	886
Debt servicing	–	717	3	720
General working capital	111	–	266	377
Total	973	717	293	1,983

Note: The proceeds of HK\$250 million from the Bridge Loan shall be used for the pre-opening expenses. The Bridge Loan would be later repaid from the proceeds of the Rights Issue. Please refer to the section headed “The Bridge Loan” above for further details.

The gross proceeds from the Rights Issue will be not less than approximately HK\$1,013 million. The net proceeds from the Rights Issue after deduction of related expenses are estimated to be not less than approximately HK\$973 million, which will be used by the Company as follows:

- approximately 88.6% of the net proceeds (approximately HK\$862 million) will be used for the pre-opening expenses of THE 13 Hotel. The Directors consider that the completion of THE 13 Hotel is important to the sustainable growth of the Group in the future. The following table is the detailed breakdown of allocation of the net proceeds from the Rights Issue to the pre-opening expenses:

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Timeline (based on estimations as at the Latest Practicable Date)

	Item	Decoration	FF&E	OS&E	Total
			<i>(in HK\$ million)</i>		
From now to mid-March, 2018	Completing remaining works and installation of FF&E and OS&E for inspection by MGTO	330	130	135	595
Mid-April, 2018 to end April, 2018	Preparation works for hotel opening	91	15	31	137
From now to 30 th April, 2018	Hotel operation preparation costs	N/A	N/A	N/A	130
	Total	421	145	166	862

- the remaining 11.4% of the net proceeds (approximately HK\$111 million) will be used as general working capital, which is estimated with reference to its historical monthly operating costs of the Group including office rent, other administrative expenses and staff expenses (excluding the operating costs of the PYE Group and its subsidiaries). The following table is a detailed breakdown of allocation of the net proceeds from the Rights Issue to the general working capital:

Item	<i>(in HK\$ million)</i>
Office rental costs	18
Staff salaries	10
Other administrative expenses	8
Interest expenses	75
Total	111

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Assuming the Loan Notes are placed in full, the maximum aggregate principal amount of the Loan Notes placed will be HK\$740 million. The Company intends to use the net proceeds from the issue of Loan Notes (after deducting the commissions and other estimated expenses payable in connection with the Placing) of approximately HK\$717 million for debt servicing. The details of the relevant borrowings are as follows:

Type of loan	Outstanding loan principal amount as at the Latest Practicable Date (HK\$ million)	Expected repayment date	Expected interest (in HK\$ million and rate)	Amounts for repayment from the net proceeds of the Placing (HK\$ million)
Short-term loan	359	9 th February, 2018	37 (HSBC best lending rate plus 2% to 4% per annum)	356
Existing Bridge Loan	300	1 st April, 2018	99 (25% per annum)	361
			Total	<u>717</u>

Please refer to the section headed “Reasons for the Placing and the proposed use of proceeds” and the section headed “Reasons for the Bridge Loan and the proposed use of proceeds” in the Announcement for details of the use of proceeds from the Placing and the Bridge Loan respectively.

EQUITY FUND RAISING ACTIVITY IN THE PAST TWELVE MONTHS

The Company has not conducted other equity fund raising exercise in the twelve months immediately preceding the Latest Practicable Date.

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EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company as at the Latest Practicable Date to immediately after completion of the Rights Issue for illustration purpose only:

(a) assuming no change in the number of issued Shares on or before the Record Date:

	As at the Latest Practicable Date		Immediately upon the Capital Reorganisation become effective but before the completion of the Rights Issue		Immediately after the completion of the Rights Issue assuming all Rights Issue Shares are subscribed by the Qualifying Shareholders		Immediately after the completion of the Rights Issue assuming none of the Rights Issue Shares are subscribed by the Qualifying Shareholders except for Paul Y. Investments Limited, Advance Tech Limited and Mr. Peter Lee Coker, Jr.	
	Number of Shares	%	Number of underlying Shares	%	Number of underlying Shares (note 13)	%	Number of underlying Shares (note 13)	%
Concert parties								
- Holders of Exchange Right								
Chief Wise Limited (note 1)	-	0.00%	88,253,294	14.37%	-	0.00%	25,394,117	9.26%
- Holders of Share Options (note 2)	-	0.00%	41,090,000	6.69%	-	0.00%	11,825,702	4.31%
- Holders of Shares								
Advance Tech Limited (note 3)	101,985,600	11.07%	-	0.00%	112,184,160	11.07%	-	0.00%
Pride Wisdom Group Limited (note 1)	82,477,999	8.96%	-	0.00%	90,725,789	8.96%	-	0.00%
Paul Y. Investments Limited	43,008,631	4.67%	-	0.00%	47,309,493	4.67%	-	0.00%
Peter Lee Coker, Jr.	5,796,600	0.63%	-	0.00%	6,376,260	0.63%	-	0.00%
Iain Ferguson Bruce	81,711	0.01%	-	0.00%	89,881	0.01%	-	0.00%
<i>Sub-total</i>	<i>233,350,541</i>	<i>25.34%</i>	<i>-</i>	<i>0.00%</i>	<i>256,685,583</i>	<i>25.34%</i>	<i>-</i>	<i>0.00%</i>
Concert parties - Total	233,350,541	25.34%	129,325,294	21.06%	129,925,529	25.34%	37,219,819	13.57%
Public Shareholders								
- Holders of Existing CBS (note 4)								
Global Allocation Fund (note 5)	-	0.00%	338,628,459	55.15%	-	0.00%	168,368,300	61.38%
Other holders of Existing CBS (note 4)	-	0.00%	103,522,139	16.86%	-	0.00%	51,503,484	18.78%
<i>Sub-total</i>	<i>-</i>	<i>0.00%</i>	<i>442,150,598</i>	<i>72.01%</i>	<i>-</i>	<i>0.00%</i>	<i>219,871,784</i>	<i>80.16%</i>
- Holders of Share Options (note 2)	-	0.00%	18,907,300	3.08%	-	0.00%	5,441,577	1.98%
Concert parties - Total	233,350,541	25.34%	129,325,294	21.06%	129,925,529	25.34%	37,219,819	13.57%

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	As at the Latest Practicable Date		Immediately upon the Capital Reorganisation become effective but before the completion of the Rights Issue		Immediately after the completion of the Rights Issue assuming all Rights Issue Shares are subscribed by the Qualifying Shareholders		Immediately after the completion of the Rights Issue assuming none of the Rights Issue Shares are subscribed by the Qualifying Shareholders except for Paul Y. Investments Limited, Advance Tech Limited and Mr. Peter Lee Cheuk, Jr.	
	Number of Shares	%	Number of underlying Shares	%	Number of underlying Shares (note 13)	%	Number of underlying Shares (note 13)	%
- Holders of Shares								
Omegg Advisors, Inc. (note 6)	61,755,376	7.36%	23,664,121	3.85%	6,775,537	7.36%	11,760,242	4.29%
Janus Henderson	91,172,820	9.96%	-	0.00%	9,117,820	9.96%	-	0.00%
FIL Limited	51,250,500	5.57%	-	0.00%	5,125,050	5.57%	-	0.00%
Other public Shareholders	47,678,241	51.77%	-	0.00%	47,678,241	51.77%	-	0.00%
<i>Sub-total</i>	687,516,469	74.66%	23,664,121	3.85%	68,751,648	74.66%	11,760,242	4.29%
- Underwriter and Sub-underwriters								
Get Nice (note 7)	-	0.00%	-	0.00%	-	0.00%	-	0.00%
3 subscribers procured by Get Nice itself (note 7)	-	0.00%	-	0.00%	-	0.00%	-	0.00%
CS Wealth Securities Limited (note 8)	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Koala Securities Limited (note 9)	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Opus Securities Limited (note 10)	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Subscribers procured by Opus Securities Limited itself (note 10)	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Supreme China Securities Limited (note 11)	-	0.00%	-	0.00%	-	0.00%	-	0.00%
<i>Sub-total</i>	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Public Shareholders - Total	687,516,469	74.66%	484,722,219	78.94%	68,751,648	74.66%	237,073,603	86.43%
TOTAL	920,867,010	100.00%	614,047,513	100.00%	92,086,701	100.00%	1,012,953,711	100.00%

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(b) assuming no change in number of issued Shares on or before the Record Date other than the issue of new Shares upon the exercise in full of the subscription rights attaching to the Non-undertaken Convertible Securities:

	As at the Latest Practicable Date				Immediately upon the Capital Reorganisation become effective and conversion of all the Non-undertaken Convertible Securities but completion of the Rights Issue				Immediately after the completion of the Rights Issue assuming all Rights Issue Shares are subscribed by the Qualifying Shareholders				Immediately after the completion of the Rights Issue assuming none of the Rights Issue Shares are subscribed by the Qualifying Shareholders except for Paul Y. Investments Limited, Advance Tech Limited and Mr. Peter Lee Coker, Jr.			
	Number of Shares	%	Number of underlying Shares	%	Number of Shares	%	Number of underlying Shares (note 13)	%	Number of Shares	%	Number of underlying Shares (note 13)	%	Number of Shares	%	Number of underlying Shares (note 13)	%
Convert parties																
- Holders of Exchange Right																
Cheer Wise Limited (note 1)	-	0.00%	88,235,294	14.37%	-	0.00%	88,235,292	18.14%	-	0.00%	25,394,117	12.04%	-	0.00%	25,394,117	12.04%
- Holders of Share Options (note 2)	-	0.00%	41,090,000	6.69%	-	0.00%	41,090,000	8.45%	-	0.00%	11,825,702	5.61%	-	0.00%	11,825,702	5.61%
- Holders of Shares																
Advance Tech Limited (note 3)	101,985,600	11.07%	-	0.00%	101,985,600	9.73%	-	0.00%	112,184,160	9.73%	-	0.00%	112,184,160	9.73%	-	0.00%
Pride Wisdom Group Limited (note 1)	82,471,999	8.96%	-	0.00%	82,471,999	7.87%	-	0.00%	90,725,789	7.87%	-	0.00%	8,247,799	0.72%	-	0.00%
Paul Y. Investments Limited	43,008,631	4.67%	-	0.00%	43,008,631	4.10%	-	0.00%	47,309,493	4.10%	-	0.00%	47,309,493	4.10%	-	0.00%
Peter Lee Coker Jr.	5,796,600	0.63%	-	0.00%	5,796,600	0.55%	-	0.00%	6,376,260	0.55%	-	0.00%	6,376,260	0.55%	-	0.00%
Ian Ferguson Bruce	81,711	0.01%	-	0.00%	81,711	0.01%	-	0.00%	89,881	0.01%	-	0.00%	8,171	0.00%	-	0.00%
Sub-total	233,350,541	25.34%	-	0.00%	233,350,533	22.26%	-	0.00%	256,685,583	22.26%	-	0.00%	174,125,883	15.10%	-	0.00%
Convert parties - Total	233,350,541	25.34%	129,325,294	21.06%	233,350,533	22.26%	129,325,292	26.59%	256,685,583	22.26%	37,219,819	17.65%	174,125,883	15.10%	37,219,819	17.65%
Public Shareholders																
- Holders of Existing CBS (note 4)																
Global Allocation Fund (note 5)	-	0.00%	338,628,459	55.15%	-	0.00%	338,628,845	69.63%	-	0.00%	168,368,300	79.84%	-	0.00%	168,368,300	79.84%
Other holders of Existing CBS (note 4)	-	0.00%	103,522,139	16.86%	103,522,133	9.87%	-	0.00%	113,874,343	9.87%	-	0.00%	103,522,213	0.90%	-	0.00%
Sub-total	-	0.00%	442,150,598	72.01%	103,522,213	9.87%	338,628,845	69.63%	113,874,343	9.87%	168,368,300	79.84%	103,522,213	0.90%	168,368,300	79.84%

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Notes:

1. Pride Wisdom Group Limited was jointly owned by S Hung Limited and I Hung Limited, which were wholly-owned by Mr. Sean Hung. S Hung Limited, I Hung Limited and Mr. Sean Hung were deemed to be interested in the Shares held by Pride Wisdom Group Limited. Chief Wise Limited was jointly owned by S Hung Limited and I Hung Limited, which were wholly-owned by Mr. Sean Hung. S Hung Limited, I Hung Limited and Mr. Sean Hung were deemed to be interested in the 88,235,294 Existing Shares (pre-adjustment) to be issued by the Company under the Exchange Right.
2. As at the Latest Practicable Date, the Company has 59,997,500 outstanding Share Options exercisable by its holders to subscribe for up to 59,997,500 new Existing Shares, of which 41,090,000 Share Options were held by the Directors and their close associate(s) and the remaining 18,907,500 Share Options were held by certain senior management and advisors of the Group, which will be considered as public Shareholders. Save for holders of 59,457,500 Share Options who have given irrevocable undertakings that they will not exercise their subscription rights on or before the Record Date, holders of 540,000 Share Options may exercise their subscription rights to subscribe for up to 540,000 new Existing Shares (pre-adjustment) on or before the Record Date.
3. Advance Tech Limited was a wholly-owned subsidiary of ITC Properties Management Group Limited, which was in turn a wholly-owned subsidiary of ITC Properties Group Limited (“ITCP”), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange (stock code: 199). As at the Latest Practicable Date, Dr. Chan Kwok Keung Charles (“Dr. Chan”) and Ng Yuen Lan Macy (the spouse of Dr. Chan) (“Ms. Ng”) indirectly held approximately 26.22% and 23.73% interest in issued shares of ITCP respectively. ITC Properties Management Group Limited, ITCP, Ms. Ng and Dr. Chan were deemed to be interested in the Shares held by Advance Tech Limited.
4. A total of 465,814,719 new Existing Shares (pre-adjustment) shall be issued upon full conversion of the Existing CBs in the total outstanding principal amount of HK\$2,218,542,350. Save for (i) Global Allocation Fund who has given irrevocable undertakings that it will not exercise its conversion rights under the relevant Existing CBs on or before the Record Date (see note 5); and (ii) the Existing CBs held by the Omega Group (see note 6), other holders of the Existing CBs in the outstanding principal amount of HK\$311,000,000 may exercise their conversion rights for a total of 103,522,139 new Existing Shares (pre-adjustment) on or before the Record Date.
5. Global Allocation Fund was wholly-owned by Evolution Capital Management, LLC (“Evolution”) which was in turn wholly owned by Tiger Trust. Mr. Michael Lerch has 100% interest in Tiger Trust. Evolution, Tiger Trust and Mr. Michael Lerch were deemed to be interested in the 338,628,459 new Existing Shares (pre-adjustment) to be issued upon full exercise of the conversion rights attaching to the Existing CBs.
6. Omega Advisors, Inc., as investment adviser of Omega Overseas Partners, Ltd., Omega Capital Investors, L.P., Omega Capital Partners, L.P., Omega Equity Investors, L.P., and VMT II, LLC (collectively, the “Omega Group”), was deemed to be interested in the Shares held by the Omega Group. The Omega Group holds Existing CBs in the outstanding principal amount of HK\$155,000,000, with 23,664,121 new Existing Shares (pre-adjustment) to be issued upon full exercise of the conversion rights attaching to the Existing CBs.
7. Get Nice, the Underwriter, will not, in fact, take up the Rights Issue Shares for its own account in an amount that would cause it to make a mandatory general offer under the Takeovers Code. Thus, in satisfying its underwriting commitments as regards to the Rights Issue Shares in excess of 29.90% of the voting rights of the Company, Get Nice will be obliged to procure subscriptions for those Rights Issue Shares from parties not acting in concert with Get Nice. Furthermore, Get Nice shall and shall cause the sub-underwriters (if any) to procure independent places to take up such number of Rights Issue Shares as necessary to ensure that the public float requirements under the Listing Rules are complied with. It should be noted that 29.90% is the maximum shareholding of Get Nice and it may further procure subscribers to take up such shares. The Underwriter has procured 3 subscribers who are Independent Third Parties in respect of a total of 108,076,180 Rights Issue Shares, each such subscriber, if called upon to take up the Rights Issue Shares, would hold less than 5% of the enlarged issued Share capital upon Completion. The Underwriter has also entered into 5 separate Sub-Underwriting Agreements with 5 Sub-Underwriters respectively, namely, CS Wealth Securities Limited, Koala Securities Limited, Opus Securities Limited, Supreme China Securities Limited and Opus HK Advisors Limited, in respect of a total of 789,726,260 Underwritten Shares. Please refer to the section headed “Sub-Underwriting arrangements” for details.

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8. Pursuant to the Underwriting Agreement, the Underwriter has undertaken that, among other things, it shall use all its best endeavours to ensure that CS Wealth Securities Limited (i) shall not, together with party(ies) acting in concert (as such term is defined in the Takeovers Code) with it, hold 29.9% (or such other percentage which shall trigger a general offer to be made for the Shares under the Takeovers Code) or more of the voting rights of the Company upon completion of the Rights Issue; and (ii) will not own 10% or more of the issued share capital of the Company immediately after the Rights Issue and is not otherwise a core connected person (as such term is defined in the Listing Rules) of the Company. Pursuant to the first Sub-Underwriting Agreement, CS Wealth Securities Limited has undertaken that it, and the subscribers it may procure in respect of any Rights Issue Shares sub-underwritten by it, (i) shall be third party(ies) independent of, and not acting in concert with and shall not be connected with the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates (all within the meaning of the Listing Rules), (ii) shall not for its own account, or in respect of subscribers or purchasers (in each case together with their respective ultimate beneficial owners) of such sub-underwritten Rights Issue Shares, together with party(ies) acting in concert (as defined in the Takeovers Code) with each of them, hold 29.9% (or such other percentage which shall trigger a general offer to be made for the Shares under the Takeovers Code) or more of the voting rights of the Company upon the Completion, and (iii) do not have any shareholding in the Company which, in aggregate, represent 10% or more of the issued share capital of the Company, and that they are not otherwise connected persons of the Company. Pursuant to the first Sub-Underwriting Agreement, CS Wealth Securities Limited has also undertaken that it will procure that each of the subscribers of the Rights Issue Shares (including any direct and indirect sub-underwriters) and their respective associates will not hold 10% or more of the voting rights of the Company immediately upon Completion.
9. Pursuant to the Underwriting Agreement, the Underwriter has undertaken that, among other things, it shall use all its best endeavours to ensure that Koala Securities Limited (i) shall not, together with party(ies) acting in concert (as such term is defined in the Takeovers Code) with it, hold 29.9% (or such other percentage which shall trigger a general offer to be made for the Shares under the Takeovers Code) or more of the voting rights of the Company upon completion of the Rights Issue; and (ii) will not own 10% or more of the issued share capital of the Company immediately after the Rights Issue and is not otherwise a core connected person (as such term is defined in the Listing Rules) of the Company. Pursuant to the second Sub-Underwriting Agreement, Koala Securities Limited has undertaken that it, and the subscribers it may procure in respect of any Rights Issue Shares sub-underwritten by it, (i) shall be third party(ies) independent of, and not acting in concert with and shall not be connected with the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates (all within the meaning of the Listing Rules), (ii) shall not for its own account, or in respect of subscribers or purchasers (in each case together with their respective ultimate beneficial owners) of such sub-underwritten Rights Issue Shares, together with party(ies) acting in concert (as defined in the Takeovers Code) with each of them, hold 29.9% (or such other percentage which shall trigger a general offer to be made for the Shares under the Takeovers Code) or more of the voting rights of the Company upon the Completion, and (iii) do not have any shareholding in the Company which, in aggregate, represent 10% or more of the issued share capital of the Company, and that they are not otherwise connected persons of the Company. Pursuant to the second Sub-Underwriting Agreement, Koala Securities Limited has also undertaken that it will procure that each of the subscribers of the Rights Issue Shares (including any direct and indirect sub-underwriters) and their respective associates will not hold 10% or more of the voting rights of the Company immediately upon Completion.
10. Pursuant to the third Sub-Underwriting Agreement between Opus Securities Limited and Get Nice, Opus Securities Limited has agreed to sub-underwrite up to 389,000,000 Rights Issue Shares. To the best knowledge of the Company, Opus Securities Limited has entered into further agreements with several parties in relation to the 389,000,000 Right Issue Shares sub-underwritten by it. Pursuant to the Underwriting Agreement, the Underwriter has undertaken that, among other things, it shall use all its best endeavours to ensure that Opus Securities Limited (i) shall not, together with party(ies) acting in concert (as such term is defined in the Takeovers Code) with it, hold 29.9% (or such other percentage which shall trigger a general offer to be made for the Shares under the Takeovers Code) or more of the voting rights of the Company upon completion of the Rights Issue; and (ii) will not own 10% or more of the issued share capital of the Company immediately after the Rights Issue and is not otherwise a core connected person (as such term is defined in the Listing Rules) of the Company. Pursuant to the third Sub-Underwriting Agreement, Opus Securities Limited has undertaken that it, and the subscribers it may procure in respect of any Rights Issue Shares sub-underwritten by it, (i) shall be third party(ies) independent of, and not acting in concert with and shall not be connected with the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates (all within the meaning of the Listing Rules), (ii) shall not for its own account, or in respect of subscribers or purchasers (in each case together with their respective ultimate beneficial owners) of such sub-underwritten Rights Issue Shares, together with party(ies) acting in concert (as defined in the Takeovers Code) with each of them, hold 29.9% (or such other percentage which shall trigger a general offer to be made for the Shares under the Takeovers Code) or more of the voting rights of the Company upon Completion, and (iii) do not have any shareholding in the Company which, in

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- aggregate, represent 10% or more of the issued share capital of the Company, and that they are not otherwise connected persons of the Company. Pursuant to the third Sub-Underwriting Agreement, Opus Securities Limited has also undertaken that it will procure that each of the subscribers of the Rights Issue Shares (including any direct and indirect sub-underwriters) and their respective associates will not hold 10% or more of the voting rights of the Company immediately upon Completion.
11. Pursuant to the Underwriting Agreement, the Underwriter has undertaken that, among other things, it shall use all its best endeavours to ensure that Supreme China Securities Limited (i) shall not, together with party(ies) acting in concert (as such term is defined in the Takeovers Code) with it, hold 29.9% (or such other percentage which shall trigger a general offer to be made for the Shares under the Takeovers Code) or more of the voting rights of the Company upon completion of the Rights Issue; and (ii) will not own 10% or more of the issued share capital of the Company immediately after the Rights Issue and is not otherwise a core connected person (as such term is defined in the Listing Rules) of the Company. Pursuant to the fourth Sub-Underwriting Agreement, Supreme China Securities Limited has undertaken that it, and the subscribers it may procure in respect of any Rights Issue Shares sub-underwritten by it, (i) shall be third party(ies) independent of, and not acting in concert with and shall not be connected with the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates (all within the meaning of the Listing Rules), (ii) shall not for its own account, or in respect of subscribers or purchasers (in each case together with their respective ultimate beneficial owners) of such sub-underwritten Rights Issue Shares, together with party(ies) acting in concert (as defined in the Takeovers Code) with each of them, hold 29.9% (or such other percentage which shall trigger a general offer to be made for the Shares under the Takeovers Code) or more of the voting rights of the Company upon the Completion, and (iii) do not have any shareholding in the Company which, in aggregate, represent 10% or more of the issued share capital of the Company, and that they are not otherwise connected persons of the Company. Pursuant to the fourth Sub-Underwriting Agreement, Supreme China Securities Limited has also undertaken that it will procure that each of the subscribers of the Rights Issue Shares (including any direct and indirect sub-underwriters) and their respective associates will not hold 10% or more of the voting rights of the Company immediately upon Completion.
12. Pursuant to the fifth Sub-Underwriting Agreement between Opus HK Advisors Limited and Get Nice, Opus HK Advisors Limited has agreed to sub-underwrite up to 127,726,260 Rights Issue Shares (relating only to the Rights Issue Shares to be issued in connection with any new Shares arising on exercise of the subscription rights or conversion rights attaching to the Non-undertaken Convertible Securities on or before the Record Date). As the Latest Practicable Date, the holders of the Non-undertaken Convertible Securities did not exercise their subscription rights or conversion rights for the conversion of any of the Non-undertaken Convertible Securities. Accordingly, Opus HK Advisors Limited is not yet required to take up any of the Rights Issue Shares, and such figure is for illustrative purpose only. Pursuant to the Underwriting Agreement, the Underwriter has undertaken that, among other things, it shall use all its best endeavours to ensure that Opus HK Advisors Limited (i) shall not, together with party(ies) acting in concert (as such term is defined in the Takeovers Code) with it, hold 29.9% (or such other percentage which shall trigger a general offer to be made for the Shares under the Takeovers Code) or more of the voting rights of the Company upon completion of the Rights Issue; and (ii) will not own 10% or more of the issued share capital of the Company immediately after the Rights Issue and is not otherwise a core connected person (as such term is defined in the Listing Rules) of the Company. Pursuant to the fifth Sub-Underwriting Agreement, Opus HK Advisors Limited has undertaken that it, and the subscribers it may procure in respect of any Rights Issue Shares sub-underwritten by it, (i) shall be third party(ies) independent of, and not acting in concert with and shall not be connected with the Directors, chief executive or substantial Shareholders of the Company or any of their respective associates (all within the meaning of the Listing Rules), (ii) shall not for its own account, or in respect of subscribers or purchasers (in each case together with their respective ultimate beneficial owners) of such sub-underwritten Rights Issue Shares, together with party(ies) acting in concert (as defined in the Takeovers Code) with each of them, hold 29.9% (or such other percentage which shall trigger a general offer to be made for the Shares under the Takeovers Code) or more of the voting rights of the Company upon the Completion, and (iii) do not have any shareholding in the Company which, in aggregate, represent 10% or more of the issued share capital of the Company, and that they are not otherwise connected persons of the Company. Pursuant to the fifth Sub-Underwriting Agreement, Opus HK Advisors Limited has also undertaken that it will procure that each of the subscribers of the Rights Issue Shares (including any direct and indirect sub-underwriters) and their respective associates will not hold 10% or more of the voting rights of the Company immediately upon Completion.
13. As a result of the Capital Reorganisation and the Rights Issue, there may be certain adjustments to the exercise prices and numbers of the outstanding Share Options, Existing CBs and Exchange Right pursuant to the relevant terms of the Share Option Schemes, the Existing CBs and Exchange Right instruments. The number of underlying Shares of these Convertible Securities are shown here for illustrative purposes only and are subject to certification by the auditors for the time being of the Company or an independent financial adviser, and the Company will make further announcement(s) as and when appropriate. Please refer to the section headed "Possible Adjustments relating to the Convertible Securities" for further details.

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Shareholders and public investors should note that the above changes in the shareholding structure of the Company are for illustration purpose only, and the actual changes in the shareholding structure of the Company upon completion of the Rights Issue are subject to various factors including, among other things, the results of acceptance of the Rights Issue.

TAXATION

Qualifying Shareholders are recommended to consult their professional advisers if they are in any doubt as to the tax implications of the holding or disposal of, or dealing in, the Rights Issue Shares in both their nil-paid and fully-paid forms and, as regards the Excluded Shareholders, their receipt of the net proceeds of sale of the Rights Issue Shares in their nil-paid form otherwise falling to be issued to them under the Rights Issue. It is emphasised that none of the Company, its Directors or any other parties involved in the Rights Issue accepts responsibility for any tax effects or liabilities of the holders of the Rights Issue Shares resulting from the purchase, holding or disposal of, or dealing in, the Rights Issue Shares in both their nil-paid and fully-paid forms.

WARNING OF THE RISKS OF DEALINGS IN SHARES AND, OR RIGHTS ISSUE SHARES IN NIL-PAID FORM

The Rights Issue is conditional on, amongst other things, the Underwriting Agreement having become unconditional and not terminated (see the section headed “Termination of the Underwriting Agreement” in this circular). The conditions of the Underwriting Agreement are set out in the section headed “Underwriting Arrangement – Conditions of the Underwriting Agreement” in this circular. In particular, it is conditional, among other things, upon:

- (i) the approval of the Rights Issue by the Independent Shareholders at the SGM; and
- (ii) the Listing Committee of the Stock Exchange granting and not having withdrawn or revoked the listing of, and the permission to deal in, the Rights Issue Shares in both nil-paid and fully-paid forms by no later than the Posting Date, and such listings and permission to deal not having been withdrawn or revoked on or before the Latest Time for Termination.

If the Underwriter exercises its right to terminate the Underwriting Agreement pursuant to the terms therein, the Rights Issue will not proceed.

Any Shareholders and potential investors contemplating buying or selling Shares from the date of this circular up to the date on which all the conditions of the Rights Issue are fulfilled (including the date on which the Underwriter’s right of termination of the Underwriting Agreement ceases), and, or any dealings in the Rights Issue Shares in their nil-paid form from 9:00 a.m. on Wednesday, 28th February, 2018 to 4:00 p.m. on Wednesday, 7th March, 2018 (both dates inclusive), bear the risk that the Rights Issue may not become unconditional or may not proceed.

Any Shareholders and potential investors contemplating dealing in Shares and, or Rights Issue Shares in their nil-paid form are advised to exercise caution when dealing in the Shares and, or the Rights Issue Shares in their nil-paid form. Any person who is in doubt about his, or her, or its position or any action to be taken is recommended to consult his, or her, or its own professional adviser(s).

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POSSIBLE ADJUSTMENTS RELATING TO THE CONVERTIBLE SECURITIES

As at the Latest Practicable Date, the Company has outstanding 59,997,500 Share Options exercisable by its holders to subscribe for up to 59,997,500 Existing Shares, Existing CBs convertible into 465,814,719 Existing Shares, and Exchange Right exercisable by its holders for up to 88,235,294 Existing Shares.

As a result of the Capital Reorganisation and the Rights Issue, there will be certain adjustments to the exercise or subscription prices and, or numbers of the outstanding Share Options, Existing CBs and Exchange Right pursuant to the relevant terms of the Share Option Schemes, the Existing CBs and Exchange Right instruments in the following manner based on the information available on the Latest Practicable Date and for illustration purpose only:

- (i) the exercise price of the outstanding Share Options granted on 28th March, 2014 is expected to be adjusted from HK\$8.592 to HK\$29.854;
- (ii) the exercise price of the outstanding Share Options granted on 18th September, 2015 is expected to be adjusted from HK\$3.000 to HK\$10.424;
- (iii) the exercise price of the outstanding Share Options granted on 15th March, 2016 is expected to be adjusted from HK\$3.000 to HK\$10.424;
- (iv) the exercise price of the outstanding Share Options granted on 8th September, 2016 is expected to be adjusted from HK\$3.142 to HK\$10.917;
- (v) the conversion price of the outstanding Existing CB issued on 5th February, 2013 is expected to be adjusted from HK\$6.55 to HK\$13.18;
- (vi) the conversion price of the outstanding Existing CB issued on 16th December, 2013 is expected to be adjusted from HK\$8.23 to HK\$16.56;
- (vii) the conversion price of the outstanding Existing CB issued on 8th January, 2015 is expected to be adjusted from HK\$3.00 to HK\$6.03; and
- (viii) the number of new Shares to be issued and allotted upon exercise of the Exchange Right is expected to be adjusted from 88,235,294 new Existing Shares to 25,394,117 new Adjusted Shares.

Pursuant to the terms of the Share Option Schemes, Existing CBs and Exchange Right instruments, the final results of adjustments (if any) to the exercise or subscription prices and, or numbers of the Share Options, Existing CBs and Exchange Right are subject to certification by the auditors for the time being of the Company or an independent financial adviser and is expected to take effect upon completion of the Rights Issue. The Company will make further announcements on the final results of the adjustments (if any) and the date they are expected to take effect as and when appropriate.

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LISTING RULES IMPLICATIONS

Capital Reorganisation

The Capital Reorganisation is conditional upon, among other things, the approval by the Shareholders by way of poll at the SGM. As none of the Shareholders or their associates would have any interest in the Capital Reorganisation, no Shareholder would be required to abstain from voting in favour of the resolution(s) relating to the Capital Reorganisation at the SGM.

Rights Issue

As the Rights Issue will result in an increase of the number of issued Shares by more than 50%, the Rights Issue is subject to, among other things, the approval by the Independent Shareholders at the SGM. Pursuant to Rule 7.19(6)(a) of the Listing Rules, any controlling Shareholders and their associates, or where there is no such controlling shareholder, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates are required to abstain from voting in favour of the resolution(s) relating to the Rights Issue. As there is no controlling Shareholder as at the Latest Practicable Date, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall be required to abstain from voting in favour of the Rights Issue in accordance with Rule 7.19(6)(a) of the Listing Rules.

As at the Latest Practicable Date, Pride Wisdom Group Limited, an associate of Mr. Stephen Hung (an executive Director), is interested in 82,477,999 Existing Shares, representing approximately 8.96% of the total issued share capital of the Company. Mr. Peter Lee Coker Jr., an executive Director, is interested in 5,796,600 Existing Shares, representing approximately 0.63% of the total issued share capital of the Company. Save for aforesaid, none of the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates have any share interest entitling them to exercise any voting right at the SGM. Accordingly, Pride Wisdom Group Limited and Mr. Peter Lee Coker Jr. shall abstain from voting in favour of the Rights Issue at the SGM.

Placing and the Bridge Loan

The updated information in relation to the Placing and the Bridge Loan is made pursuant to the Inside Information Provisions (as defined in the Listing Rules) and Rule 13.09(2)(a) of the Listing Rules.

SGM

A notice convening the SGM to be held at 10:00 a.m. on Friday, 9th February, 2018, at 1804A, 18/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong is set out on pages SGM-1 to SGM-5 of this circular for the purposes of considering and, if thought fit, approving the Capital Reorganisation, the Rights Issue and the transactions contemplated thereunder.

A proxy form for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East,

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Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof (as the case may be). Completion and return of the proxy form shall not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

Subject to the approval of the Capital Reorganisation by the Shareholders and the approval of Rights Issue by the Independent Shareholders at the SGM, and the Capital Reorganisation becoming effective, the Prospectus Documents setting out, among other things, details of the Underwriting Agreement and the Rights Issue is expected to be despatched to the Qualifying Shareholders on or before 26th February, 2018 whereas the Prospectus (but not the PAL and the EAF) will be despatched to the Excluded Shareholders for information purposes only.

RECOMMENDATION

The Independent Board Committee has been formed to advise the Independent Shareholders in connection with the Rights Issue. Lego Corporate Finance has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

Your attention is drawn to the letter from the Independent Board Committee set out on pages 61 to 62 of this circular which contains its recommendation to the Independent Shareholders as to voting at the SGM in relation to the Rights Issue.

Your attention is also drawn to the letter from Lego Corporate Finance which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue, as well as the principal factors and reasons considered by it in arriving thereat. The text of the letter from Lego Corporate Finance is set out on pages 63 to 94 of this circular.

The Directors (including the independent non-executive Directors who have considered the advice of Lego Corporate Finance in respect of the Rights Issue) consider that:

- (i) the Capital Reorganisation is in the interests of the Company and the Shareholders as a whole; and
- (ii) the terms of the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors (including the independent non-executive Directors who have considered the advice of Lego Corporate Finance in respect of the Rights Issue) recommend the Independent Shareholders (or the Shareholders as the case may be) to vote in favour of the resolutions to be proposed at the SGM to approve the Capital Reorganisation and the Rights Issue and the transactions contemplated respectively thereunder. You are advised to read the letter from the Independent Board Committee and the letter from Lego Corporate Finance mentioned above before deciding how to vote on the resolutions to be proposed at the SGM.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
The 13 Holdings Limited
Stephen Hung and Peter Lee Coker Jr.
Joint Chairmen

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Rights Issue.



The 13 Holdings Limited

十三集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00577)

24th January, 2018

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF
TEN (10) RIGHTS ISSUE SHARES FOR EVERY ONE (1) ADJUSTED SHARE
HELD ON THE RECORD DATE**

We refer to the circular of the Company dated 24th January, 2018 (the “**Circular**”) of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether (i) the terms of the Rights Issue and the Underwriting Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned; and (ii) the Rights Issue in the interests of the Company and the Shareholders as a whole.

Lego Corporate Finance has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect. Details of the advice from Lego Corporate Finance, together with the principal factors and reasons they have taken into consideration in arriving such advice, are contained in their letter set out on pages 63 to 94 of this circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendices to this circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the terms of the Rights Issue and the Underwriting Agreement and the advice from Lego Corporate Finance (together with the principal factors and reasons considered in arriving such advice), we are of the opinion that (i) the terms of the Rights Issue and the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Company and the Independent Shareholders are concerned; and (ii) the Rights Issue is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Rights Issue (including the Underwriting Agreement) and the transactions contemplated thereunder.

Yours faithfully,

Independent Board Committee

Ir James Chiu, OBE, JP **Professor Lee Chack Fan, GBS, SBS, JP**

Mr. Iain Ferguson Bruce **Mr. Francis Goutenmacher** **Mr. Chan Kok Chung, Johnny**

Independent non-executive Directors

LETTER FROM LEGO CORPORATE FINANCE

The following is the full text of the letter of advice from Lego Corporate Finance Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, in respect of the Rights Issue, which has been prepared for the purpose of inclusion in this circular.



24 January 2018

To the Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

**PROPOSED RIGHTS ISSUE ON THE BASIS OF
TEN (10) RIGHTS ISSUE SHARES FOR EVERY ONE (1) ADJUSTED SHARE
HELD ON THE RECORD DATE**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, details of which are set out in the Letter from the Board (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 24 January 2018 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Rights Issue

On 20 October 2017, the Company announced that it proposed, subject to, among others, the Capital Reorganisation becoming effective, to implement the Rights Issue on the basis of ten (10) Rights Issue Shares for every one (1) Adjusted Share held at the close of business on the Record Date at the Subscription Price of HK\$1.10 per Rights Issue Share by issue of not less than 920,867,010 Rights Issue Shares (assuming no change in the number of issued Shares on or before the Record Date other than from the Capital Reorganisation becoming effective) and not more than 1,048,593,270 Rights Issue Shares (assuming no change in the number of issued Shares on or before the Record Date other than from the Capital Reorganisation becoming effective and other than the issue of new Shares upon the exercise in full of the subscription rights attaching to the Non-undertaken Convertible Securities on or before the Record Date).

On the above basis, the Company will raise gross proceeds of not less than approximately HK\$1,013 million before expenses by way of the issue of not less than 920,867,010 Rights Issue Shares and will raise gross proceeds of not more than approximately HK\$1,153 million before expenses by way of the issue of not more than 1,048,593,270 Rights Issue Shares, subject to the fulfilment or waiver (as appropriate) of the conditions precedent to the Rights Issue and the Underwriting Agreement.

LETTER FROM LEGO CORPORATE FINANCE

On 19 October 2017, the Company entered into the Underwriting Agreement with the Underwriter in relation to the underwriting and other related arrangements in respect of the Rights Issue. The Rights Issue will be fully underwritten by the Underwriter, subject to the terms and conditions of the Underwriting Agreement, details of which are set out in the paragraph headed “Underwriting Arrangement” in the Letter from the Board.

As the Rights Issue will result in an increase of the number of issued Shares by more than 50%, the Rights Issue is subject to, among other things, the approval by the Independent Shareholders at the SGM. Pursuant to Rule 7.19(6)(a) of the Listing Rules, any controlling Shareholders and their associates, or where there is no controlling shareholder, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates are required to abstain from voting in favour of the resolution(s) relating to the Rights Issue at the SGM. As there is no controlling Shareholder as at the Latest Practicable Date, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall be required to abstain from voting in favour of the Rights Issue in accordance with Rule 7.19(6)(a) of the Listing Rules.

As at the Latest Practicable Date, Pride Wisdom Group Limited, an associate of Mr. Stephen Hung (an executive Director), is interested in 82,477,999 Existing Shares, representing approximately 8.96% of the total issued share capital of the Company. Mr. Peter Lee Coker Jr., an executive Director, is interested in 5,796,600 Existing Shares, representing approximately 0.63% of the total issued share capital of the Company. Save for aforesaid, none of the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates have any share interest entitling them to exercise any voting right at the SGM. Accordingly, Pride Wisdom Group Limited and Mr. Peter Lee Coker Jr. shall abstain from voting in favour of the Rights Issue at the SGM.

The Independent Board Committee

The Independent Board Committee, comprising all five independent non-executive Directors, namely Ir James Chiu, *OBE, JP*, Professor Lee Chack Fan, *GBS, SBS, JP*, Mr. Iain Ferguson Bruce, Mr. Francis Goutenmacher and Mr. Chan Kok Chung, Johnny, has been established to advise the Independent Shareholders on (i) whether the terms of the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Rights Issue is in the interests of the Company and the Shareholders as a whole; and (iii) how to vote on the resolution to approve the Rights Issue at the SGM. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

As at the Latest Practicable Date, we, Lego Corporate Finance, did not have any relationships or interests with the Company and the Underwriter that could reasonably be regarded as relevant to the independence of Lego Corporate Finance. In the last two years, there was no engagement between the Group and Lego Corporate Finance. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Company. Accordingly, we are qualified to give independent advice in respect of the terms of the Rights Issue.

LETTER FROM LEGO CORPORATE FINANCE

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 Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of 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 by the Directors and/or the management of the Group, for which they are solely and wholly responsible for, or contained or referred to in the Circular were true, accurate and complete in all respects as at the time they were made and up to the Latest Practicable Date and may be relied upon.

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 Circular and opinions expressed to us by them, and that all information or representations provided to us by the Group, the Directors, the management of the Group and the advisers of the Group are true, accurate, complete and not misleading in all material respects at the time they were made and up to the Latest Practicable Date. Shareholders will be informed by the Company as soon as possible if there is any material change to such information in accordance with Rule 13.80 of the Listing Rules until the SGM. We have also relied on the responsibility statement made by the Directors contained in the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Group, the Directors, the management of the Group and the advisers of the Group.

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 Circular 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 management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or its subsidiaries and associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the Rights Issue, we have considered the following principal factors and reasons set out below:

1. Information and historical financial performance of the Group

The Company is an investment holding company and the Group is principally engaged in hotel development, management contracting, property development management and property investment.

Background of THE 13 Hotel development

The Group is currently working towards the opening of its luxury hotel and entertainment complex, THE 13 Hotel, which is located on a 65,000 square feet site on the Cotai Strip of Macau. The management of the Company intends to include gaming operations in THE 13 Hotel, subject to the approval of the Macau Government.

LETTER FROM LEGO CORPORATE FINANCE

As stated in the Letter from the Board, THE 13 Hotel was originally expected to open by the end of 2016. However due to delays in obtaining various licences/permits and additional costs required to be incurred on the hotel decoration, acquisition of FF&E and OS&E in order to meet market expectations for a unique ultra-luxury hotel, further funding is required for completion.

Since the grant of formal consent from the Macau Government to begin works on THE 13 Hotel in 2013 and up till the end of 2015, shell and core works, as well as the MEP works on THE 13 Hotel were all progressing as scheduled. The Group also undertook the design works related to (i) ceilings, flooring, partitioning and walls, painting, as well as woodwork (“**1st stage fitting-out works**”); and (ii) the interior final decoration, including installation of FF&E, and OS&E (“**2nd stage fitting-out works**”).

The overall design of THE 13 Hotel was submitted to the Macau Government as statutory submissions for the Occupation Permit in late 2015. The Group received a qualification to the design in the first quarter of 2016 and worked with the Macau Government over the subsequent few months to address their comments. As a result of the foregoing, the Group was only able to complete the inspections for the issue of the Occupation Permit in the fourth quarter of 2016, which was later than originally planned.

In the second half of 2016, there was a change in the market conditions in the Macau hotel and entertainment industry with the opening of two large hotel and entertainment complexes. In order to increase the competitiveness of THE 13 Hotel and to cement its niche market position as an ultra-luxury hotel, the management of the Company decided to utilise the additional time from the delayed regulatory process mentioned above to revise and upgrade its interior design for the 2nd stage fitting-out works. The upgraded designs were finalised in the fourth quarter of 2016 and the budget for the development of THE 13 Hotel was therefore increased. To ensure sufficient funding for the increased investment costs in relation to such fitting-out upgrades and administrative and financing costs from the delay of the project, the Group secured a HK\$300 million Existing Bridge Loan from an investment fund in December 2016 to provide immediate financial relief for the development of THE 13 Hotel.

By the end of the first quarter of 2017, all the shell and core works, the 1st stage fitting-out works, as well as the MEP works had been completed, and the 2nd stage fitting-out works, being the main remaining works to be done before completion of THE 13 Hotel, were progressing based on the upgraded designs adopted in the fourth quarter of 2016. However, the Group faced further difficulties from April 2017 on the progress of the 2nd stage fitting-out works, as the Macau Government has been implementing stricter policies on the importation of labour, which led to difficulty in recruiting workers.

Taking into account (i) the prolonged licensing process with the Macau Government; (ii) the upgraded designs for the 2nd stage fitting-out works; and (iii) difficulties with labour recruitment, the overall budget for the construction of THE 13 Hotel increased substantially. The Company was actively seeking but had yet to secure sufficient additional funding, as further detailed in the section headed “Background of fundraising activities” in the Letter from the Board, to complete the remaining works on THE 13 Hotel. As a result of insufficient funding, the remaining 2nd stage fitting-out works were temporarily suspended in July 2017, until further funding becomes available.

LETTER FROM LEGO CORPORATE FINANCE

As at the date of the Announcement, the project management team of the Company estimated that approximately 90% of the entire development of THE 13 Hotel has been completed, with the remaining works for the completion of THE 13 Hotel being the 2nd stage fitting-out works as discussed above, including installation of FF&E and OS&E. The drawdown of the Bridge Loan was completed on 25 October 2017, and upon the confirmation with the key contractors, suppliers and vendors on the hotel works delivery and completion program, the 2nd stage fitting-out works have been resumed since 21 November 2017.

Completion and opening of THE 13 Hotel

Subject to the successful fund raising through the Rights Issue on the time frame set out in the Circular, as at the Latest Practicable Date, the latest estimated timetable for the development of THE 13 Hotel (which may be further adjusted according to the actual circumstances in respect of the development) is as follows:

Period/Date	Progress
From the date of the Circular to mid-March 2018	Completing remaining works and installation of FF&E and OS&E for inspection by the MGTO
Mid-March 2018	MGTO inspection
Mid-March 2018 to mid-April 2018	Administrative time of the MGTO and issue of hotel licence
Mid-April 2018 to end-April 2018	Preparation works for the hotel opening
30 April 2018	Opening of THE 13 Hotel and operation of the restaurants

After completion of THE 13 Hotel

The Group has entered into the MOU with an affiliate of the Licensed Operator in relation to the management and operation of a casino proposed to be opened in THE 13 Hotel. The Company further received letters on 24 February 2017 and 17 January 2018, respectively (the “**Confirmation Letters**”) from such affiliate of the Licensed Operator acknowledging the MOU. As at the Latest Practicable Date, no formal agreement has been entered into in respect of the arrangements under the MOU. It is expected that a formal agreement will be entered into by the relevant parties subject to, amongst other things, the Licensed Operator obtaining approval from the Macau Government regarding the Gaming Operation in THE 13 Hotel.

LETTER FROM LEGO CORPORATE FINANCE

The Company obtained a legal opinion from its Macau legal adviser, and as opined by the Macau legal adviser, it did not foresee any difficulties for obtaining approval from the Macau Government on the arrangements as contemplated under the MOU. It is the Company's intention to work with the Licensed Operator in submitting an application for the Gaming Operation after the licences for the operation of THE 13 Hotel have been granted or when it is clear such licences are almost certain to be granted as a matter of procedure. The management of the Company understands such timing to be in line with general market practice. However, the authorisation to install and operate a casino in THE 13 Hotel is subject to the approval of Macau Government, and therefore its success remains an uncertainty. The Company has obtained an updated legal opinion dated 9 October 2017 from its Macau Legal Adviser, pursuant to which it opined that, among other things, there has been no new law, legislation, policy, rule or regulation enacted by the Macau Government since 2013 that negatively impacts the Licensed Operator in obtaining approval from the Macau Government for implementing the Gaming Operation envisaged under the MOU. As at the Latest Practicable Date and based on the Confirmation Letters, the Company has not received any negative feedback from the Licensed Operator in respect of the MOU.

We have reviewed the MOU and the Confirmation Letters and noted that it is the intention of the Licensed Operator to manage and operate a casino proposed to be opened in THE 13 Hotel. We also noted that there is no long stop date to the MOU. The management of the Company advised that whether the Gaming Operation commences will not affect the decision to open and operate THE 13 Hotel.

Notwithstanding, we would like to emphasise that whether the Gaming Operation commences at THE 13 Hotel would not affect our view on the Rights Issue. The pre-requisite of setting up the Gaming Operation at THE 13 Hotel is the completion of the development of THE 13 Hotel. As discussed further below, the Company currently lacks the funding to complete the remaining set-up works of THE 13 Hotel. As discussed in detail below, the Group was required to open THE 13 Hotel by no later than 31 March 2017 pursuant to the facility agreement of a HK\$3,045 million loan. The Group had previously successfully applied to extend this date to 31 July 2017, and has been in discussions with the lending bank to further extend the opening date. As at the Latest Practicable Date, the Company is still in discussions with the lending bank regarding possible options. As a result, the Group remains in need of financing and the Rights Issue is expected to provide the funding required to complete the remaining works on THE 13 Hotel and avoid triggering a call on the loan. Therefore, it is vital for the Group to obtain external funding to complete THE 13 Hotel in order for the Group to continue to pursue its business operation as a going concern, regardless of whether the Gaming Operation commences at THE 13 Hotel. Accordingly, we are of the view that whether the Gaming Operation commences at THE 13 Hotel is irrelevant to our analysis of the Rights Issue.

The Disposal

As set out in the announcement of the Company dated 28 June 2017, the Company has conditionally agreed to dispose of its indirect shareholding interest in the PYE Group for a consideration of HK\$300 million. PYE Group is one of the leading management contractors in Hong Kong and Macau and is principally engaged in civil engineering, building construction and foundation works, project management, manufacturing and trading of construction materials.

LETTER FROM LEGO CORPORATE FINANCE

The corporate strategy of the Company changed in 2013, when it undertook a group reorganisation via a distribution-in specie exercise of 49% equity interest in the PYE Group to its shareholders and formulated a new direction for the Group in developing THE 13 Hotel project. The principal business activity was refocused from construction to the development of THE 13 Hotel project, and the reduction in the economic interest in the PYE Group at that time was to allow more resources to be focused on the development of The 13 Hotel project. As the Group is working towards the opening of THE 13 Hotel, the Board believes it is timely for the Disposal to take place so that the management team can focus more of their time on the hotel management business of the Group and the Group's resources can be effectively utilised for the hotel management business after the opening of THE 13 Hotel. In addition, the Disposal provides funding to finance the completion of the facilities and amenities of THE 13 Hotel as well as pre-opening costs of THE 13 Hotel.

Upon completion of the Disposal, the PYE Group will cease to be a subsidiary of the Group. The financial results of the PYE Group will no longer be consolidated into the consolidated financial statements of the Group. PYE Group and its subsidiaries had been contributing 100% of the Group's income during the last three financial years. Following the Disposal, the Group will focus on the development of THE 13 Hotel.

Historical financial performance of the Group

The following table summarises the key financial information of the Group as extracted from the consolidated statement of profit or loss and other comprehensive income of the Group for the years ended 31 March 2015, 2016, 2017, and for the six months ended 30 September 2016 and 2017 as extracted from the annual reports of the Company for the years ended 31 March 2016 (the “**2016 Annual Report**”) and 2017 (the “**2017 Annual Report**”) as well as the interim report for the six months ended 30 September 2017 (the “**2018 Interim Report**”), respectively.

	For the years ended 31 March			For the six months ended 30 September	
	2015	2016	2017	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	9,323,418	6,811,519	6,127,109	3,058,022	3,075,067
<i>Segment revenue</i>					
– <i>Management contracting</i>	9,292,639	6,795,908	6,123,924	3,056,212	3,074,704
– <i>Property development management</i>	30,779	15,611	3,185	1,810	363
– <i>Property investment</i>	–	–	–	–	–
– <i>Hotel development</i>	–	–	–	–	–
Gross profit	283,712	197,834	246,751	112,564	139,259
Gross profit margin	3.04%	2.90%	4.03%	3.68%	4.53%
(Loss) for the year/period attributable to owners of the Company	(29,883)	(197,361)	(44,559)	(28,313)	(23,031)

LETTER FROM LEGO CORPORATE FINANCE

The Group's revenue is mainly derived from the management contract division which contributed more than 99% of the total revenue of the Group for each of the years ended 31 March 2015, 2016 and 2017 and six months ended 30 September 2016 and 2017. The management contract division, the property development management division and the property investment division are held under the PYE Group.

The revenue of the Group decreased from approximately HK\$9,323 million for the year ended 31 March 2015 to approximately HK\$6,812 million for the year ended 31 March 2016, representing a decrease of approximately 26.9%. As set out in the 2016 Annual Report, the decrease in revenue was a result of the decrease in order book after completion of a large project in Macau. As at 31 March 2016, the value of contracts on hand for management contract division was approximately HK\$23,481 million, while the value of works for management contract division remaining stood at approximately HK\$7,585 million. During the year ended 31 March 2016, the Group secured new construction contracts with an aggregate value of approximately HK\$4,881 million, representing a decrease of approximately 7.1% as compared to the amount of approximately HK\$5,253 million for the year ended 31 December 2015.

Gross profit and gross profit margin decreased from approximately HK\$284 million and 3.04% for the year ended 31 March 2015 to approximately HK\$198 million and 2.90% for the year ended 31 March 2016, respectively. As set out in the 2016 Annual Report, the decrease was primarily due to costs and provisions for remedial measures resulting from lead contamination in potable water occurring under certain construction contracts and an increase in legal and professional fees.

The revenue of the Group further decreased from approximately HK\$6,812 million for the year ended 31 March 2016 to approximately HK\$6,127 million for the year ended 31 March 2017, representing a decrease of approximately 10.1%. As set out in the 2017 Annual Report, the decrease in revenue was a result of the decrease in new contracts awarded in prior year. As at 31 March 2017, the value of contracts on hand for management contract division was approximately HK\$27,223 million, while the value of work remaining for management contract division stood at approximately HK\$11,424 million. During the year ended 31 March 2017, the Group secured new construction contracts with an aggregate value of approximately HK\$9,657 million, representing an increase of approximately 97.8% as compared to the amount of approximately HK\$4,881 million for the prior year.

Gross profit and gross profit margin increased from approximately HK\$198 million and 2.90% for the year ended 31 March 2016 to approximately HK\$247 million and 4.03% for the year ended 31 March 2017, respectively. As set out in the 2017 Annual Report, the improvement was primarily due to less provisions made under certain construction projects but partially net off by the decrease in revenue.

LETTER FROM LEGO CORPORATE FINANCE

The revenue of the Group increased from approximately HK\$3,058 million for the six months ended 30 September 2016 to approximately HK\$3,075 million for the six months ended 30 September 2017, representing a slight increase of approximately 0.6%. As set out in the 2018 Interim Report, the increase in revenue was primarily due to steady growth of the construction market in Hong Kong.

Gross profit and gross profit margin increased from approximately HK\$113 million and 3.7% for the six months ended 30 September 2016 to approximately HK\$139 million and 4.5% for the six months ended 30 September 2017, respectively. As set out in the 2018 Interim Report, the improvement was primarily due to gain from final account settlement.

The following table summarises the key financial information of the Group as extracted from the consolidated statement of financial position of the Group as at 31 March 2015, 2016 and 2017 and 30 September 2017 as extracted from the 2016 Annual Report, 2017 Annual Report and 2018 Interim Report, respectively.

	As at 31 March			As at 30
	2015	2016	2017	September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(audited)	(unaudited)
Bank balances and cash	1,036,459	483,859	323,533	327,036
Short term bank deposits	2,138,346	458,388	36,876	36,513
Pledged bank deposits	46,878	17,065	16,247	16,877
Net current assets/(liabilities)	3,014,556	752,911	(300,941)	(3,632,546)
Total assets	12,375,203	12,546,594	13,523,795	14,499,254
Total liabilities	6,087,387	6,496,199	7,503,111	8,472,814
Equity attributable to owners of the Company	5,885,907	5,709,382	5,680,446	5,683,226

As at 31 March 2016, total assets of the Group amounted to approximately HK\$12,547 million, of which hotel under development, prepaid land lease payment and amounts due from customers for contract works amounted to approximately HK\$6,139 million, HK\$1,717 million and HK\$851 million, respectively, representing approximately 48.9%, 13.7% and 6.8% of the total assets of the Group, respectively. Meanwhile, the aggregate of (i) bank balances and cash; (ii) short term bank deposit; and (iii) pledged bank deposits amounted to approximately HK\$959 million, representing approximately 7.6% of the total assets of the Group.

As at 31 March 2016, total liabilities of the Group amounted to approximately HK\$6,496 million, of which total bank and other borrowings, trade and other creditors and accrued expenses and amounts due to customers for contract works amounted to approximately HK\$3,021 million, HK\$1,630 million and HK\$1,169 million, respectively, representing approximately 46.5%, 25.1% and 18.0% of the total liabilities of the Group, respectively.

LETTER FROM LEGO CORPORATE FINANCE

As at 31 March 2017, total assets of the Group amounted to approximately HK\$13,523 million, of which hotel under development, prepaid land lease payment and amounts due from customers for contract works amounted to approximately HK\$7,718 million, HK\$1,612 million and HK\$1,002 million, respectively, representing approximately 57.1%, 11.9% and 7.4% of the total assets of the Group, respectively. Meanwhile, the aggregate of (i) bank balances and cash; (ii) short term bank deposit; and (iii) pledged bank deposits amounted to approximately HK\$377 million, representing approximately 2.8% of the total assets of the Group.

As at 31 March 2017, total liabilities of the Group amounted to approximately HK\$7,503 million, of which total bank and other borrowings, trade and other creditors and accrued expenses and amounts due to customers for contract works amounted to approximately HK\$3,948 million, HK\$1,946 million and HK\$864 million, respectively, representing approximately 52.6%, 25.9% and 11.5% of the total liabilities of the Group, respectively. Of the total borrowings of approximately HK\$3,948 million as at 31 March 2017, approximately HK\$888 million were repayable within one year. In addition, the Group had outstanding convertible bonds with a face value of approximately HK\$2,219 million and a liability component as at 31 March 2017 of approximately HK\$577 million. The convertible bonds mature will in February 2025. Further, as at 31 March 2017, the Group had expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment and hotel under development of approximately HK\$187 million and HK\$182 million, respectively. The Group also had capital expenditure authorised but not contracted for regarding the hotel project amounting to approximately HK\$582 million as at 31 March 2017. The Group's ratio of total debt to equity attributable to owners of the Company was approximately 79.7% as at 31 March 2017.

As at 31 March 2017, the Group's current liabilities exceeded its current assets by approximately HK\$301 million and the Group had outstanding capital commitments of approximately HK\$369 million. The Directors advised that the reason for the net current liabilities position as at 31 March 2017 was mainly due to lack of funding and hence the management of the Company has been attempting to raise new financing for completion of THE 13 Hotel.

As disclosed in the independent auditor's report contained in the 2017 Annual Report, the auditor of the Company stated that the net loss and net current liabilities positions of the Group as at 31 March 2017, together with the capital commitments contracted for but not provided in the consolidated financial statements of approximately HK\$369 million and capital expenditure authorised but not contracted for regarding the hotel project amounted to approximately HK\$582 million as at 31 March 2017 indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

As at 30 September 2017, total assets of the Group amounted to approximately HK\$14,499 million, of which hotel under development, prepaid land lease payment and amounts due from customers for contract works amounted to approximately HK\$8,099 million, HK\$1,560 million and HK\$1,153 million, respectively, representing approximately 55.9%, 10.8% and 8.0% of the total assets of the Group, respectively. Meanwhile, the aggregate of (i) bank balances and cash; (ii) short term bank deposit; and (iii) pledged bank deposits amounted to approximately HK\$380 million, representing approximately 2.6% of the total assets of the Group.

LETTER FROM LEGO CORPORATE FINANCE

As at 30 September 2017, total liabilities of the Group amounted to approximately HK\$8,473 million, of which total bank and other borrowings, trade and other creditors and accrued expenses and amounts due to customers for contract works amounted to approximately HK\$4,085 million, HK\$2,321 million and HK\$1,051 million, respectively, representing approximately 48.2%, 27.4% and 12.4% of the total liabilities of the Group, respectively. Of the total borrowings of approximately HK\$4,085 million as at 30 September 2017, approximately HK\$4,052 million were repayable within one year. In addition, the Group had outstanding convertible bonds with a face value of approximately HK\$2,219 million and a liability component as at 30 September 2017 of approximately HK\$631 million. Further, as at 30 September 2017, the Group had expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment and hotel under development of approximately HK\$168 million and HK\$97 million, respectively. The Group also had capital expenditure authorised but not contracted for regarding the hotel project amounting to approximately HK\$103 million as at 30 September 2017. The Group's ratio of total debt to equity attributable to owners of the Company was approximately 83.0% as at 30 September 2017.

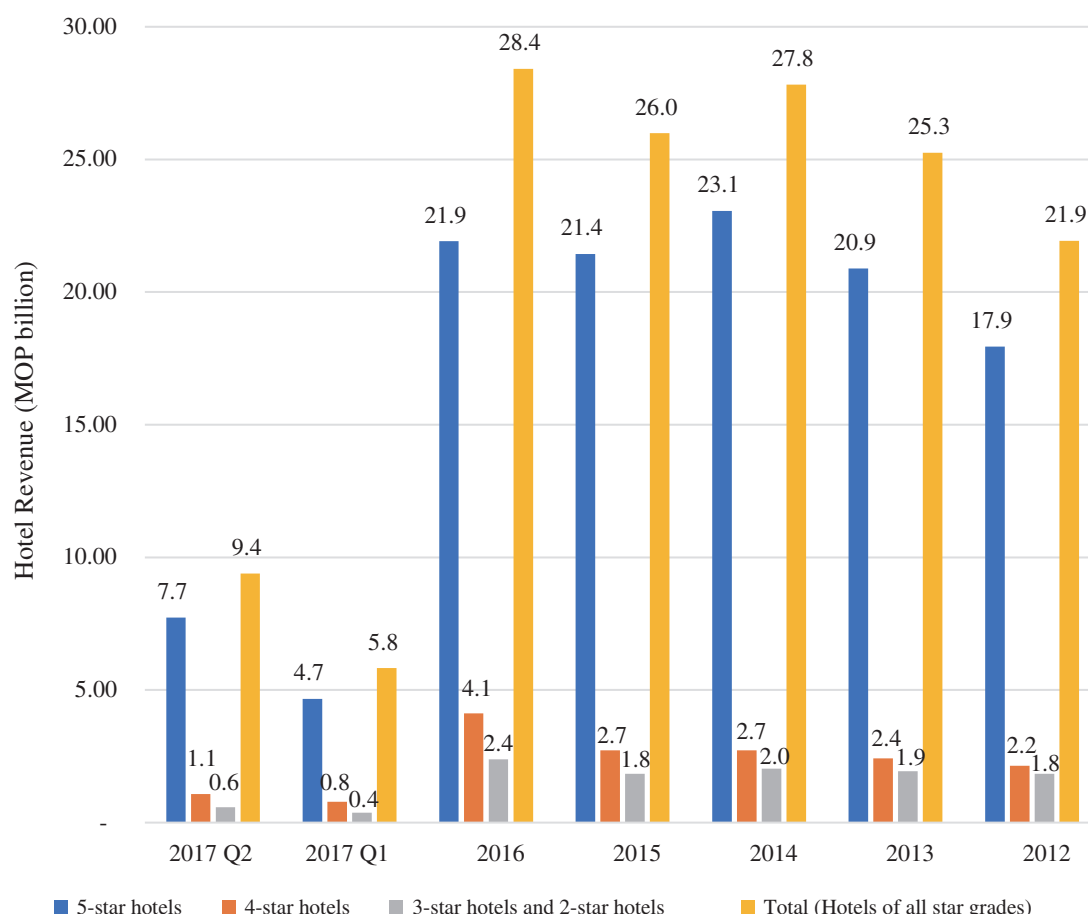
As at 30 September 2017, the Group's current liabilities exceeded its current assets by approximately HK\$3,633 million and the Group had outstanding capital commitments of approximately HK\$265 million. The Directors advised that the reasons for the net current liabilities position as at 30 September 2017 were mainly reclassification of loan and lack of funding.

2. Industry outlook

According to the Government of Macau Special Administrative Region Statistics and Census Service ("DSEC"), for the six months ended 30 June 2017, the accumulated gross domestic products of Macau amounted to approximately MOP188,635 million, representing an increase of approximately 11.5% compared to the same period in 2016. It is the highest growth rate since the three months ended 31 March 2014, boosted by both exports of services, namely tourism which increased from approximately 20.9% to approximately 22.1%, and gaming services which increased from approximately 11.3% to approximately 19.0% compared to the same period in 2016. Meantime, imports of services rose approximately 15.1% compared to approximately 6.9% the same period in 2016. Private consumption also rose from approximately 1.6% in 2016 to approximately 3.4% in 2017, amid stable economic conditions, slowing inflation and a favorable employment situation. The annual growth rate of gross domestic products in Macau averaged approximately 9.05% from 2002 until six months ended 30 June 2017.

According to DSEC, the number of inbound tourists to Macau was on an upward trend from 2011 to 2016, increasing at an annual rate of approximately 10.53% from approximately 28.0 million for 2011 to approximately 31.0 million for 2016. The number of overnight tourists in Macau had also been steadily increasing from approximately 12.9 million for 2011 to approximately 15.7 million for 2016, representing a compound annual growth rate ("CAGR") of approximately 3.97%. On the supply side, the total number of hotel rooms of all the hotels in Macau had been increasing from approximately 22,356 rooms in 2011 to approximately 36,278 rooms in 2016.

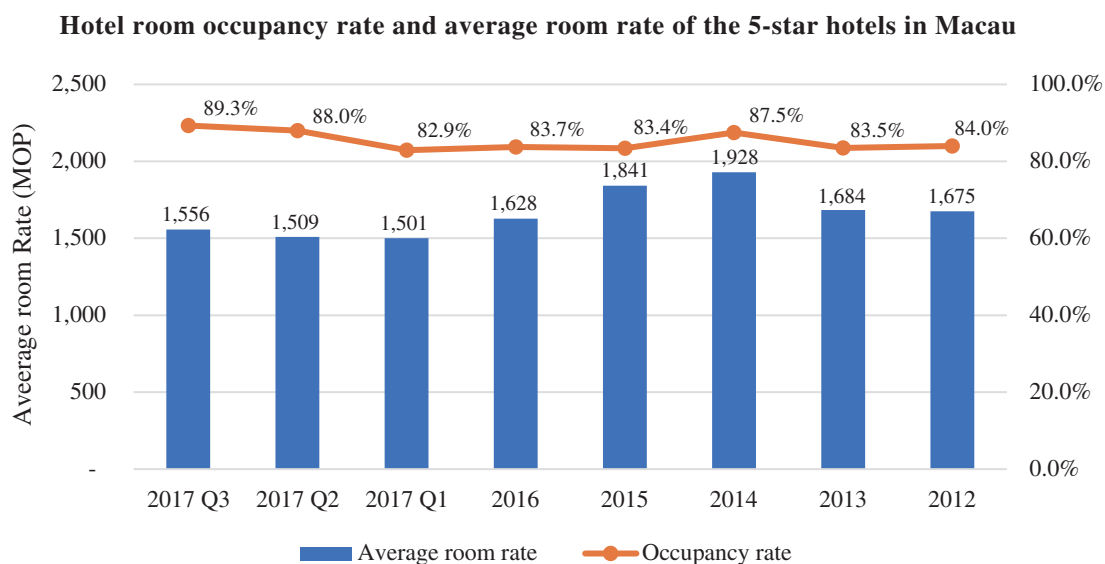
Revenue of star-rated hotel industry in Macau



Source: DSEC

The above chart shows that the total revenue of the star-rated hotel industry in Macau increased at a CAGR of 5.8% from approximately MOP21.9 billion for 2012 to approximately MOP28.4 billion for 2016. The revenue of the star-rated hotel industry in Macau for the first quarter of 2017 was approximately MOP5.8 billion, representing a slight increase of approximately MOP0.3 billion as compared to approximately MOP5.5 billion for the same quarter in the previous year. The revenue of the 5 star-rated hotels in Macau for the second quarter of 2017 increased quarter-to-quarter to approximately MOP7.73 billion.

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Source: DSEC

According to DSEC, the average room occupancy rate of the 5-star hotels in Macau remained relatively stable during 2012 to 2016, slightly fluctuating around 83%, except in 2014 where it increased to 87.5%. However, it is noted that the average room occupancy rate of 5-star hotels in Macau improved to approximately 88.0% and 89.3% for the first and second quarters of 2017, respectively.

Since the liberalisation of the Macau's gaming industry in 2002, the Macau market has experienced a significant increase in annual gaming revenue. However, overall Macau gross gaming revenue declined in calendar year 2016. Gross gaming revenue for the full year was approximately HK\$217 billion, reflecting a 3.3% decline from 2015. Beginning in the second half of 2016, gross gaming revenue rebounded, increasing 5.7% year-on-year. Macau gross gaming revenue is rebounding on the back of increasing nominal GDP growth in China. Casinos in Macau generated approximately MOP220 billion in gross gaming revenue during the 10 months ended 31 October 2017, representing an increase of approximately 19.2% over the approximate MOP185 billion generated in the same period last year, making Macau the largest gaming market in the world.

The levels of tourism and overall gaming activities in Macau are key drivers of hotel industry. The Macau hotel industry is expected to maintain meaningful long-term growth driven by the continued growth in number of visitors, mainly from the PRC on the back of continued growth of the PRC outbound tourism market and the introduction of new transportation infrastructure connecting the Mainland China and Macau. THE 13 Hotel plans to target the extremely wealthy and ultra-high net worth customers, which to the understanding of the Company are less sensitive to global economic downturn, and in turn is expected to increase the Company's competitive strength in the market.

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3. Reasons for and benefits of the Rights Issue and the use of proceeds

3.1 Reasons for and benefits of the Rights Issue

As stated in the Letter from the Board, the Group is currently working towards the opening of its luxury hotel and entertainment complex, THE 13 Hotel, which is located on a 65,000 square feet site on the Cotai Strip of Macau and was expected to open by the end of 2016. Amid the (i) prolonged licensing process with the Macau Government; (ii) the upgraded designs as a result of change in market conditions; and (iii) difficulties in labour recruitment, the overall budget for the construction of THE 13 Hotel increased substantially. The Company requires additional funding to complete the remaining works which were temporarily suspended since July 2017 as a result of lack of funding. On 25 October 2017, the drawdown of the Bridge Loan was completed, and with the proceeds from the Bridge Loan, the remaining 2nd stage fitting-out works of THE 13 Hotel has resumed since 21 November 2017.

It is estimated that the remaining expenses required for the completion of THE 13 Hotel is approximately HK\$1,092 million, which can be breakdown into the following items:

Item	Estimated costs <i>(HK\$ million)</i>
Decoration	421
FF&E	145
OS&E	166
Hotel operation preparation costs (including pre-opening payroll, rental, utilities and other operating expenses)	130
Finance costs	160
Transaction costs	70
Total	1,092

It is further noted that (i) the Group had bank and cash balance of approximately HK\$679 million as at 31 October 2017, with only approximately HK\$251 million available for the development of THE 13 Hotel while the remaining amounts are attributable to PYE Group and its subsidiaries; (ii) the Group has incurred loss for each of the past three years under review; and (iii) as at 30 September 2017, the Group recorded net current liabilities of approximately HK\$3,633 million while having capital commitment contracted but not provided for of approximately HK\$265 million and capital expenditure authorised but not contracted for regarding the hotel project amounting to approximately HK\$103 million. These factors indicated that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

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As at 30 November 2017, HK\$3,042 million was drawn from a six-year term loan facility of HK\$3,045 million (the “**Loan**”) provided by a Mainland China-based bank (the “**Lending Bank**”). Pursuant to the facility letter for the Loan, among others, the Group was required to open THE 13 Hotel by no later than 31 March 2017. The Group had previously successfully applied to extend this date to 31 July 2017, and has been in discussion with the Lending Bank to further extend the opening date. We have discussed with the management of the Company and were advised that the Company has recently been put on notice by the Lending Bank that the Company must imminently settle plans to proceed with the proposed Rights Issue, otherwise the Lending Bank will consider enforcing its rights under the facility letter, in which case will likely result in the bankruptcy of the Group. As at the Latest Practicable Date, the Company is still in discussions with the Lending Bank regarding possible options.

We further set out below the borrowings of the Group in relation to the hotel development business as at 30 November 2017:

Type of loan	Outstanding loan principal amount as at 30 November 2017 <i>(HK\$ million)</i>	Due date	Expected interest amount <i>(in HK\$ million and rate)</i>
Short-term loan	359	9 February 2018	37 (HSBC best lending rate plus 2% to 4% per annum)
Existing Bridge loan	300	1 April 2018	99 (25% per annum)
The Loan	3,042	15% on 15 August 2018; 15% on 15 August 2019; and 70% on 15 August 2020	383 (HIBOR + 3.5% per annum)
The Bridge Loan	250	24 October 2018 or the day following the Completion, whichever is the earlier	19 (18% per annum)
Bank term loan	40	5% of HK\$50 million on quarterly basis	3 (HIBOR + 2.5% per annum)
Other loan	15	29 March 2018	1 (18% per annum)
Convertible Bonds	649	5 February 2025	Interest free

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As illustrated above, taking into consideration (i) the Group's bank and cash balance (excluding bank and cash balance attributable to PYE Group and its subsidiaries) of approximately HK\$251 million as at 31 October 2017, which already included the drawdown of the Bridge Loan of HK\$250 million; and (ii) the remaining proceeds from the Disposal to be received upon completion of approximately HK\$121 million, the Group does not have sufficient internal resources available to fund the remaining expenses required for the completion of THE 13 Hotel of approximately HK\$1,092 million and for repayment of debts falling due as discussed above.

Further, it should be noted that as stated in the paragraph headed "3. Working Capital Statement" in Appendix IV to the Circular, the Directors advised that if (i) the Group is unable to extend the requirement on opening THE 13 Hotel in certain loan covenants; (ii) the Rights Issue and the Disposal are not completed; or (iii) the Group is unable to execute further financing plan, the Group will not have sufficient working capital for at least the next-twelve months from the date of the Circular.

The Rights Issue, if materialised, will provide the Group with new equity capital in the amount of not less than approximately HK\$973 million and not more than approximately HK\$1,113 million, which can provide sufficient funds for the completion of THE 13 Hotel. In light of the above, we consider that the Rights Issue would improve the Group's current financial position and provide funding to the Group to continue its business as a going concern.

We would like to emphasise that in the event that the Rights Issue does not materialise, there is significant risk that the Group cannot secure sufficient alternative funding to complete THE 13 Hotel. If the Group does not settle plans to proceed with the proposed Rights Issue, the Lending Bank will consider calling the Loan, in which case will likely result in the bankruptcy of the Group. Therefore, it is critical that the Group can secure external funding for the completion of THE 13 Hotel and meet its cash flow requirements in order to continue to pursue its business operations.

3.2 Intended use of proceeds

As stated from the Letter from the Board, the net proceeds from the Rights Issue after deduction of related expenses is estimated to be not less than approximately HK\$973 million, which will be used by the Company as follows:

- approximately 88.6% of the net proceeds (approximately HK\$862 million) will be used for the pre-opening expenses of THE 13 Hotel. The Directors consider that the completion of THE 13 Hotel is important to the sustainable growth of the Group in the future; and
- the remaining 11.4% of the net proceeds (approximately HK\$111 million) will be used as general working capital, which is estimated with reference to its historical monthly operating costs of the Group including office rent, other administrative expenses and staff expenses (excluding the operating costs of PYE Group and its subsidiaries).

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We have reviewed the detailed breakdown of the pre-opening expenses allocated from the proceeds of the Rights Issue as follows:

Timeline (based on estimations as at the Latest Practicable Date)	Item	Decoration	FF&E	OS&E	Total
			<i>(HK\$ million)</i>		
From now to mid-March 2018	Completing remaining works and installation of FF&E and OS&E for inspection by MGTO	330	130	135	595
Mid-April 2018 to end-April 2018	Preparation works for hotel opening	91	15	31	137
From now to 30 April 2018	Hotel operation preparation costs	N/A	N/A	N/A	130
	Total	<u>421</u>	<u>145</u>	<u>166</u>	<u>862</u>

The following table is a detailed breakdown of allocation of the net proceeds from the Rights Issue to the general working capital:

Item	<i>(HK\$ million)</i>
Office rental costs	18
Staff salaries	10
Other administrative expenses	8
Interest expenses	<u>75</u>
Total	<u><u>111</u></u>

As disclosed in the Letter from the Board, the estimated monthly operating expenses of the Group (excluding the operating costs of PYE Group and its subsidiaries) is approximately HK\$31 million, which mainly includes office rental cost, staff salaries, other administrative expenses and interest expenses. Accordingly, the HK\$111 million net proceeds from the Rights Issue, together with approximately HK\$266 million net proceeds from the Disposal will be able to finance the working capital of the Group for around 12 months.

In view of the aforesaid, we are of the view that the Rights Issue, which will provide new equity capital of not less than approximately HK\$973 million, will provide sufficient capital for the pre-opening expenses of THE 13 Hotel, which is crucial to the sustainable growth of the Group's business and to satisfy the Group's working capital requirements for the next 12 months.

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3.3 Fund raising alternatives

As stated in the Letter from the Board, the Company has not conducted other equity fund raising exercise in the 12 months immediately preceding the Latest Practicable Date. As disclosed in the 2017 Annual Report, the Group maintains a variety of credit facilities to meet requirements for working capital, which include variable-rate borrowings and fixed-rate borrowings of approximately HK\$3,648 million and HK\$300 million, respectively, as well as convertible bonds with a face value of approximately HK\$2,219 million as at 31 March 2017.

As stated in the Letter from the Board, since March 2016, the management of the Company has been attempting to raise new financing for completion of THE 13 Hotel. In considering the best interests of the Shareholders, the Company had prioritised obtaining funding through debt first, then through equity placements, and only as a last resort, through rights issue. Your attention is brought to the section headed “Background of fundraising activities” in the Letter from the Board, which detailed the various fundraising activities that the Company has explored before the final decision was made to proceed with the Rights Issue. In particular, we noted the following matters:

- (a) The terms of the Loan restricted the creation of further security over THE 13 Hotel and the land over which it was situated as security to another lender, even in the form of a second mortgage.
- (b) The Company had explored fundraising through the issue of high yield notes and approached a number of potential lenders. In June 2017, the Company received two indicative offers for high yield notes that were conditional upon, among others, obtaining (i) the consent to a second mortgage over THE 13 Hotel from the Lending Bank; and (ii) raising additional equity. Both of these two potential lenders indicated that their offers of financing required the Company to raise between approximately HK\$1,200 million and HK\$1,600 million in additional equity or convertible bonds to support their loans and to provide a substantial cash interest reserve.
- (c) From June 2017, the Company has further approached certain investors to see if there was any interest in an equity or convertible bonds placement at or near the market price of the Shares. The Company received general feedback that they did not have any interest in such placing owing to the volatility of the price of the Shares and their downward trend, citing that the only condition under which they would potentially consider a placement was where the Company could definitively prove that the equity and, or convertible bonds placed represented the “last dollar in” prior to full opening of THE 13 Hotel.
- (d) Following the Company’s fundraising efforts for over one year during March 2016 to June 2017, the Company was caught in a situation where the debt financing would not be able to move forward without a path forward on the equity financing, while the equity financing will not be able to move forward without irrevocable commitments on the debt financing. As a result, it has no further option but to proceed with the Rights Issue, which the Board considers to be the only viable option that can be executed on a timely basis.

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Taking into consideration:

- (i) the dire financial situation of the Group as demonstrated by the net loss position of the Group in the past years, the net current liabilities position of the Group together with the significant amounts of capital commitment and authorised capital expenditures as at 31 March 2017;
- (ii) the net proceeds raised from the Rights Issue would be used to satisfy pre-opening funding requirements of THE 13 Hotel and would strengthen the Company's capital base and enhance its financial and liquidity position;
- (iii) the failure to materialise the Rights Issue will lead to the Group unable to complete THE 13 Hotel and insufficient working capital for the next 12 months from the date of the Circular;
- (iv) the Rights Issue is the only financing option available to the Group after the Group has explored exhaustive fundraising options;
- (v) the Rights Issue enables all Qualifying Shareholders to have an equal opportunity to participate in the enlargement of the Company's capital base and the Company's future growth; and
- (vi) the Rights Issue provides additional funds for the Group at a reasonable cost as compared to bank borrowings,

we are of the view that the Rights Issue is a preferred method and the only available option of fundraising for the Group given its circumstances and is in the interests of the Company and the Shareholders as a whole, in view of the Company's circumstances.

4. Principal terms of the Rights Issue

4.1 Issue statistics

Subject to the Capital Reorganisation becoming effective, the Company proposes to implement the Rights Issue on the basis of ten (10) Rights Issue Shares for every one (1) Adjusted Share held at the close of business on the Record Date at the Subscription Price of HK\$1.10 per Rights Issue Share by issue of not less than 920,867,010 Rights Issue Shares (assuming no change in the number of issued Shares on or before the Record Date other than from the Capital Reorganisation becoming effective) and not more than 1,048,593,270 Rights Issue Shares (assuming no change in the number of issued Shares on or before the Record Date other than from the Capital Reorganisation becoming effective and other than the issue of new Shares upon the exercise in full of the subscription rights attaching to the Non-undertaken Convertible Securities on or before the Record Date).

Qualifying Shareholders may apply for any number of Rights Issue Shares, but are assured of allocations only up to the numbers in their assured allotments. Allocations of Rights Issue Shares to those who apply for more than their assured allotments will be made on an equitable basis.

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Set out below are the principal terms of the Rights Issue:

Basis of the Rights Issue	:	Ten (10) Rights Issue Shares for every one (1) Adjusted Share held on the Record Date
Subscription Price	:	HK\$1.10 per Rights Issue Share
Number of Existing Shares in issue as at the Latest Practicable Date	:	920,867,010 Existing Shares
Number of Adjusted Shares in issue upon the Capital Reorganisation becoming effective	:	Not less than 92,086,701 Adjusted Shares (assuming no change in the number of issued Shares on or before the Record Date) and not more than 104,859,327. Adjusted Shares (assuming no change in the number of issued Shares on or before the Record Date, other than the issue of new Shares upon the exercise in full of the subscription rights attaching to the Non-undertaken Convertible Securities on or before the Record Date)
Number of Rights Issue Shares to be issued pursuant to the Rights Issue	:	Not less than 920,867,010 Rights Issue Shares (based on the number of Existing Shares in issue as at the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation, and assuming no change in the number of issued Shares on or before the Record Date) and not more than 1,048,593,270 Rights Issue Shares (based on the number of Existing Shares in issue as at the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation, and assuming no change in the number of issued Share from the Latest Practicable Date up to the Record Date other than the issue of new Shares upon the exercise in full of the subscription rights attaching to the Non-undertaken Convertible Securities on or before the Record Date)
Total number of issued Adjusted Shares as enlarged by the Rights Issue Shares upon Completion	:	Not less than 1,012,953,711 Adjusted Shares and not more than 1,153,452,597 Adjusted Shares
Aggregate nominal value of the Rights Issue Shares	:	Not less than HK\$184,173,402 and not more than HK\$209,718,654

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Total number of Rights Issue Shares being underwritten by the Underwriter	:	Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite all the Rights Issue Shares other than the Rights Issue Shares that are subject to the Irrevocable Undertaking on a fully underwritten basis subject to the terms and conditions of the Underwriting Agreement
Net proceeds to be raised upon Completion	:	Not less than approximately HK\$973 million and not more than approximately HK\$1,113 million

As at the Latest Practicable Date, the Company had 59,997,500 outstanding Share Options exercisable by its holders to subscribe for up to 59,997,500 new Existing Shares (pre-adjustment), nor Existing CBs convertible into 465,814,719 Existing Shares, and Exchange Right exercisable by its holders for up to 88,235,294 Existing Shares (pre-adjustment). Save as disclosed above, the Company has no other outstanding warrants, options or convertible securities or other similar rights which are convertible or exchangeable into Shares.

All the holders of the above Convertible Securities (except for holders of the Non-undertaken Convertible Securities) have provided irrevocable undertakings that they will not exercise their subscription or conversion rights under the Convertible Securities on or before the Record Date

Assuming no change in the number of issued Shares on or before the Record Date, other than from the Capital Reorganisation becoming effective, the 920,867,010 Rights Issue Shares to be issued pursuant to the terms of the Rights Issue represents 1,000.00% of the number of issued Adjusted Shares upon completion of the Capital Reorganisation and approximately 90.91% of the number of issued Adjusted Shares as enlarged immediately upon Completion.

Assuming no change in the number of issued Shares on or before the Record Date, other than from the Capital Reorganisation becoming effective and other than the issue of new Shares upon exercise in full of the subscription rights attaching to the Non-undertaken Convertible Securities on or before the Record Date, the 1,048,593,270 Rights Issue Shares to be issued pursuant to the terms of the Rights Issue represents 1,000.00% of the number of issued Adjusted Shares upon completion of the Capital Reorganisation and approximately 90.91% of the number of issued Adjusted Shares as enlarged immediately upon Completion.

4.2 The Subscription Price

The Subscription Price of HK\$1.10 per Rights Issue Share represents:

- (i) a discount of approximately 87.91% to the adjusted closing price of HK\$9.10 per Adjusted Share, based on the closing price of HK\$0.91 per Existing Share as quoted on the Stock Exchange on 19 October 2017, being the Last Trading Day and adjusted for the effect of the Capital Reorganisation;

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- (ii) a discount of approximately 87.91% to the adjusted 5-day average closing price of HK\$9.10 per Adjusted Share, based on the average closing price of HK\$0.91 per Existing Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (iii) a discount of approximately 87.86% to the adjusted 10-day average closing price of HK\$9.06 per Adjusted Share, based on the average closing price of approximately HK\$0.91 per Existing Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (iv) a discount of approximately 39.89% to the theoretical ex-entitlement price of approximately HK\$1.83 per Adjusted Share after the Rights Issue, based on the closing price of HK\$0.91 per Existing Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (v) a discount of approximately 71.79% to the adjusted closing price of HK\$3.90 per Adjusted Share, based on the closing price of HK\$0.39 per Existing Share as quoted on the Stock Exchange as at the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation; and
- (vi) a discount of approximately 98.22% over the audited equity attributable to the owners of the Company per Adjusted Share of approximately HK\$61.69 as at 31 March 2017 (based on the number of Existing Share in issue as at Latest Practicable Date and adjusted for the effect of the Capital Reorganisation).

As stated in the Letter from the Board, the management of the Company took into consideration the following factors when making decisions on the ratio for the Rights Issue and the Subscription Price:

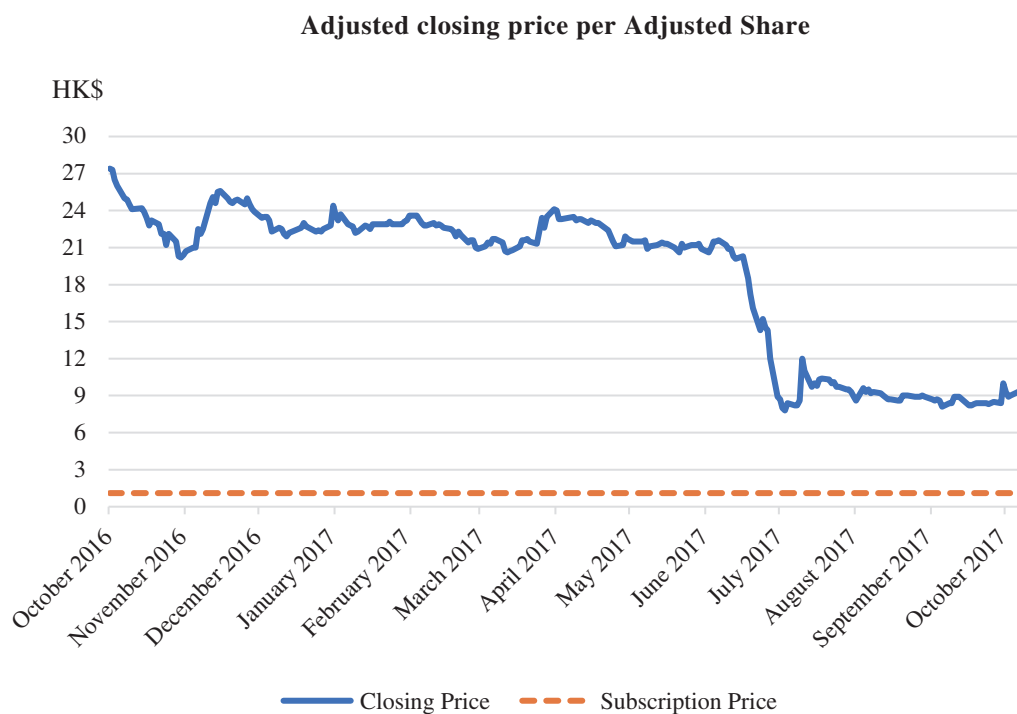
- (a) the need to encourage underwriters to participate in the Rights Issue and to attract the Shareholders to participate into the Rights Issue;
- (b) the volatile market conditions and sentiment, in the context of the market price of the Shares decreasing significantly (i.e. around 50%) between June and July 2017;
- (c) the stringent liquidity issues faced by the Group as set out in the 2017 Annual Report, and the auditor of the Company drawing attention to a material uncertainty related to going concern of the Group in the 2017 Annual Report; and
- (d) the urgent requirement to finance completion of the facilities and amenities of THE 13 Hotel, and the pre-opening costs for the opening of THE 13 Hotel.

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The Subscription Price was therefore determined, among others, after arm's length negotiation between the Company and the Underwriter with reference to the market price of the Shares prior to and including the Last Trading Day, the capital needs of the Group, the financial position of the Group and the prevailing market conditions.

(a) *Review on Share price performance*

In order to assess the fairness and reasonableness of the Subscription Price, we have reviewed the daily adjusted closing price of the Adjusted Shares as quoted on the Stock Exchange from 11 October 2016 up to and including the Last Trading Day (the "**Review Period**"), being approximately one year prior to the Last Trading Day. The comparison of daily adjusted closing prices of the Adjusted Shares and the Subscription Price is illustrated as follows:



During the Review Period, the closing price of the Adjusted Share maintained a decreasing trend in general with the lowest daily adjusted closing price per Adjusted Share at HK\$7.8 on 13 July 2017 and the highest adjusted closing price per Adjusted Share at HK\$27.4 on 11 October 2016, with an average daily adjusted closing price per Adjusted Share of approximately HK\$18.5.

It is noted that the Subscription Price was well below the adjust closing prices of the Adjusted Shares during the Review Period and represents (i) a discount of approximately 85.9% to the lowest daily adjusted closing price during the Review Period; (ii) a discount of approximately 96.0% to the highest daily adjusted closing price during the Review Period; and (iii) a discount of approximately 94.1% to the average adjusted daily closing price during the Review Period.

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(b) *Market comparison on rights issue*

We have identified from the website of the Stock Exchange an exhaustive list of rights issue transactions (the “**Comparable Issues**”) announced by companies listed on the Stock Exchange involving rights issue of shares of listed companies for the 3-month period prior to the Last Trading Day. We consider that a review period of three months prior to the Last Trading Day is appropriate to capture the recent market conditions because the Comparable Issues are considered for the purpose of taking a general reference for the recent market environment in relation to the subscription price under other proposed rights issues as compared to the relevant prevailing market share prices under the recent market conditions and sentiments.

Despite the fact that the Comparable Issues which we have identified are with different bases of entitlement that might not be exactly the same as the Rights Issue, we consider that the statistics of the Comparable Issues as set out below can provide the Independent Shareholders or potential investors of the Company, a general trend and data of rights issue exercises in the market for their further information to make decision with respect to the Rights Issue for their illustrative purpose. In addition, Independent Shareholders should note that the business, operations, financial positions and prospects of the Company are not the same as the companies which made the Comparable Issues. We have not conducted any independent investigation with regards to the business, operations and financial position of the companies which made the Comparable Issues, which shall not affect our analysis as we are comparing the general trend of rights issue exercises in the market with the Rights Issue.

Date of announcement	Company Name	Basis of entitlement	Premium/ (discount) of the subscription price to the theoretical ex-rights price per share based on the closing price per share on the date of announcements in relation to the respective rights issue (%)	Premium/ (discount) of the subscription price to the theoretical ex-rights price per share based on the closing price per share on the date of announcements in relation to the respective rights issue (%)	Underwriting commission (%)
19 Jul 2017	Beautiful China Holdings Company Limited (Stock code: 706)	3 for 4	(29.47)	(19.28)	1.5
19 Jul 2017	V.S. International Group Limited (Stock code: 1002)	1 for 4	(17.86)	(14.81)	Nil

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Date of announcement	Company Name	Basis of entitlement	Premium/ (discount) of the subscription price to the closing price per share on the date of announcements in relation to the respective rights issue (%)	Premium/ (discount) of the subscription price to the theoretical ex-rights price per share based on the closing price per share on the date of announcements in relation to the respective rights issue (%)	Underwriting commission (%)
21 Jul 2017	Digital China Holdings Limited (Stock code: 861)	1 for 4	(29.58)	(25.09)	Nil
28 Jul 2017	Mega Medical Technology Limited (Stock code: 876)	1 for 3	26.98 <i>(Note)</i>	19.05 <i>(Note)</i>	Nil
14 Aug 2017	Roma Group Limited (Stock code: 8072)	3 for 2	(34.21)	(17.13)	7
15 Aug 2017	Carnival Group International Holdings Limited (Stock code: 996)	1 for 4	(39.39)	(34.21)	3.5
18 Aug 2017	China Polymetallic Mining Limited (Stock code: 2133)	1 for 2	(50.82)	(40.89)	1.5
22 Aug 2017	China State Construction International Holdings Limited (Stock code: 3311)	1 for 8	(9.36)	(8.41)	2.0
31 Aug 2017	China HKBridge Holdings Limited (Stock code: 2323)	1 for 2	(21.43)	(15.38)	1.0
4 Sep 2017	CircuTech International Holdings Limited (Stock code: 8051)	2 for 5	(9.64)	(6.83)	2.0
18 Sep 2017	The Sincere Company Limited (Stock code: 244)	3 for 5	(28.00)	(19.64)	Nil

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Date of announcement	Company Name	Basis of entitlement	Premium/ (discount) of the subscription price to the theoretical ex-rights price per share based on the closing price per share on the date of announcements in relation to the respective rights issue (%)	Premium/ (discount) of the subscription price to the theoretical ex-rights price per share based on the closing price per share on the date of announcements in relation to the respective rights issue (%)	Underwriting commission (%)
21 Sep 2017	eForce Holdings Limited (Stock code: 943)	4 for 1	(15.38)	(3.51)	Nil
22 Sep 2017	TC Orient Lighting Holdings Limited (Stock code: 515)	1 for 1	(48.00)	(31.58)	1.5
29 Sep 2017	China Child Care Corporation Limited (Stock code: 1259)	1 for 1	(23.08)	(13.15)	1.5
4 Oct 2017	China Agri-Products Exchange Limited (Stock code: 149)	5 for 1	(30.16)	(6.38)	2.5
		Minimum:	(9.36)	(3.51)	7.0
		Maximum:	(50.82)	(40.89)	Nil
		Average:	(28.13)	(17.92)	2.0
20 Oct 2017	The Company	10 for 1	(87.91)	(39.89)	3.0

Source: Website of Stock Exchange

Note: Since the subscription prices of all other Comparable Issues were at a discount to closing price per share on the date of announcements in relation to the respective Comparable Issues and theoretical ex-rights price per share based on the closing price per share on the date of announcements in relation to the respective Comparable Issues except that of Mega Medical Technology Limited, we consider the rights issue of Mega Medical Technology Limited is an outlier and was excluded in our analysis.

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As demonstrated by the table above, it is noted that the subscription price of the Comparable Issues ranged from a discount of 9.36% to 50.82% to the respective closing price of their shares on their respective last trading day on the date of announcements in relation to the respective Comparable Issues, with an average of a discount of 28.13%. The discount of the Subscription Price to the adjusted closing price per Adjusted Share on the Last Trading Day is larger than such range of the Comparable Issues. Further, the subscription price of the Comparable Issues ranged from a discount of 3.51% to 40.89% to the theoretical ex-rights price per share based on the closing price per share on the date of announcements in relation to the respective Comparable Issues, with an average of a discount of 17.92%. The discount of the Subscription Price to the theoretical ex-entitlement price per Adjusted Share is within such range but larger than the average discount of the Comparable Issues. According, it is noted that the Subscription Price represents a much deeper discount to the Last Trading Day than those of the Comparable Issues. Notwithstanding, given the current circumstances of the Group, including the development status of THE 13 Hotel, we consider the Subscription Price is fair and reasonable, as further discussed in detail in paragraph 4.3 below.

4.3 Potential dilutive impact of the Rights Issue

The Rights Issue is offered to all Qualifying Shareholders on the same basis, the Qualifying Shareholders will be able to maintain their proportional interests in the Company if they take up their allotments in full under the Rights Issue.

Qualifying Shareholders who do not elect to subscribe for their respective entitlements to the Rights Issue Shares under the Rights Issue in full will have their shareholding interests in the Company being diluted for a maximum of approximately 90.9% upon Completion. The changes in shareholding structure of the Company arising from the Rights Issues are set out in the section headed "Effect on shareholding structure of the Company" in the Letter from the Board.

Despite the deep discount of the Subscription Price as illustrated in paragraph 4.2 above and the highly dilutive impact of the Rights Issue, we consider the terms of the Rights Issue (including the Subscription Price) to be fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole having considered the following factors:

- (a) the dire financial situation of the Group as demonstrated by the net loss position of the Group in the past years, the net current liabilities position of the Group together with the significant amounts of capital commitment and authorised capital expenditures as at 31 March 2017;
- (b) the Directors advised that if (i) the Group is unable to extend the requirement on opening THE 13 Hotel in certain loan covenants; (ii) the Rights Issue and the Disposal are not completed; or (iii) the Group is unable to execute further financing plan, the Group will not have sufficient working capital for at least the next-twelve months from the date of the Circular;

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- (c) the auditor's note that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern as contained in the 2017 Annual Report;
- (d) the imminent need to settle plans to proceed with the proposed Rights Issue, otherwise the Lending Bank will consider enforcing its rights under the Loan, in which case will likely result in the bankruptcy of the Group;
- (e) the Rights Issue is the only financing option available to the Group after the Group has explored exhaustive fundraising options and the Board has not been able to secure underwriting commitments for any alternative terms for a rights issue, with the current terms of the proposed Rights Issue offered by Get Nice as the only available terms;
- (f) the net proceeds from the Rights Issue would provide sufficient funds for the Group to complete THE 13 Hotel which is critical to the Group's business as well as strengthen the Group's capital base and liquidity;
- (g) the need to encourage underwriter to participate in the Rights Issue and to attract the Qualifying Shareholders to reinvest in the Company through the Rights Issue by offering a deep discount for the Subscription Price, given the distress condition of the Group;
- (h) all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue; and
- (i) the inherent dilutive nature of rights issue in general if the existing shareholders do not subscribe for in full their assured entitlements.

4.4 Application for excess Rights Issue Shares

Qualifying Shareholders shall be entitled to apply by way of excess application, for (i) the Rights Issue Shares representing the entitlement of the non-qualifying Shareholders and which cannot be sold at a net premium; and (ii) any Rights Issue Shares provisionally allotted but not validly accepted by the Qualifying Shareholders. Applications for excess Rights Issue Shares may be made by completing the EAF for the excess Rights Issue Shares and lodging the same with a separate remittance for the excess Rights Issue Shares being applied for.

5. Principal terms of Irrevocable Undertaking

Pursuant to the Irrevocable Undertaking, each of Paul Y. Investments Limited, Advance Tech Limited and Mr. Peter Lee Coker Jr. has irrevocably undertaken to the Company (i) to accept or to procure the acceptance of their respective assured entitlements to the Rights Issue Shares under the Rights Issue in full; and (ii) the Shares held by them (either directly or indirectly) will remain so held by them from the date of the Irrevocable Undertakings to the Record Date.

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All the holders of the Convertible Securities (except for the holders of the Non-undertaken Convertible Securities) have provided irrevocable undertakings that they will not exercise their subscription or conversion rights under the Convertible Securities on or before the Record Date.

As at the Latest Practicable Date, in respect of those Shareholders (including but not limited to Pride Wisdom Group Limited, Omega Advisors, Inc., Janus Henderson, FIL Ltd. and Mr. Iain Ferguson Bruce) identified in the section headed “Effect on shareholding structure of the Company” in the Letter of the Board who have not provided irrevocable undertakings to the Company (i) to accept or to procure the acceptance of their respective assured entitlements to the Rights Issue Shares under the Rights Issue in full; and (ii) the Shares held by them (either directly or indirectly) will remain so held by them up to the Record Date, the Company has not received any indication from the said Shareholders regarding their intentions in relation to their respective assured entitlements to the Rights Issue Shares under the Rights Issue. These Shareholders are entitled to make their own decisions as to whether or not to accept or to procure the acceptance of their respective assured entitlements to the Rights Issue Shares under the Rights Issue.

6. The Underwriting Agreement

Set out below are the principal terms of the Underwriting Agreement:

Date : 19 October 2017

Parties: : (1) The Company (as issuer); and
(2) Get Nice (the Underwriter)

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, the Underwriter and its ultimate beneficial owner(s) are Independent Third Party(ies) and is, or are not connected persons (as defined in the Listing Rules) of the Company.

Number of Rights Issue Shares : Not less than 920,867,010 Rights Issue Shares (based on the number of Existing Shares in issue as at the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation, and assuming no change in the number of issued Shares on or before the Record Date) and not more than 1,048,593,270 Rights Issue Shares (based on the number of Existing Shares in issue as at the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation, and assuming no change in the number of issued Shares on or before the Record Date other than the issue of new Shares upon exercise in full of the subscription rights attaching to the Non-undertaken Convertible Securities on or before the Record Date).

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Number of Underwritten Shares : Not less than 770,076,180 Rights Issue Shares (based on the number of Existing Shares in issue as at the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation, and assuming no change in the number of issued Shares on or before the Record Date) and not more than 897,802,440 Rights Issue Shares (based on the number of Existing Shares in issue as at the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation, and assuming no change in the number of issued Share from the Latest Practicable Date up to the Record Date other than the issue of new Shares upon the exercise in full of the subscription rights attaching to the Non-undertaken Convertible Securities on or before the Record Date).

Taking into account the Irrevocable Undertakings by Paul Y. Investments Limited, Advance Tech Limited and Mr. Peter Lee Coker Jr., the Rights Issue is therefore fully underwritten.

The Underwriter will subscribe or procure subscribers for the Untaken Shares in accordance with the terms of the Underwriting Agreement.

Underwriting Commission : 3% of the aggregate Subscription Price of the Underwritten Shares; save for the Underwritten Shares as would relate to any Shares arising on exercise of the rights attaching to the Non-undertaken Convertible Securities, in respect of which the underwriting commission is 0.5% of the aggregate Subscription Price (reflecting, as it does, the lower risk of any such underwriting being called upon).

Further details of the terms of the Underwriting Agreement are set out in the section headed “Underwriting Arrangement” as set out in the Letter from the Board.

We noted that the commissions payable by the respective issuers to the respective underwriters for the Comparable Issues ranged from nil to 7.0%. It is noted that for the Comparable Issues where no underwriting commission was charged, a connected person of the issuer underwritten the relevant rights issues. Accordingly, the underwriting commission of 3% under the Underwriting Agreement is within the range of the commission rates of the Comparable Issues. We have also reviewed the other major terms of the Underwriting Agreement and are not aware of any unusual terms. Accordingly, we consider the terms of the Underwriting Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and the underwriting arrangement is in the interest of the Company and the Shareholders as a whole.

7. Financial effects of the Rights Issue

7.1 Net tangible assets

According to the section headed “Unaudited pro forma financial information of the Group” set out in Appendix III to the Circular, the unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2017 was approximately HK\$5,623 million.

Based on the estimated net proceeds to be raised from the Rights Issue in the amount of not less than approximately HK\$973 million and not more than approximately \$1,113 million, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company upon Completion would amount to not less than approximately HK\$6,596 million and not more than approximately HK\$6,736 million. Accordingly, the Rights Issue is expected to increase the net tangible asset value of the Group.

7.2 Liquidity

As at 30 September 2017, the aggregate of (1) bank balances and cash; (2) short term bank deposit; and (3) pledged bank deposits amounted to approximately HK\$380 million. The Group had current assets of approximately HK\$4,171 million and current liabilities of approximately HK\$7,803 million, representing a current ratio (being current assets divided by current liabilities) of approximately 53.5%, as at 30 September 2017. Immediately upon Completion, the bank balances and cash of the Group is expected to increase by an amount equivalent to the estimated net proceeds of the Rights Issue. As such, the current ratio of the Group will be improved, thereby enhancing the liquidity of the Group.

7.3 Gearing ratio

As at 30 September 2017, the current ratio (being current assets divided by current liabilities) and gearing ratio (being total borrowings divided by equity attributable to owners of the Company) of the Group were approximately 53.5% and 83.0%, respectively. Upon Completion, the capital base of the Group would be enlarged. As a result, the current ratio and the gearing ratio of the Group are expected to improve immediately upon Completion.

Shareholders should note that the aforesaid analyses are for illustrative purpose only and do not purport to represent the financial position of the Group upon Completion.

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RECOMMENDATION

Based on the abovementioned principal factors and reasons for and benefits of the Rights Issue, we are of the view that the Rights Issue is on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolution to be proposed at the SGM to approve the Rights Issue.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Kristie Ho
Managing Director

Ms. Kristie Ho is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). She has over 12 years of experience in the finance and investment banking industry.

As mentioned in the Announcement and the letter from the Board, the Company's intention is to include the Gaming Operation in THE 13 Hotel as soon as practicable, subject to the progress of the Licensed Operator in submitting an application for, and obtaining approval for the Gaming Operation after the licences for the operation of THE 13 Hotel have been granted or when it is clear such licences are almost certain to be granted as a matter of procedure. The authorisation to install and operate a casino in THE 13 Hotel is subject to the approval of the Macau Government, and such approval remains an uncertainty.

The Board reiterates that although the Company's intention is to include the Gaming Operation in THE 13 Hotel, it is subject to, among other things, entering into a formal agreement with the Licensed Operator, and the approval of the Macau Government. The Company would also like to reiterate that, although it is the Company's intention to work with the Licensed Operator in submitting the application for the Gaming Operation, the application is to be made by the Licensed Operator, not by the Company. Furthermore, such application is subject to approval of the Macau Government. As such, the Gaming Operation may or may not commence at THE 13 Hotel, but will not affect the decision to open and operate THE 13 Hotel. Nevertheless, the Board would like to provide Shareholders with further details about the Gaming Operation and its latest status.

MACAU HOTEL GAMING INDUSTRY OVERVIEW

Overview of Asian gaming market

Asia is the world's largest gaming destination in terms of gross gaming revenue ("GGR"). According to the DICJ, the annual gross revenue generated by the Macau gaming market decreased approximately from MOP360.7 billion in 2013 to approximately MOP223.2 billion in 2016. The annual gross revenue generated by the Macau gaming market for the year of 2017 amounted approximately MOP265.7 billion, representing an increase of approximately 19.1% when compared to the year of 2016.

According to the Statistics and Census Service of Macau, visitors to Macau were primarily from the PRC and Hong Kong, which accounted for approximately 68.1% and 18.9%, respectively, of the arrivals for the eleven months ended November, 2017. Taiwan and the Republic of Korea ranked the third and fourth major visitor markets to Macau for the eleven months ended November, 2017. Macau's proximity to major cities in Asia adds to its appeal as a popular destination for foreign tourists. The number of international visitors has increased with the arrivals from the PRC, and the Republic of Korea, growing at a compound annual growth rate ("CAGR") of approximately 4.9% and 10.5%, respectively, between 2012 and 2016.

Development and trends of Macau gaming market

The Macau gaming market is segregated into two regions geographically, the Macao Peninsula, the hub of the gaming and entertainment activity; and Cotai, an area located between Taipa and Coloane. As at the end of the 4th quarter of 2017, there were a total of 40 casinos in Macau, with 25 casinos located in the Macao Peninsula and 15 casinos in Cotai. The greater availability of land for development in Cotai has enabled gaming operators to build resorts characterised by significant non-gaming amenities, in particular convention and meeting facilities, compared to many of the properties currently located on the Macao Peninsula. THE 13 Hotel is located on a 65,000 square foot site on the Cotai Strip of Macau.

Following the decision to liberalise Macau’s gaming industry after ending the Sociedade de Turismo e Diversões de Macao’s (“**STDM**”) casino license monopoly, the Macau Government initiated a bidding process to grant three gaming concessions in late 2001. In 2002, “Sociedade de Jogos de Macau, S.A (澳門博彩股份有限公司)” (“**SJM**”) (a subsidiary of STDM) was awarded the first gaming concession, followed by Wynn Resorts (Macau), S.A. (“**Wynn**”) and Galaxy Casino, S.A. (“**Galaxy**”). In December, 2002, the Macau Government made an alteration to Galaxy’s concession contract, to allow Galaxy to have a sub-concession relationship with Venetian Macao S.A. (“**Venetian**”). Following the issuance of the first sub-concession, the SJM and the Wynn also subsequently signed a sub-concession with MGM Grand Paradise, S.A. (“**MGM**”) and Melco PBL Jogos (Macau), S.A. (“**Melco PBL**”), respectively.

As at the end of the 4th quarter of 2017, of the total casinos in Macau, SJM operated 22 casinos (of which two were in suspension); Galaxy operated 6 casinos; Venetian operated 5 casinos; Melco Resort (Macau) S.A. operated 4 casinos; Wynn operated 2 casinos; and MGM operated 1 casino. The concession or sub-concession holders operate under a government franchise and under a common set of rules.

Market segments

The Macau gaming market consists of distinct customer segments: the mass market and the VIP market. The mass market segment comprises both table games and slot machine players on the main gaming floors for the public, which usually consists of walk-in and day trip visitors. The mass market segment is viewed as a higher-margin component of the overall gaming market as compared to the VIP segment due to the commission costs of the gaming promoters incurred by the operators of the VIP segment. The VIP segment typically comprises wealthy individuals who play mostly in dedicated VIP rooms or at designated gaming tables. Some of the VIP players are sourced by gaming promoters who offer various services to the VIP players, such as extension of credit as well as complimentary hotel, food and beverage services.

Government agencies

DICJ

The DICJ is the principal regulatory and supervisory authority in charge of Macau’s gaming industry. It provides guidance and assistance to the chief executive of Macau on the definition and execution of the economic policies for the operations of casinos, games of fortune and other ways of gaming, Pari-Mutuels and gaming activities offered to the public. It supervises and monitors the operations of the concessionaires and sub-concessionaires to ensure compliance with their obligations imposed by the applicable gaming laws and administrative regulations, and as set out in their respective concession agreements.

Concessionaires and sub-concessionaires are required to make all significant documentation and periodic reports regarding their business and operations available to the DICJ for record and, or, inspection, and must report to the DICJ all matters requiring approval or authorisation from the Macau Government, including requests for changes in their shareholder structure, changes in directorship, key employees and gaming equipment, changes in control or some other changes and matters related to the operation of games of fortune.

Gaming Commission

The Gaming Commission is a specialised commission directly reporting to, and presided over by, the chief executive of Macau. Its responsibility is to study the development of Macau's gaming operations, to create and update the relevant regulatory framework, to supervise gaming operations and to formulate policies to guide gaming operations.

Licenses and regulations*General*

The installation and operation of a five-star hotel in Macau is subject to licensing by the MGTO, pursuant to Decree-law no. 16/96/M, which approved the legal framework applicable to hotel and similar businesses, and Regulation No. 83/96/M, which approved the regulation of the legal framework. The legal framework defines the process for the application and granting of hotel business licenses, following inspections performed by several departments and authorities from the Macau Government to verify compliance with Macau laws, as well as the requirements for the installation and operation of hotels in general and five-star hotels in particular. The installation and operation of a casino business in a five-star hotel will be subject to the authorisation of the DICJ, to be granted to a gaming operator licensed by the Macau Government.

Macau law prohibits all forms of operation of, promotion of or assistance to gaming outside of the premises and areas authorised by the Macau Government. It also prohibits any illicit form of gaming in the authorised areas and premises. The Macau law forbids any unlicensed granting of loans or gaming credit to gaming patrons.

The principal laws and regulations are as follows:

The Gaming law and related regulations

Macau Law No. 16/2001 (the "**Gaming Law**") came into effect on 25th September, 2001. The Gaming Law establishes the legal framework for the regulation of casinos and principal rules for operating games of fortune in casinos in Macau. The Gaming Law also contains provisions dealing with Macau's concession system, detailing concessionaires' obligations and laying the foundation for the Macau Government's grant of the three current 20-year concessions through a public tender process. Macau Administrative Regulation No. 26/2001 (the "**Gaming Tender Regulation**") became effective on 30th October, 2001. The Gaming Tender Regulation supplements the Gaming Law and sets forth the terms of the public tender process through which the casino concessions were awarded. It also established the eligibility criteria for bidders as well as the suitability and financial requirements that the concessionaires and sub-concessionaires had to satisfy.

Extension of credit for gaming

Macau Law No. 5/2004 (the "**Gaming Credit Law**") became effective on 1st July, 2004. The Gaming Credit Law regulates the extension of gaming credit in Macau and authorises concessionaires, sub-concessionaires and gaming promoters who enter into a contract with a concessionaire or sub-concessionaire to carry out credit granting activities in connection with gaming and betting in casinos in Macau.

Regulatory framework for concessionaires and sub-concessionaires

Under the laws and administrative regulations governing the operation of casinos in Macau, concessionaires and sub-concessionaires, their officers, directors and key employees, and direct holders of 5% or more of a concessionaire's or sub-concessionaire's equity securities are required to meet certain suitability requirements relating to background, associations and reputation. The suitability requirements also apply to any entity engaged by a concessionaire or sub-concessionaire to manage casino operations. In addition, the Macau Government may also exercise its general supervisory powers to inquire as to the suitability of any other person who has an interest in concessionaires, sub-concessionaires and any entity engaged to manage casino operations. The Macau Government may investigate the relevant individuals at any time and may deny the application for, or a finding of, suitability for any causes it deems reasonable. In April 2008, the chief executive of Macau announced arrangements designed to check the expansion of the local gaming industry, including (i) a moratorium on the granting of further gaming concessions and sub-concessions; (ii) a moratorium on new land concessions granted for gaming purposes; (iii) restrictions to control the growth of table numbers and slot machines; and (iv) a moratorium on service agreements with concessions and sub-concessions, pending further studies.

As disclosed in the 2013 Circular, the Company obtained a legal opinion from its Macau legal adviser ("**Macau Legal Adviser**") regarding the Gaming Operation. As detailed in the legal opinion, the Macau Legal Adviser stated that, among other things, as a significant number of the casinos in Macau were being installed and operated in hotel premises that are not owned by any of the licensed gaming operators but with contractual arrangements between the relevant gaming operators and the hotel owners, the Macau Legal Adviser was of the opinion that the Company would be able to enter into similar arrangements with a licensed gaming operator for the installation and operation of a casino at THE 13 Hotel, subject to obtaining the necessary approval from the Macau Government. The Company subsequently obtained an updated legal opinion dated 9th October, 2017 from its Macau Legal Adviser, pursuant to which, it opined that, among other things, there has been no new law, legislation, policy, rule or regulation enacted by the Macau Government since 2013 that negatively impacts the Licensed Operator in obtaining approval from the Macau Government for implementing the Gaming Operation envisaged under the MOU.

Access to gaming areas and participation in gaming

Macau Law no.10/2012 became effective on 1st November, 2012 and imposes access limitations to casino premises, employment inside casinos and participation in gambling. It imposes a duty on the licensed gaming operators to ensure compliance with such limitations, and determines that gaming revenues and prizes generated in breach of this law will revert to the Macau Government.

Gaming Promoters

Regulations no. 6/2002, 10/2002, 23/2005 and 27/2009 regulate "gaming promotion" activity, whereby gaming promoters (also called 'Junkets') are subject to; (i) licensing by the DICJ; (ii) registration with one of the concessionaires or sub-concessionaires; and (iii) probity and background checks on its shareholders, directors and key employees. It also regulates the payment of junket remuneration and commissions which – through Order of the Secretary for Economy and Finance no. 83/2009 – are subject to a statutory cap of 1.25% of the net rolling.

Anti-money laundering

Macau Laws no. 2/2006, 3/2006 and 3/2017, as well as Regulations no. 7/2006 and 17/2017 make up the legal framework on the prevention and combat of money-laundering crimes, which include provisions applicable to casino operators and gaming promoters, such as customer due diligence and know-your-clients (KYC), risk controls and reporting obligations.

Macau Law no. 6/2017 which became effective on 1st November, 2017 imposes customs controls for cross-border transport of cash and bearer negotiable instruments.

Supply of gaming equipment

Regulation no. 26/2012 became effective on 27th November, 2012, and it regulates the supply, acquisition, and installation of gaming equipment. It subjects all manufacturers of gaming equipment to prior DICJ authorisation, probity/background checks and disclosure obligations. According to these regulations, certain contracts for the supply of gaming equipment must be submitted to the DICJ's records and all gaming equipment is subject to the DICJ type-approval. It further stipulates that slot rooms can only be installed in (i) 5-star or 5-star deluxe hotels; (ii) non-residential buildings when located at least a within 500-meter radius from an authorised hotel-casino; and (iii) integrated resorts that are relevant from a tourism perspective and are not located in densely populated areas.

BUSINESS PLANS OF THE GAMING OPERATION AT THE 13 HOTEL**Overview of THE 13 Hotel**

The total gross floor area of THE 13 Hotel is approximately 87,800 square meters, of which 74,290 square meters will be allocated for the hotel and ancillary uses, while the remaining 13,510 square meters will be allocated for car-parking and refuge floor purposes. The gaming area will be located within four floors from the ground floor up to third floor of the building, with a total area of approximately 4,470 square meters.

Business strategies

As discussed in the 2013 Circular, the Group planned to develop a luxurious, prestigious and exclusive hotel complex in Macau, and this core business strategy of the Group remains unchanged. The Group is aiming to build a global ultra-luxury lifestyle brand to appeal specifically to the aspirational high premium mass gaming customers. However, as discussed before, the operation of the proposed casino at THE 13 Hotel will be subject to approval of the Macau Government upon the application by the Licenced Operator.

High premium mass focus

Patrons of casinos are generally categorised in two distinct groups, being the VIP market and the cash market, which is also referred to as the mass market.

VIP customers are individuals who have been referred to a casino by a gaming promoter, or junket operator. They wager with chips, often provided on credit by the gaming promoter, called rolling chips which cannot be cashed in but must be played. By use of these rolling chips, the gaming promoter and the casino can track the total amount of betting and determine the incentives which they may offer to the VIP customers, such as hotel rooms, complimentary food and drink, and rebates. VIP services are normally provided to gamblers who wager relatively large sums of money. However, due to the use of junket operators and the benefits given to their customers, the profit margin to the hotel casino owner, or service provider, is significantly reduced.

The other category of patron is the mass market customer. The mass market customer is not introduced to the casino through a gaming promoter and normally gambles with cash chips. They are not usually provided with free hotel rooms or other complimentary goods or services, but are free to gamble as they wish and cash out when desired. Although these patrons can be expected generally to wager smaller total sums of money, within the mass market there are a number of wealthy gamblers who wager substantial sums of money but travel to Macau independently and do not use or require the services of a gaming promoter. This category of the mass market is referred to as the high premium mass market. The management of the Group will focus on this high premium mass segment as it is believed that this segment offers the prospect of higher margins to the hotel casino owner or operator with lower volatility, when compared to the VIP market.

Based on industry sources, the Company estimates the current size of the premium (high margin) mass market segment represented GGR of approximately HK\$48 billion per annum.

As discussed in the 2013 Circular, in order to reduce credit and operational risks, it is proposed that gaming promoters will market the casino's VIP tables, and, in return, the gaming promoters will pay the casino operator a fixed percentage of the gross gaming winnings generated by the VIP customers. Generally, the gaming promoters offer credit to their customers to support their gaming activities. In order to retain top gaming promoters for the proposed casino, it has been decided that gaming promoters will be charged at a lower fixed percentage of revenue than its commonly charged by casinos in Macau. By engaging the gaming promoters with VIP tables and gaming services at a lower rate, the credit financing will be assumed, and the revenue stream enhanced by the gaming promoters.

High-end positioning in Macau

As discussed in the 2013 Circular, the management of the Group does not intend to follow the commonly adopted strategy of catering for a diversity of customers from the mass market to high-rolling VIPs. The business strategy of THE 13 Hotel is founded on being a noticeably differentiated product at the high-end of the global luxury market, offering a personalised, exclusive hotel experience. The management of the Group believes that the global trend towards “mass luxury” has reached its apex and that top-end luxury customers no longer identify with luxury brands that can be found in any major mall around the world. This is a problem with which all major luxury brands are grappling. The management of the Group believes that the future for true luxury is in bespoke and personalised offerings. Virtually every element at THE 13 Hotel has been designed specially for the Company. The management of the Group will solely focus on high-end customers and will not compromise its boutique quality and service standards to drive sales volume.

Positioning of the Company and THE 13 Hotel

Management positions the Group as a luxury company instead of a general gaming company. THE 13 Hotel will treat each customer as a luxury customer rather than as a general gaming customer. Since the Mirage opened in Las Vegas in 1989, the integrated resort has become a standard model for gaming companies throughout the world. With many integrated resorts in Macau being less than 10 years old, customers are often at a loss to distinguish what is on offer. But, without product differentiation, gaming focused business are left to compete on the basis of loss rebates, credit and other complimentary gifts, all of which can be readily matched by competitors. Accordingly, the Group’s strategy is to focus more narrowly (not trying to be “all things to all guests”) on concentrated luxury with a complete emphasis on product, branding and the services to be provided at THE 13 Hotel, a strategy which it believes competitors will not readily be able to replicate.

As discussed in the letter from the Board, the management of the Group recognised a change in the market conditions in the Macau hotel and entertainment industry with the opening of two large hotel and entertainment complexes in the second half of 2016. In order to increase the competitiveness of THE 13 Hotel and to cement its niche market position as an ultra-luxury hotel, the management of the Company utilised the additional time from the delayed regulatory process to revise and upgrade its interior design for the 2nd stage fitting-out works.

THE 13 brand targets ultra-high net worth customers but its core customer is merely well-to-do

THE 13 brand message is targeted at the ultra-high net worth individual but its core customer will be those players with a US\$30,000 to US\$50,000 cash drop, being a class of player that would not necessarily receive VIP treatment at larger casinos in Macau. The Company will provide all its guests with the same level of personalised service, from Rolls-Royce pick-up to 24-hour butler service to dedicated players. THE 13 Hotel will offer the full luxury experience to aspirational guests who may only be able to stay or play at THE 13 Hotel for a short time.

Gaming Operation at THE 13 Hotel

Reference is made to the 2013 Circular. A subsidiary of the Company entered into the MOU with an affiliate of the Licensed Operator in relation to the management and operation of a casino proposed to be opened at THE 13 Hotel. Subject to approval by the Macau Government, the Licensed Operator will operate the casino at THE 13 Hotel and the Group will provide the Licensed Operator with a suitable fitted-out area for the operations. As at the Latest Practicable Date, the full terms and conditions for the operation of the gaming activities by the Licensed Operator have yet to be settled, but the Board's goal is to negotiate a long-form agreement with the Licensed Operator by reference to prevailing market conditions, that will find ready approval from the Macau Government.

Facilities

As discussed in the letter from the Board, subject to obtaining approval from the Macau Government, the Licensed Operator will operate the casino at THE 13 Hotel through a service provider arrangement. It is proposed to offer approximately 66 gaming tables, consisting of approximately 50 high stakes mass market tables and approximately 16 VIP room tables, as well as approximately 50 slot machines. The minimum bets, and tokens and the minimum amount permitted to be wagered at its tables will be set at a comparatively high level. Given the requirement to obtain the approval of the Macau Government for all the important aspects of the business plan, there may be substantial changes to these plans to accommodate the requirements of the Macau Government. The costs of procuring gaming operating supplies and equipment (such as gaming tables and slot machines) have not been included into the current funding exercise, but the Board expects that once THE 13 Hotel is operational and has received approval from the Macau Government for the Gaming Operation, the Group will be in a better position to explore further funding options if necessary.

Human resources

Subject to approval from the Macau Government regarding the operation of casino, a comprehensive recruitment plan for the Gaming Operation will be initiated. Although the casino will be operated by the Licensed Operator, it is permissible for certain support functions to be provided by the Group, which will require the Group to hire staff for functions such as general operation, cage and count, player development, casino marketing and surveillance operation. The costs of this recruitment round, together with the cash cage deposit and other casino pre-opening costs relevant to the operations of the casino have not been included into the current funding exercise. However, the Board anticipates that raising funds for the same ought to be less problematic than the current funding round (represented by the Rights Issue and the Placing), on approval of the long-form agreement between the Company and the Licensed Operator by the Macau Government.

After the Gaming Operation commences, headcounts within non-gaming operational departments will be re-evaluated based on the numbers of guest arrivals.

OTHER INFORMATION RELATING TO THE GAMING CONCESSIONS

The gaming concessions and sub-concessions

As discussed above, following its decision to liberalise Macau’s gaming industry, the Macau Government granted gaming concessions to three concessionaires in 2002. The Macau Government subsequently and successively authorised three sub-concessions, permitting each of the three concessionaires to enter into sub-concession contracts with their respective sub-concessionaires to operate casino games and other games of chance in Macau. The concessionaires and sub-concessionaires may also operate other gaming-related activities, subject to prior approval from the Macau Government. No further granting of sub-concessions is permitted unless specifically authorised by the Macau Government. The concessionaires will continue to develop and operate hotel and casino projects that are independent from their respective sub-concessionaires. If a concession is terminated for any reason, the relevant sub-concession will remain in effect.

The existing concessions and sub-concessions do not place any limit on the number of casinos or gaming areas that may be operated under each concession or sub-concession, although the Macau Government’s approval is required before a concessionaire or sub-concessionaire can commence operation of a casino or gaming area.

The concessions and the sub-concessions are granted for a fixed number of years and will expire in the future unless extended or renewed pursuant to the Macau Law. Upon expiry of a concession or sub-concession, all of the casino premises and gaming-related equipment of the relevant concessionaire or sub-concessionaire would be automatically transferred to the Macau Government without compensation. According to the DICJ, the following table illustrates the summary of gaming concession and sub-concession,

	SJM <i>(concessionaire)</i>	Wynn <i>(concessionaire)</i>	Galaxy <i>(concessionaire)</i>	Venetian <i>(sub-concessionaire)</i>	MGM <i>(sub-concessionaire)</i>	Melco PBL <i>(sub-concessionaire)</i>
Starting date	April, 2002	June, 2002	June, 2002	December, 2002	April, 2005	September, 2006
Expiry date	March, 2020	June, 2022	June, 2022	June, 2022	March, 2020	June, 2022
Duration <i>(years)</i>	18	20	20	20	15	16

According to Law No. 16/2001 “Legal Framework for the Operations of Casino Games of Fortune” the period of a concession shall not exceed 20 years and, once it has reached the end of the period, “the duration of the concession may exceptionally be extended by reasoned order of the Chief Executive of Macau, by one or more times, not exceeding in the aggregate five years”.

Moreover, such law provides that a public tender must be conducted in order to award the licenses for the operation of casino games of chance in Macau. Therefore, if this concession system continues to be applied to the gaming industry after the expiry of the current concession period, public bidding may be inevitable. As at the Latest Practicable Date, the DICJ was still reviewing whether it would need to propose amendments to the relevant law regulating the gaming sector, as part of its preparatory work for the upcoming concession bidding process. It is expected that the details on the requirements of gaming licenses renewal will be announced in 2018 at an appropriate time. Mr. Chui Sai On, the chief executive of Macau Government stated clearly that the Macau government would conduct a comprehensive review of the existing laws and regulations for further improvement in gaming operations and encourage gaming companies to continuously explore non-gaming entertainment businesses.

Information on the holder of the gaming concessions on sub-concessions

The Licensed Operator is one of six companies licensed and authorised by the Macau Government, through concessions or sub-concessions, to operate games of fortune and chance or other games in casinos in Macau. The principal activity of the Licensed Operator is casino operations and investment holding. The Licensed Operator operates a number of integrated casino hotels in Macau and clubs with gaming machines as its non-casino based operations.

The Licensed Operator is a subsidiary of a listed gaming and entertainment company with its shares traded on the Stock Exchange. Such listed group is a developer, owner and, through the Licensed Operator, operator of casino gaming and entertainment resort facilities, with a focus on the Macau market. Disclosure restrictions in the MOU prevent the Company from identifying the Licensed Operator at this time.

RISK FACTORS

There are a number of risks and uncertainties inherent in the Gaming Operation. These risks and uncertainties can be categorised into two areas: (1) the business; and (2) the gaming industry in Macau.

Risks relating to the business*Development risks of THE 13 Hotel*

As at the date of the Announcement, the project management team of the Company estimated that approximately 90% of the entire development of THE 13 Hotel has been completed, with the remaining works for the completion of THE 13 Hotel being the 2nd stage fitting-out works, including installation of FF&E and OS&E. Such remaining 2nd stage fitting-out works have resumed since 21st November, 2017. Although the Group has obtained submission approval from the MGTO, it must yet complete the remaining fitting-out of THE 13 Hotel and obtain the outstanding operational licenses from the MGTO necessary for THE 13 Hotel to qualify as a five-star hotel.

Casino opening risk

The opening of THE 13 Hotel is no assurance that the casino will open contemporaneously, or at all. The Gaming Operation remains subject to settling and entering into a long-form agreement with the Licensed Operator, and to the Licensed Operator obtaining approval to that agreement, and the Gaming Operation generally, from the Macau Government. Under the long-form agreement there will be certain gaming-related costs that will fall to the Group to fund, in respect of which there is a risk the Group will not be able to achieve on terms acceptable to the management. There is no assurance that the Group will be able to secure funds for such gaming-related costs on a timely basis (or at all) and as such the Group may encounter delays in the development of the Gaming Operation.

The Gaming Operation may ultimately differ from that currently planned

The management of the Company currently anticipates that the Gaming Operation will comprise a casino with 66 gaming tables, consisting of approximately 50 high stakes mass market tables and approximately 16 VIP room tables, as well as approximately 50 slot machines with minimum bets that are set at a comparatively high level. However, such development plan of the casino is subject to the negotiation with the Licensed Operator and approval by the Macau Government, accordingly, the casino at THE 13 Hotel may not proceed according to the currently contemplated plan. The features of the casino at THE 13 Hotel described in this circular may be subject to change due to circumstances which are beyond the Company's control. As such, the Company may encounter significant delays and budget overrun in the development of the Gaming Operation.

Reliance on the Licensed Operator for the Gaming Operation

Subject to obtaining approval of the Macau Government, the Gaming Operation will be conducted through the Licensed Operator which is one of the concessionaires or sub-concessionaires in Macau. The Company is therefore exclusively reliant upon the Licensed Operator, and dependent upon the business fortunes of that operator. Should arrangements not work out there might be the possibility of reaching agreement with another operator, subject to agreement with another operator and authorisation from the Macau Government.

Concession termination risk and licence expiry

Following its decision to liberalise Macau's gaming industry, the Macau Government granted gaming concessions to three concessionaires in 2002. The Macau Government subsequently and successively authorised three sub-concessions, permitting each of the three concessionaires to enter into sub-concession contracts with their respective sub-concessionaires to operate casino games and other games of chance in Macau. The Macau Government has the right to unilaterally terminate these concessions and sub-concessions without compensation in the event of non-compliance with the terms of these concession and sub-concession contracts as well as the applicable Macau Laws. Upon such termination, all of the casino area premises and gaming-related equipment of the non-compliant concessionaire or sub-concessionaire (as the case may be) would be automatically transferred to the Macau Government without any compensation. Currently, there is no precedent on how the Macau Government will treat the termination of a concession or sub-concession.

The six gaming concessions and sub-concessions granted by the Macau Government will expire between 2020 and 2022. The Macau Government has the authority to withhold the renewal of concessions or to re-assign the concessions based on the latest policy agenda. There is no assurance that the Licensed Operator will be able to renew or extend its concession or sub-concession, which may have a negative impact on the Gaming Operation.

Dependence on the gaming revenue

The revenue generated by the Gaming Operation will largely derive from the difference between the casino winnings and the winning of the casino patrons. There is an inherent element of chance in the gaming industry and the Company does not have full control over the probability of winnings. If the winnings of the casino patrons exceed the casino winnings, the proposed business may record a loss from the Gaming Operation, and the financial condition and results of the operations of the Group could be materially and adversely affected.

Furthermore, the gaming revenue is also affected by a variety of factors including but not limited to the frequency of casino patron visits, average bet per hand and average hands played per player, which may lead to uncertainty in the financial performance of the Gaming Operation.

The Gaming Operation will depend on the ability of the Licensed Operator to attract and retain a sufficient number of qualified employees to run the operations

As the Gaming Operation will be operated and maintained by the Licensed Operator, its success depend, to a large extent, on the ability of the Licensed Operator and on the efforts, skills and continued service of its key management and operating personnel. The loss of key management and operating personnel may have an adverse impact on the Gaming Operation.

Effectiveness of anti-money laundering and anti-corruption policies

The gaming business is subject to the anti-money laundering and counter-terrorist financing legislation envisaging the prevention and repression of money laundering and terrorism crimes. Casinos are bound by strict legal requirements to carry out customer due diligence measures and report suspicious money laundering and terrorist financing transactions.

In 2010, the Law for Prevention and Suppression of Bribery in the Private Sector became effective with a clear intention to promote integrity management among enterprises in Macau and establish a clean and fair business environment.

Any incidents or accusations of money laundering and corruption involving the Company, its employees, gaming promoters or patrons would have an adverse impact on the Company's reputation, business, cash flows, financial condition, relationship with the regulators, and prospects of the operations.

The Gaming Operation is subject to cheating and counterfeiting

Players in the proposed casino or gaming areas may attempt to commit fraud or cheat in order to increase winnings. This could involve the use of counterfeit currency, chips or other tactics, possibly in collusion with the Company's employees. Internal acts of cheating are also a possibility and failure to discover such schemes in a timely manner could result in losses in the Company's proposed Gaming Operation. As the Gaming Operation will be technically conducted by the Licensed Operator, and not the Company, all internal controls, asset protection systems, internal audit processes, and the regulatory compliance framework will be conducted and enforced at the same sublime level as they are implemented in all of the gaming operation conducted within Macau by the Licensed Operator.

No direct operating history

The commencement date of the Gaming Operation is subject to a number of factors, including approval by the Macau Government. The operations are subject to business, economic, regulatory and competitive uncertainties, which are beyond the control of the Company. It may be difficult for the Company to prepare for and respond to these types of risks compared to a company with longer operating history. However, the Company believes that the management of the Company should have sufficient experience in the hotel and gaming industry and will be able to manage these risks successfully.

THE 13 Hotel, with its unique ultra-luxury and high-end positioning in the Macau market, is currently under development and there is limited historical information available about its business operation. The Company may encounter risks and difficulties frequently experienced by companies with early stage operations, and those risks and difficulties may be heightened with the unique positioning of THE 13 Hotel in the highly competitive Macau market. The Company may not be able to operate the business in the manner the Company contemplates and generates revenues in the amounts and by the times the Company anticipates.

Dependence on gaming promoters and customers

The Company will be dependent on the reputation and integrity of the parties with whom the Company engages in business activities. This is crucial to the Company's operation in compliance with the service provider arrangement and Macau gaming laws. Failure to maintain the required standards of probity and integrity may result in severe penalty or consequences from gaming regulators or cancellation of the service provider arrangement.

Although the Company will seek to establish direct relationships with high premium mass market patrons and VIP patrons, it is expected that a portion of the proposed casino revenues and gross gaming win will be generated by VIP patrons introduced by gaming promoters. The ability to maintain relationship with the gaming promoters will influence on the retention of the gaming customers. The loss of business from the key VIP gaming patrons or a reduction in play by VIP gaming patrons could adversely affect the proposed business's financial condition.

Risks relating to the gaming industry in Macau*Fierce competition in Macau*

The casino, hotel and convention businesses in Macau are competitive, and the Company expects to encounter increasing competition as developers and operators complete and open new projects in the future. In the last five years, there have been several casino openings and expansions, including Broadway, Studio City, Wynn Palace, Parisian, Legend Palace, Roosevelt, and the Royal Dragon. As at the 4th quarter of 2017, there were approximately 15,622 slot machines and 6,419 gaming tables in Macau. It is also possible that additional concessionaires or sub-concessionaires may be granted by the Macau Government and therefore additional casinos will open in the future. This may result in increasing competition in the Macau gaming sector.

Sensitivity to economic downturn, economic uncertainty and other factors affecting discretionary consumer spending

Demand for luxury service and gaming-related services in general are particularly sensitive to global economic downturn. Changes in discretionary consumer spending or consumer preferences could be driven by factors such as perceived or actual general economic conditions. However, as the Company plans to target the extremely wealthy and ultra-high net worth customers, the risks associated with economic downturn can be partially reduced as the target customers and the high premium mass market are less sensitive to global economic downturn.

The gaming industry is highly regulated

Gaming is a highly regulated industry in Macau. The Company's operations are contingent upon the Company maintaining all regulatory licenses, permits, approvals, registrations, findings of suitability, orders and authorisations pursuant to Macau Law. In addition, the Company's activities in Macau are subject to administrative review and approval by various agencies of the Macau Government, including but not limited to the DICJ, Health Department, Labour Bureau, Public Works Bureau, Fire Department, Financial Services Bureau (including the Tax Department), Macau Monetary Authority, Financial Intelligence Bureau and the MGTO. The Company cannot assure investors that the Company will be able to obtain all necessary approvals and licenses. Laws and regulations that are currently applicable to the Company and the Gaming Operation may change over time or become more stringent, imposing additional regulatory obligations on the Company and the Company may incur additional compliance cost as a result. There had been a number of major changes in the regulation of the Macau gaming industry in recent years and the regulatory environment may continue to evolve, such as the imposition of a cap of 1.25% of rolling chip volume on gaming promoter commission, smoking ban on gaming floors, raising the minimum legal age for entering casinos from 18 to 21 years and the imposition of a cap on the current number of gaming tables in Macau and on the growth in the number of gaming tables in the future.

There are limited precedents interpreting and applying Macau Laws and regulations concerning gaming and concessions. These laws and regulations are complex, and a court or administrative or regulatory body may in the future render an interpretation of these laws and regulations that differs from the Company's interpretation or issue new or modified regulations that apply to the Company. Furthermore, although administration actions can be redressed through courts under Macau Laws, such redress has not been widely tested with respect to gaming matters. As discussed above, in 2008, the chief executive of Macau announced that except for the existing casino projects, the Macau Government would neither grant any new gaming concessions or sub-concessions nor approve any land for the building of new casinos in the near future.

Conducting business in Macau involves certain economic and political risks

The Gaming Operation of the Group is located in Macau. Accordingly, any changes in Macau's and the PRC's political, economic and social conditions will affect the business operating environment in Macau's economy. Other factors which may affect business operation in Macau include but are not limited to governmental policies, changes in Macau Laws or regulations with regard to gaming industry, changes in exchange control regulations, potential restrictions on foreign investment and repatriation of capital, and travelling policies pertaining to Chinese citizens.

PRC factors influencing gaming activity in Macau

In response to incidents of Chinese government officials accumulating large gambling debts in Macau and signals from the Chinese government to increase scrutiny over the illegal flow of money out of the PRC, the Macau Government has taken steps to further monitor VIP gaming in Macau. The DICJ may now increase scrutiny over or approve additional instructions on VIP gaming, which could deter current and potential VIP players from patronizing casinos in Macau, which could adversely affect the Group's business, financial condition and results of operations.

The following is the text of a valuation assessment prepared for the purpose of incorporation in this circular received from Greater China Appraisal Limited, an independent valuer, in connection with the valuation assessment as at 31st October, 2017 of the project value of THE 13 Hotel project.

GREATER CHINA APPRAISAL LIMITED
漢華 評 值 有 限 公 司

Room 2703, 27th Floor,
Shui On Centre,
6-8 Harbour Road,
Wanchai, Hong Kong

24th January 2018

Board of Directors
The 13 Holdings Limited
2901, AIA Central
1 Connaught Road Central
Hong Kong

Dear Sirs/Madams,

Valuation Assessment on THE 13 Hotel Project

In accordance with the instructions from The 13 Holdings Limited (the “Company”), we were engaged to provide valuation opinion on THE 13 Hotel project which intends to mean the development of a hotel and casino project located at Estrada de Seac Pai Van, Macau (the “Project”) as at 31 October 2017 (the “Valuation Date”). THE 13 Hotel is currently under development. According to the Company, the Company has already entered into a memorandum of understanding dated 16 April 2008, supplemented by a confirmation letter dated 3 November 2010 and a letter dated 5 September 2012 (collectively, the “MOU”) with an affiliate of one of the holders of a gaming concession or sub-concession in Macau (the “Concessionaire”) in relation to the management and operation of a casino proposed to be opened in THE 13 Hotel. The Company further received a letter on 24 February 2017 and 17 January 2018 respectively from the Concessionaire acknowledging the MOU. As a result, we are instructed to provide our valuation assessment on project basis as a hotel and casino project.

It is understood that other than the service shown above, the valuation does not include spare parts, inventories, materials on hand and all other tangible assets of a current nature and intangible assets which might exist. The valuation assessment does not cover valuation of the Project as a hotel only basis.

We understand that the purpose of valuation is for the Company’s reference regarding the valuation of the Project. Our analysis was conducted for the above mentioned purpose only and this assessment should be used for no other purpose without our express written consent. Our work was performed subject to the limiting conditions and general service conditions described in this assessment.

The approaches and methodologies used in our work did not comprise an examination in accordance with generally accepted accounting principles, the objective of which is an expression of an opinion regarding the fair presentation of financial statements or other financial information, whether historical or prospective, presented in accordance with generally accepted accounting principles.

We express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided to us by others. We assume that the financial and other information provided to us is accurate and complete, and we have relied upon this information in performing our valuation assessment.

I. PURPOSE OF ENGAGEMENT

It is our understanding that our analysis will be used by the management of the Company's reference regarding the valuation of the Project. We understand that the valuation assessment will form a part of a circular to its shareholders. The Company agrees to obtain written consent from us before dispatch of the circular.

II. SCOPE OF SERVICES

We were engaged by the management of the Company in evaluating the Project value as at the Valuation Date.

III. BASIS OF VALUATION

We have performed valuation assessment of the Project on the basis of generally accepted methodologies for valuation of business. The Project value is the total economic benefits attributable to debt and equity holders arising from the Project (the "Project Value").

IV. PREMISE OF VALUE

Premise of value relates to the concept of valuing a subject in the manner that would generate the greatest return to the owner of the Project. It takes account of what is physically possible, financially feasible and legally permissible. Premise of value includes the following:

1. **Going concern:** appropriate when a business is expected to continue operating without the intention or threat of liquidation in the foreseeable future;
2. **Orderly liquidation:** appropriate for a business that is clearly going to cease operations in the near future and is allowed sufficient time to sell its assets in the open market;
3. **Forced liquidation:** appropriate when time or other constraints do not allow an orderly liquidation; and
4. **Assembled group of assets:** appropriate when all assets of a business are sold in the market piecemeal instead of selling the entire business.

This valuation assessment is prepared on a going concern basis.

V. LEVEL OF VALUE

Valuation is a range concept and current valuation theories suggest that there are three basic “levels” of value applicable to a business or business interest. The levels of value are respectively:

1. **Controlling interest:** the value of the controlling interest, always evaluate an enterprise as a whole;
2. **As if freely tradable minority interest:** the value of a minority interest, lacking control, but enjoying the benefit of market liquidity; and
3. **Non-marketable minority interest:** the value of a minority interest, lacking both control and market liquidity.

This valuation assessment is prepared on a controlling interest basis.

VI. SOURCES OF INFORMATION

Our analysis and conclusion was based on our discussions with the management of the Company, as well as reviews of key documents and records, including but not limited to:

1. Financial forecast of the Project prepared by the management of the Company;
2. Memorandum of understanding signed between a subsidiary of the Company (the “Subsidiary”) and the Concessionaire dated 16 April 2008 relating to the management and operation of a casino proposed to be opened in THE 13 Hotel;
3. Letters dated 3 November 2010 and 5 September 2012 issued by the Concessionaire to the Subsidiary confirming the Memorandum of understanding;
4. Letters dated 24 February 2017 and 17 January 2018 issued by the Concessionaire to the Subsidiary relating to the acknowledgement of the MOU;
5. Legal opinions dated 4 January 2013 and 9 October 2017 regarding certain issues in relation to the service provider arrangement to be operated on the land as contemplated by the Subsidiary;
6. Services and licence agreement dated 13 August 2013 relating to the operation of L’Ambroisie Macau;
7. Independent market research report titled “Review of The 13’s Gaming Revenue Model” issued by an industry expert (the “Industry Expert”) dated 9 January 2018 (“Industry Expert Report”);
8. Overview of the Project and the Company dated October 2016;

9. Summary of borrowings in relation to the Project as at the Valuation Date provided by the Company;
10. Unaudited balance sheet of the Project as at the Valuation Date;
11. Total development costs for the Project prepared by the Company;
12. Macau Market Brief prepared by a hospitality advisor; and
13. Estimate of Adjusted Guarantee Maximum Price for the construction cost of the Project issued by a cost consultant (the “Cost Consultant”) dated 11 January 2018 (“Estimation Report”). (Estimate of Adjusted Guarantee Maximum Price is the estimated amount of replacement cost new.)

We also relied upon publicly available information from sources on capital markets, including industry assessments, and various databases of publicly traded companies and the news.

VII. ECONOMIC OVERVIEW

In conjunction with the preparation of this valuation assessment, we have reviewed and analysed the current economic conditions of Macau Special Administrative Region of the People’s Republic of China (“Macau”), where the profit of this Project is derived, and how the Project Value will be impacted.

7.1. Nominal GDP Growth in Macau

Since the liberalisation of Macau’s gaming market in 2002, the gaming industry has been the pillar of Macau’s economy. The boom was fuelled by China’s relaxing of travel restrictions on Chinese citizens who wished to travel to Macau. In 2015, the gaming-related taxes accounted for more than 76% of total government revenue and 48% of the territory’s economic activities. Accompanied by the steady economic growth in China, Macau has experienced rapid gross domestic products (“GDP”) growth since 2002, averaged 12.9% per annum until 2013 and recorded a real GDP of MOP 467.8 billion in 2013.

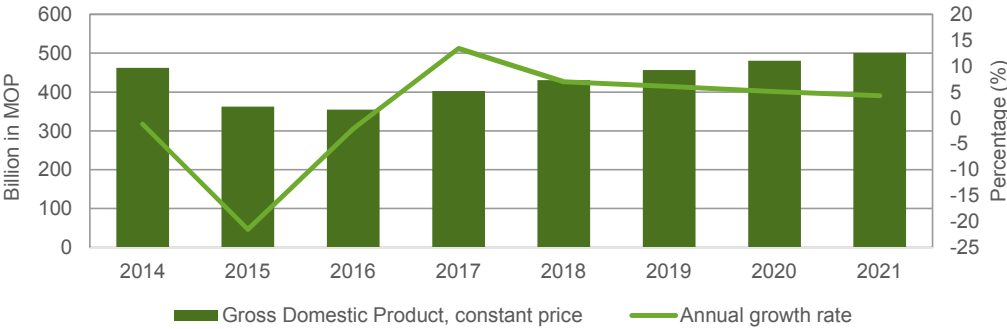
While economic growth and measures implemented in China has brought benefits to Macau’s economy, it is also a cause of Macau’s vulnerability to external shocks. From 2014 to 2016, under the measures implemented in China for anti-corruption, Macau has fallen into recession. The policy weighted on the country’s exports of services through tourism, reduced the number of travellers to Macau and hampered gaming activities.

Table 7 – 1 Real GDP Annual growth rate and inflation of Macau, 2012-2016

	2012A	2013A	2014A	2015A	2016A
Real GDP Annual Growth Rate (%)	9.2	11.2	-1.2	-21.5	-2.1
Inflation (%)	6.1	5.5	6.0	4.6	2.4

Source: World Economic Outlook Database (October 2017), International Monetary Fund

Figure 7 – 1 Forecasts of Real GDP Annual Growth Rate of Macau, 2016-2021



Source: World Economic Outlook Database (October 2017), International Monetary Fund

In 2017, the economic outlook of Macau revived on the back of rising demand from China. Real GDP growth is estimated at 10%. While the recovery is positive news, the real output in 2017 is estimated -14% below the peak level in 2013. China’s demand growth is set to slow as authorities tighten credit conditions. Domestic demand will provide some cushion. A low unemployment rate, contained inflation and a more active government strategy to diversify the economy away from gaming will provide momentum to the growth. In additions, economic risks remain elevated. These stem from a strong concentration of economic activity on the gaming industry, heavy dependence on demand from China.

7.2. Inflation

As a Special Administrative Region of China, Macau imports most of their goods from China, including drinking water, electricity and gas supply; on the other hand, her currency Macanese pataca is linked with Hong Kong dollar, and thus the US dollar. Therefore, the inflation in Macau is affected by the inflation of China, and the exchange rate of Chinese Yuan again US dollar. The latest economic data released by the Statistics and Census Service of Macau (“DSEC”) indicated that the inflation rate was assessed at 1.7% in November 2017 on year-over-year basis, as compared with that of 1.5% in November 2016.

With the Federal Reserve raising interest in June 2017, a new round of currency depreciation is expected to incur in emerging countries; on the other hand, in China, the total import trading volume keeps increasing. Due to these two factors, expectation for CNY depreciation becomes much stronger and the situation has been prevailing since 2014. Therefore, the inflation rate of Macau is forecasted at a low level, contained at around 2.2% to 2.8% in the coming years.

7.3. GDP per Capita in Macau

Support by the gaming industry, the GDP per capita of Macau remains one of the highest in the world despite the temporary slump since 2014. In 2016, Macau measured a GDP per capita of US\$69,559, ranking the fourth in the world. It is forecasted that the GDP per capita will rebound along with the recovery on real GDP in 2017 and surpass the peak level in 2013 afterwards.

Table 7 – 2 GDP per Capita of Macau (in current US\$), 2012-2016

	2012A	2013A	2014A	2015A	2016A
GDP Per Capita, current prices	73,934	84,860	86,998	70,214	69,559

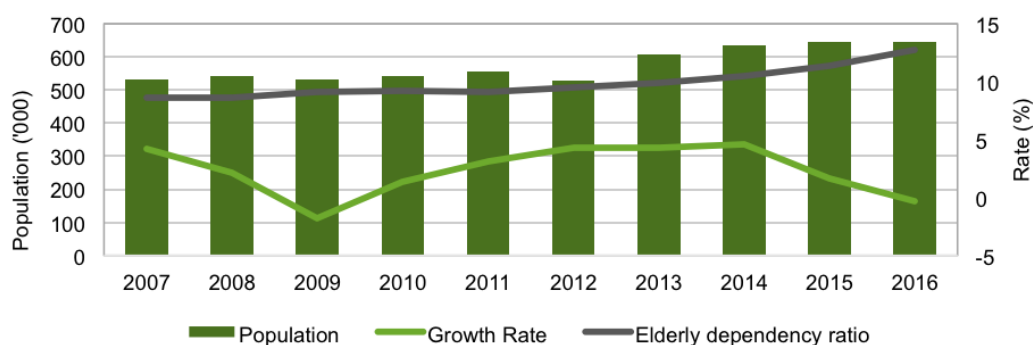
Source: World Economic Outlook Database (October 2017), International Monetary Fund

7.4. Population Growth

According to the DSEC, the population of Macau has grown from approximately 0.51 million in 2006 to 0.65 million in 2016, representing a compound annual growth rate (“CAGR”) of approximately 2.4%. The population density was 21,400 per square kilometre in 2016, ranking one of the most crowded cities in the world.

Population growth was not steady in the past 10 years, with temporary decline in 2009 and 2016, when population growth was -1.3% and -0.3% respectively. The drop of population was caused by negative net migrations, mainly driven by the decrease in number of non-resident workers. According to the World Economic Outlook Database of International Monetary Fund (“IMF”), this trend is expected to continue in the coming years. On the other hand, like most of other advanced economies, the elderly dependency ratio of Macau has been increasing in the past 10 years, reaching a new high of 12.7% in 2016.

Figure 7 – 2 Population, Population Growth Rate and Portion of Elderly in Macau, 2007-2016



Source: Statistics and Census Service of Macau

Table 7 – 3 Forecasts of Population and Unemployment Rate of Macau, 2017-2021

	2016A	2017F	2018F	2019F	2020F	2021F
Population (Million)	0.645	0.643	0.641	0.639	0.637	0.635
Unemployment rate (%)	1.90	1.98	1.98	1.96	1.93	1.86

Source: World Economic Outlook Database (October 2017), International Monetary Fund

Although the unemployment rate remained low at around 1.86% in the past few years, and is estimated to be similarly low at 1.95% from 2017 and 2021, the increasing trend on ageing population appears to be a burden over the local economy and the labour force. Facing the probable decline in competitiveness, the Macau Government has started to implement measures to encourage childbirth by first raising birth allowance.

7.5. Government Policy

In the latest Policy Address, the Macau Government aims at continuing to promote stable economic development in several aspects:

1. Comprehensively reviewing the laws and regulations on the gaming industry in face of the arriving expiry of concessions, and encouraging gaming operators to continue developing non-gaming businesses;
2. Implementing national policy and the Macau's Five-year Development Plan, participating in the development of Guangdong-Hong Kong-Macau Greater Bay Area metropolis and supporting the "Belt and Road" initiative;
3. Developing smart tourism and exploring diverse tourism routes from mere gaming, such as the convention and exhibition industry, and expediting adequate economic diversification; and
4. For working population, the government will optimise vocational training, create diverse employment opportunities and improve employment quality.

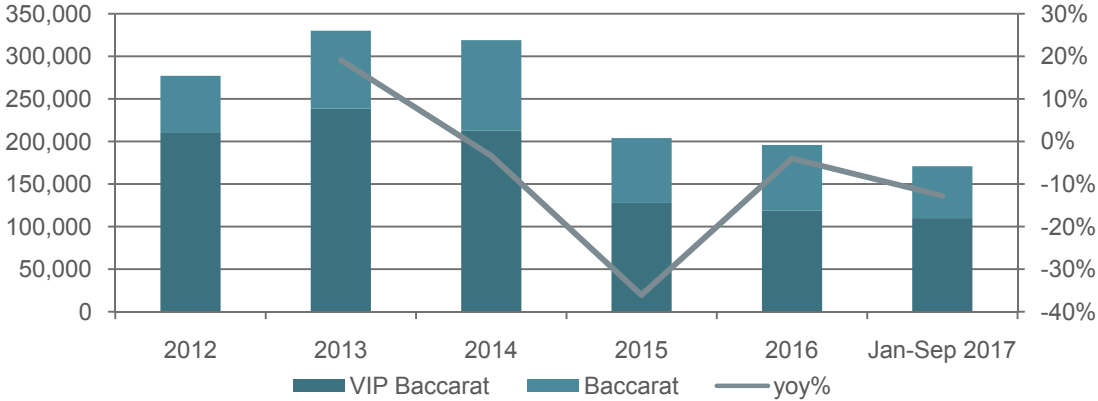
Despite the heavy damage caused by Typhoon Hato in 2017, affected business operators and residents have been able to recover gradually and the overall economy remains stable. Overall speaking, the economy of Macau has been recovering from recession and expanding at a slower pace. However, in spite of the government's effort on economic diversification, Macau's economy remains inevitably dependent on the gaming industry, and it leaves the territory vulnerable to external shocks.

VIII. INDUSTRY OVERVIEW

8.1. Macau Gaming Overview

The market underwent a contraction from mid-2014 to mid-2016 as a result of the anti-graft crackdown in China. Macau had experienced 26 consecutive months of decline in gross gaming revenue ("GGR"). The VIP market had taken a huge hit in late 2014. By measuring the GGR generated by baccarat card games favoured by high-stakes gamblers, it sharply declines by 36% of GGR from 2014 to 2015 and remains stable in 2016 to now.

Figure 8 – 1 GGR of Baccarat Card Games in Macau (in MOP million), 2012-2017

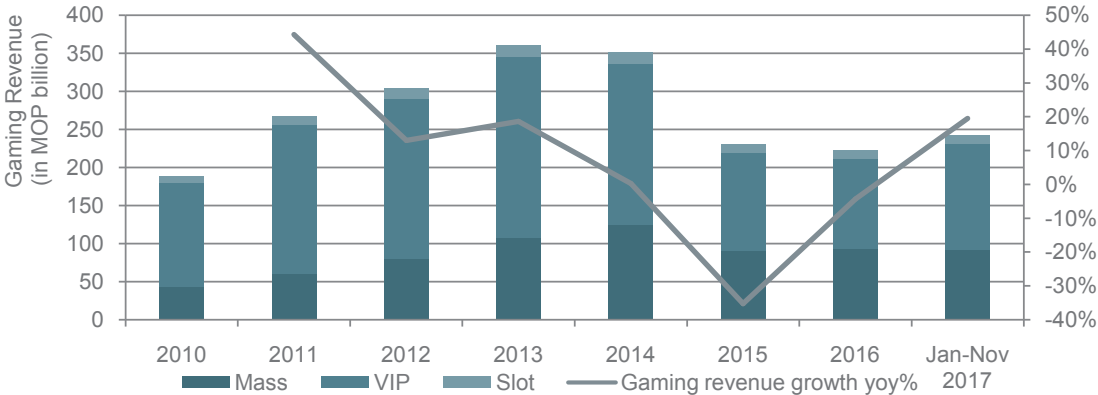


Source: Gaming Inspection and Coordination Bureau

The Macau’s gaming industry with GGR is dropped from the peak at MOP 360 billion in 2013 to MOP 223 billion in 2016, according to the data released by Macau’s Gaming Inspection and Coordination Bureau (“DICJ”). In the wake of Beijing’s corruption crackdown, the launch of the Wynn Palace and followed by the opening of the Parisian and new VIP rooms in Macau Studio City in 2016 are keys to Macau gaming revenue recovery in late 2016 and 2017. The GGR from January to November 2017 reached MOP 243 billion, representing a 20% growth on year-over-year basis.

Casinos changed by targeting the mass market rather than the VIP market. According to the Industry Expert Report, the mass market share of the GGR was boosted, leading to the narrative of the “Premium Mass” surge in for the year of 2013 and 2014. The collapse of the mass segment in 2015 was a result of the premium mass segment being impacted alongside the VIP, as the two are closely intertwined in terms of player behaviour and motivators.

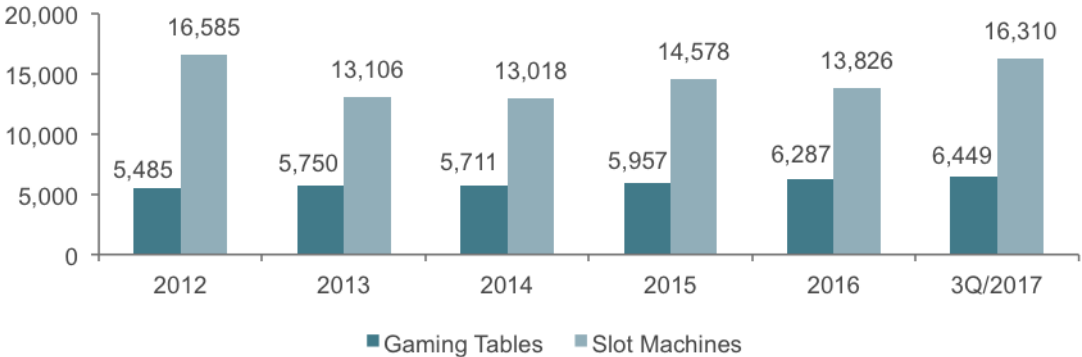
Figure 8 – 2 GGR in Macau (in MOP billion), 2010-2017



Source: Gaming Inspection and Coordination Bureau and Statistics and Census Service of Macau

Furthermore, to control the expansion on the gaming industry, the Macau Government announced that the number of gaming tables to be authorised in Macau will be limited to an annual increase of 3% for ten years after 2013. The number of tables has grown from 5,750 in 2013 to 6,449 in the third quarter of 2017, representing an increase of 12% against a 33% drop of GGR from 2013 to the third quarter of 2017. However, the number of tables to be granted for each application has been unpredictable based on historical information.

Figure 8 – 3 Number of Gaming Tables and Slot Machines in Macau, 2012-2017



Source: Gaming Inspection and Coordination Bureau

8.2. Macau Visitation Trend and Related Policies

Macau is the only city in China offering legalised casino gaming. From 2012 to 2016, total number of visitors to Macau has averaged 4% growth according to DSEC and reached over 30 million in 2016. Visitor arrivals to Macau reached 23.7 million during January to September 2017. The majority of the visitors to Macau are from China and Hong Kong, accounting for approximately 67% and 21% of the total visitors between 2014 and September 2017 respectively. Taiwan and South Korea are ranked the third and the fourth major visitors to Macau. Macau Government continues to put resources and introduce policies on developing Macau into an international destination such as tightening transit visa rule, placing a cap on Chinese visitation and imposing smoking ban starting from 2013.

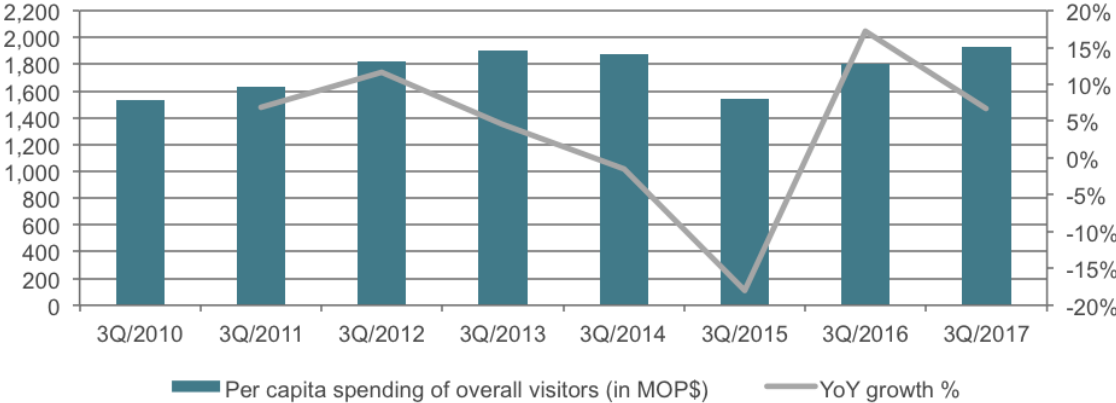
To contribute the growth in visitation and gaming market in Macau, the improvement on infrastructure will be another growth driver in coming year. The expansion on Gongbei Border gate, the Hong Kong-Zhuhai-Macau Bridge and Macau light rail transit are the examples of major infrastructure projects. With a strong transportation network by directly connecting between China and Macau, it is expected that the number of recreational gamblers will be boosted up.

Figure 8 – 4 Total Number of Visitor to Macau (in million), 2012-2017



Source: Statistics and Census Service of Macau

Figure 8 – 5 Per Capita Spending of Overall Visitor (in MOP), 2010-2017



Source: Statistics and Census Service of Macau

Given the statistic above, the spending per visitor (not including the gaming spending) is increased from MOP1,529 to MOP1,926 in the third quarter of 2010 and 2017 respectively. This shows that under the increasing competition among the hotel operators, the visitor quality is rising continuously after the deterioration in 2015.

8.3. Concession Regime in Macau

Upon the expiry of the concession of STDM on 31 December 2001, the Macau Government decided to grant out 3 gaming concessions through public tender process. In 2002, the Macau Government announced the results of the bidding, and concession was granted to Sociedade de Jogos de Macau (“SJM”), a subsidiary of Sociedade de Turismo e Diversões de Macau, S.A (“STDM”), Galaxy Casino, S.A. (“Galaxy”), and Wynn Resorts (Macau) S.A. (“Wynn”).

Subsequently, each concession granted to have one sub-concession. The sub-concessions were authorised to Venetians Macau S.A. (“VML”), MGM Grand Paradise, S.A. (“MGM”) and the Melco PBL Jogos (Macau), S.A. (“Melco PBL”). The opening of Casino Sands broke SJM monopoly in 2004. There are currently 40 casinos in Macau according to DICJ as at the third quarter of 2017. The SJM has 22 casinos of the 40 casinos in Macau as at the third quarter of 2017. For the remaining of casinos, Galaxy has 6 casinos; the Venetian has 5 casinos; Melco Crown (formerly known as “Melco PBL”) has 4 casinos; Wynn has 2 casinos; and MGM has 1 casino.

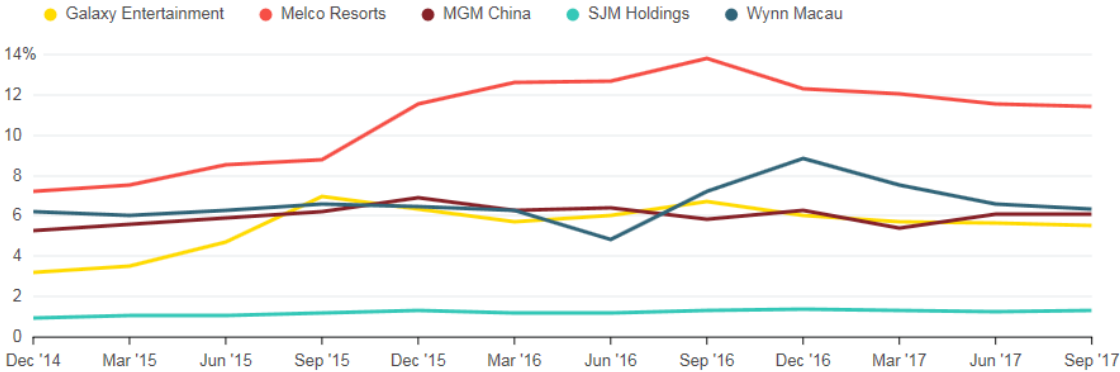
Table 8 – 1 Gaming Concessions and Sub-concessions in Macau

	SJM	Galaxy	Wynn	MGM	VML	Melco PBL
Start date	Apr-02	Jun-02	Jun-02	Apr-05	Dec-02	Sep-06
End date	Mar-20	Jun-22	Jun-22	Mar-20	Jun-22	Jun-22
Duration (in year)	18	20	20	15	20	16

Source: Gaming Inspection and Coordination Bureau; Company prospectus

Under the law, the duration of concession may be exceptionally extended by reasoned order of the Chief Executive up to a further limit of 5 years, but eventually they will have to hold a public tender. Since the concession and sub-concession contracts will be expired between 2020 and 2022, Mr. Chui Sai On, the Chief Executive of Macau, has mentioned in his Policy Address 2018 that public tender process is opened up once the life of concession agreement expires. The details on the requirements of gaming licenses renewal will be announced in next year at an appropriate time. He also stated clearly that the government will conduct a comprehensive review of the existing laws and regulations for further improvement in gaming operations and encourage gaming companies to continuously explore non-gaming entertainment businesses. Five-year Development Plan mentioned by Mr. Chui Sai On is focused on “smart tourism to enrich tourists’ experiences” which is accomplished by developing more family friendly hotels, including economy options, plus theme parks, shopping centers, and restaurants.

Figure 8 – 6 Non-Gaming Revenue for Some Operators in Macau, 2015-2017



Source: Bloomberg News

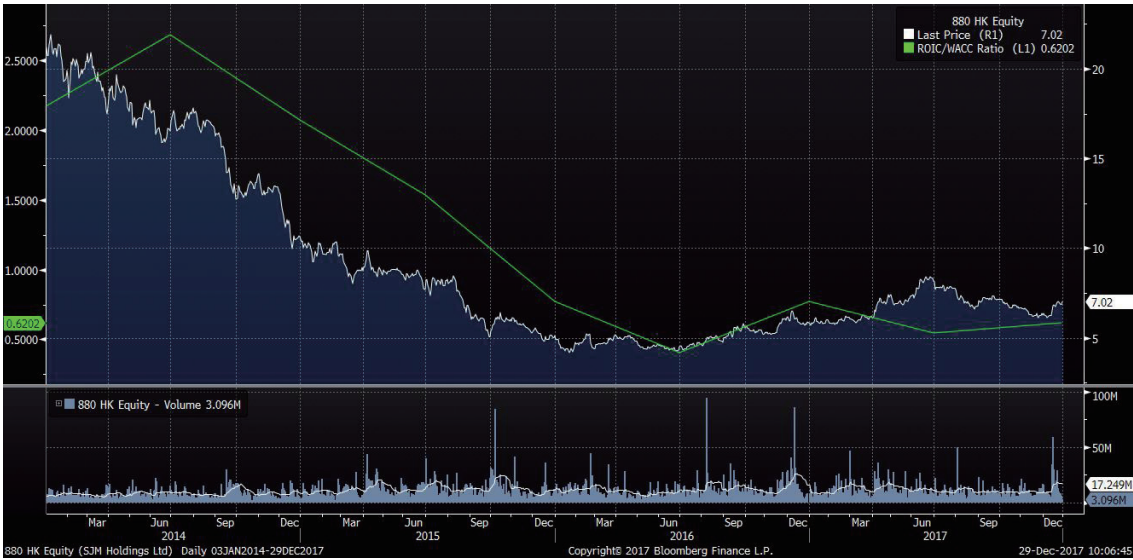
8.4. Impact on Concessions Renewal in the Financial Market

The issue of concessions renewal is becoming a material consideration and major uncertainty for long-term investors in 2017. More non-gaming elements and higher costs on taxes, fees and additional investments are expected to be required by the Macau Government. The public expected that the discussion with SJM and MGM will begin in 2018.

Billion-dollar resorts and new properties are continuing to be opened in Macau including SJM and MGM, even the market believes that changes may be coming. Each operator is focusing on a well-positioned to participate in the attractive long-term growth opportunity. MGM Cotai, which costs a total of approximately US\$3.4 billion, and Grand Lisboa Palace, which costs a total of approximately US\$4.6 billion, are expected to be opened in year of 2018 and 2019.

In the financial market, the share prices of the six main hotel and gaming operators in Macau are in a stable trends and rise from the recession in 2015. Based on Bloomberg’s data as at December 2017, the average ROIC/WACC ratio of these six companies is 1. MGM China Holdings Limited reached the highest ratio at 1.61 among six companies which is shown in the graph at below. This ratio represents that the return on new investments is higher than the cost of capital invested. It is expected that the new investments will generate positive excess returns and add values to the firms and industry continuously. The influence of the concessions renewal issue in financial market is still uncertain.

Figure 8 – 7 Historical Price and ROIC/WACC Ratio of SJM Holdings Limited (880.HK), 2014-2017



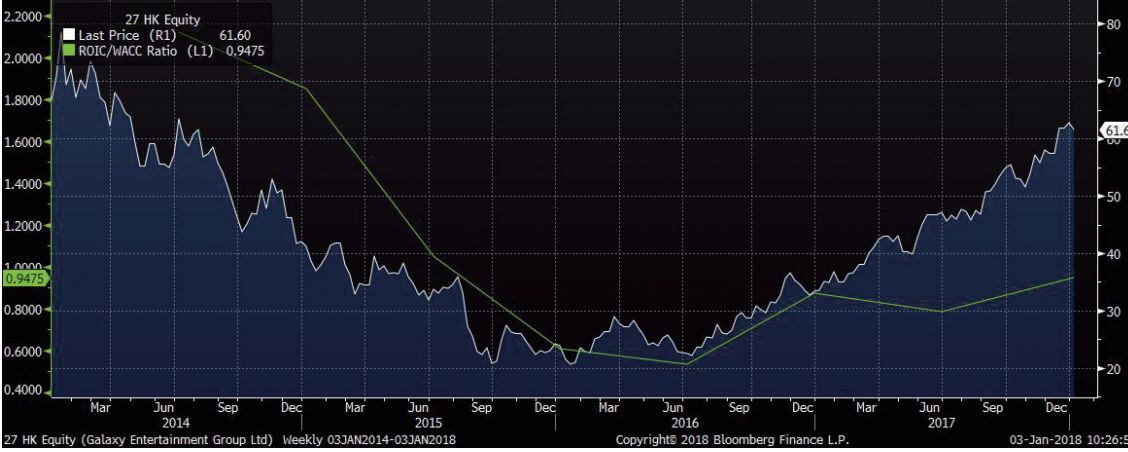
Source: Bloomberg

Figure 8 – 8 Historical Price and ROIC/WACC Ratio of MGM China Holdings Limited (2282.HK), 2014-2017



Source: Bloomberg

Figure 8 – 9 Historical Price and ROIC/WACC Ratio of Galaxy Entertainment Group Limited (27.HK), 2014-2017



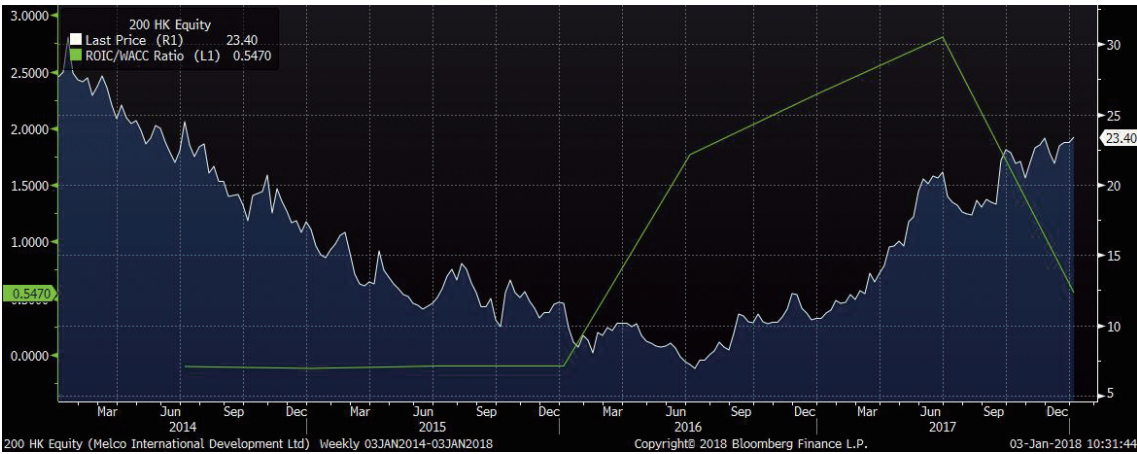
Source: Bloomberg

Figure 8 – 10 Historical Price and ROIC/WACC Ratio of Wynn Macau, Limited (1128.HK), 2014-2017



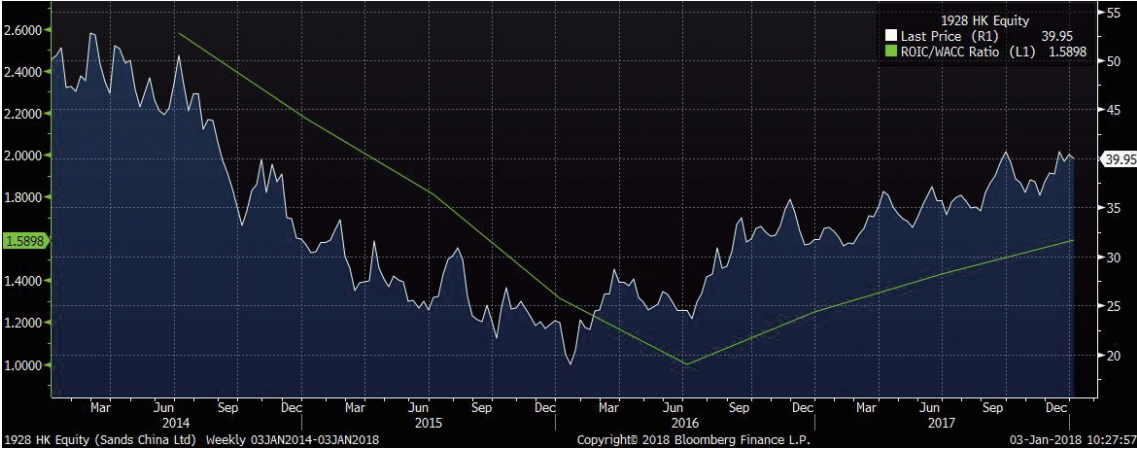
Source: Bloomberg

Figure 8 – 11 Historical Price and ROIC/WACC Ratio of Melco International Development Limited (200.HK), 2014-2017



Source: Bloomberg

Figure 8 – 12 Historical Price and ROIC/WACC Ratio of Sands China Ltd. (1928.HK), 2014-2017

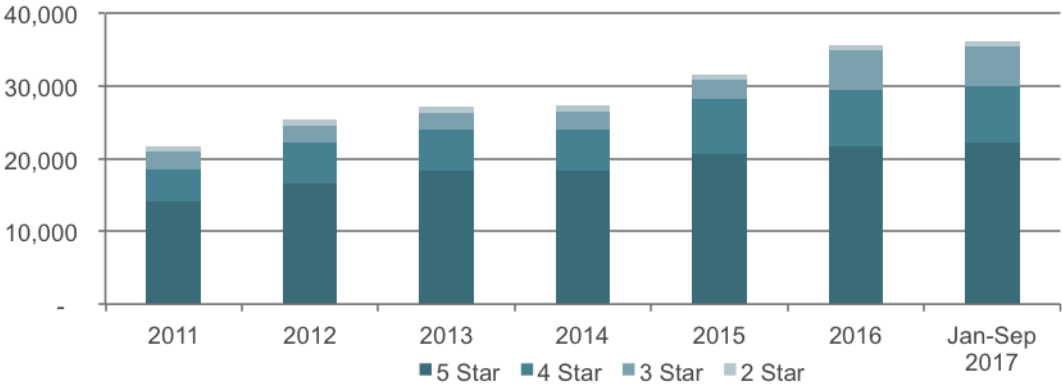


Source: Bloomberg

8.5. Hotel Room Supply in Macau

Based on the statistic from DSEC, the number of hotel rooms in Macau has increased to 36,131 as at the third quarter of 2017 from 21,746 in 2011, representing a total growth of 66% for the past 6 years. Over 60% of room inventory is in 5-star hotels as at September 2017. Official data from the Macau Government disclosed that there were 21 hotel projects under construction and a further 29 hotel projects undergoing designing stage as at the third quarter of 2017. They are expected to provide 8,524 and 5,077 hotel rooms respectively. The data did not give estimated completion dates for the new hotel projects. This reveals that the number of hotel room will be reached to over 44,000 in the near future.

Figure 8 – 13 Total supply of hotel rooms in Macau by hotel levels, 2011-2017



Source: Statistics and Census Service of Macau

Whilst VIPs enjoy the 5-star offerings in Macau, the area with best growth potential is at the 3-star level of rooms. The growth rate on number of hotel rooms for 3-star hotels from 2015 to 2016 is 117%. This reflected that the growth in mass market in recent years has led the increased demand in affordable accommodation.

Figure 8 – 14 Average Daily Room Rate for 5-star Hotels in Macau (in MOP) and Occupancy Rates by Hotel Levels, 2012-2017



Source: Macau Government Tourist Office

The hotel occupancy rate in Macau has been resumed in 2016. The occupancy rate of the 3-star hotels reached the highest followed by 4-star hotels to 93.1% in the third quarter of 2017 which was a boost of 1.7% on year-on-year basis, while 5-star properties increased by 1.6% to stand at 90%. According to the statistic from the Macau Government, the average daily room rate for 5-star hotels stood at MOP1,638 and MOP1,565 in the third quarter of 2012 and 2017 respectively. The rate demonstrates that daily room rate of 5-star hotel market was stable over the past six years.

IX. COMPANY OVERVIEW

9.1. The 13 Holdings Limited (the “Company”)

The Company, a listed company on the Hong Kong Stock Exchange (577.HK), was formerly known as Louis XIII Holdings Limited and changed its name to The 13 Holdings Limited in March 2016. The Company together with its subsidiaries are principally engaged in the management contracting, property development management and property investment through its 51.76% indirectly-owned subsidiary, Paul Y. Engineering Group Limited (“PYE”) and hotel development business. On 28 June 2017, the Company agreed to sell its 51.76% indirect interests of PYE to Precious Year Limited and Tycoon Bliss Limited for a total consideration of HK\$300 million (the “Disposal”).

The Company has been developing a luxury hotel and entertainment complex, namely THE 13 Hotel, since 2013. It is located on a site of approximately 65,000 square feet on Cotai Strip of Macau. This Project is being built and furnished to the highest standard of luxury according to the Company. The management of the Company intends to include gaming operation in the Project, subject to approval of the Macau Government. Due to the prolonged period in obtaining various licences/permits and further funding required for the development of the Project, the expected opening of The 13 Hotel is delayed from the end of 2016 to the end of April 2018.

9.2. Paul Y. Engineering Group Limited

PYE is one of the leading management contractors in Hong Kong and Macau, offering a full range of engineering and integrated property development solutions including civil engineering, building construction and foundation works, project management, manufacturing and trading of construction materials. PYE traces its origins to Shanghai in 1946 and has played a major role for building major infrastructure projects and iconic commercial properties in Hong Kong, Macau, China and Singapore.

X. PROJECT OVERVIEW

10.1. Background of the Project

Since 2013, the Company has started to develop the Project in Macau. The Project is the construction and operation of an exclusive luxury hotel and entertainment complex with a gross floor area (“GFA”) of approximately 945,079 square feet. The Project will offer approximately 200 duplex suites and villas beginning at about 520 gross square feet ranging up to about 9,870 gross square feet and a royal villa of 19,838 gross square feet according to the company’s information. The particulars of the real property of the Project (the “Property”) is further described in 10.3 below.

As disclosed in the circular of the Company dated 5 January 2013, the Subsidiary entered into a memorandum of understanding dated 16 April 2008, supplemented by a confirmation letter dated 3 November 2010 and a letter dated 5 September 2012 (collectively, the “MOU”) with the Concessionaire in relation to the management and operation of a casino proposed to be opened in The 13 Hotel. The Company further received a letter on 24 February 2017 and 17 January 2018 respectively from the Concessionaire acknowledging the MOU (the “Confirmation Letters”). According to the Company, the proposed casino, subject to the approval of the Macau Government and a formal agreement with the Concessionaire, targets to provide 66 gaming tables, consisting of 50 mass tables and 16 VIP room tables, and 50 slot machines to be operated by the Concessionaire. It is expected that a formal agreement will be entered into by the relevant parties subject to, amongst other things, the Concessionaire obtaining approval from the Macau Government regarding the gaming operation in The 13 Hotel. As at the Valuation Date, no formal agreement has been entered into in respect of the arrangements under the MOU, and the Concessionaire has yet to submit the application to the Macau Government.

As at the date of this report, the project management team of the Company estimated that approximately 90% of the entire development of the Project has been completed. Due to the prolonged period in obtaining various licences/permits and further funding required for the development of the Project, the expected opening of The 13 Hotel is delayed from the end of 2016 to the end of April 2018. The estimated opening date is subject to keeping the rights issue timetable and the confirmation of the key contractors, suppliers and vendors on the hotel works delivery and completion program. Management of the Company also stated that the opening and the hotel operation of The 13 Hotel will not be affected by the licensing process of its gaming operation. As at the Valuation Date, the Company estimated that the Concessionaire will commence gaming operation in THE 13 Hotel on 31 March 2019.

10.2. Fundraising Activities of the Project

For financing the completion and general working capital of the hotel operations of the Project, the Company has been exploring various fundraising activities since 2016, including the rights issue, the placing of loan notes, the bridge loans and the Disposal. As at the date of this report, the maturity date of one of the existing bridge loans has been extended to 1 April 2018; and the long stop date for the Disposal has been extended to 31 March 2018.

The Company estimated that the net proceeds of the rights issue will be approximately HK\$973 million which will be sufficient for opening of The 13 Hotel for hotel operations. The placing of loan notes will enable the Company to service its existing debt. The bridge loans provide temporary financial relief to the Company, enabling the Company to resume the remaining fitting-out works of The 13 Hotel before the completion of the rights issue. Further fundraising may be required to finance the casino pre-opening costs for the gaming operations to be operated by the Concessionaire.

10.3. Particulars of the Property

10.3.1. Location



Source: Google map

The Property is located at Lote 1, Coloane, Aterra da Concórdia N^o S/N, Estrada de Seac Pai Van N^o S/N, Macao Special Administration Region. It is bounded by Estrada da Seac Pai Van to the east and Rua das Arvores do Pagode to the north.

10.3.2. Accessibility

Accessibility is considered to be good as the transportation network is well developed near the Property. Public buses and taxis are available nearby.

10.3.3. Surrounding

Immediate locality is a residential development, namely One Oasis (金峰•南岸). There are also industrial workshops nearby on the Rua das Arvores do Pagode. The Property is in close proximity to Caesars Golf Macau (approximately 300 meters on the northern side) and Parque De Seac Pai Van (石排灣郊野公園) (approximately 200 meters on the south eastern side). Cotai Frontier Post is about 2 kilometers north to the Property. Studio City Macau, The Parisian Macao, The Venetian Macao and City of Dreams are further away to its north.

10.3.4. Description of the Property

The Property is a 22-storeys plus an upper ground mezzanine floor, 4 basement floors and a lower ground mezzanine floor luxury hotel being built upon a land with site area of approximately 65,000 square feet (6,059 square metres). The building is of reinforced concrete structure and external curtain wall. Part of the building is covered by metal frame. On 29 March 2017, the occupation permit of the Property was issued by the Macau Government. As of the Valuation Date, the fitting-out and internal decoration finishing works were in progress. As advised by the Company, the Property is scheduled to be opened in April 2018, subject to keeping the rights issue timetable and the confirmation of the key contractors, suppliers and vendors on the hotel works delivery and completion program.

According to the information provided in the Estimation Report, the Gross Floor Area (“GFA”) of the Property is approximately 945,079 square feet (87,800 square metres), including:

- (i) Above ground level – about 799,658 square feet (74,290 square metres)
- (ii) Basement level – about 145,422 square feet (13,510 square metres)

The Property has a total of 200 suites/villas size ranging from about 520 square feet (48 square meters) to about 19,838 square feet (1,843 square meters).

APPENDIX II VALUATION ASSESSMENT ON THE 13 HOTEL PROJECT

Table 10 – 1 Rooms of the Property

Type of rooms	No. of rooms	GFA each	
		square metres	square feet
Standard Suite	168	185	1,990
Standard Villa	15	330	3,550
Deluxe Villa	10	503	5,410
Super Deluxe Villa	3	917	9,870
Royal Villa with private roof garden	1	1,843	19,838
Non-typical room	3	48	520

The Property will provide food and beverage by a Chinese restaurant, a French restaurant, a Japanese restaurant, a café and two wine bars. The food and beverage facilities can accommodate a total of about 540 people.

Table 10 – 2 Food and Beverage of the Property

Food and Beverage	Rate under Macau Government Tourism Office's Category	No of tables	Capacity (No of seats)
Japanese restaurant	Deluxe Class Restaurant	8	35
Chinese restaurant	Deluxe Class Restaurant	25	118
L'Ambroisie	3 Michelin stars Deluxe Class Restaurant	25	100
Café Blanc	Deluxe Class Restaurant	37	91
Le Galerie - Banquet Hall	First Class Restaurant	26	156
Chairman's Bar	Deluxe Class Bar	11	44

Table 10 – 3 Usage of Each Floor of the Property

Floor	Usage
20 th to 21 st Floors and Roof	1 royal villa
14 th to 20 th Floors	69 standard villas, 6 villas, 3 super deluxe villas
4 th to 13 th Floors	3 non-typical rooms, 99 standard suites, 9 villas, 10 deluxe villas
3 rd Floor	Casino, French restaurant, Chinese restaurant, wine bar, terrace
2 nd Floor	Casino, banquet room, casino, outdoor courtyard
1 st Floor	Casino, retail shop, Japanese restaurant, wine bar
Upper Ground Mezzanine Floor	Back office, mechanical rooms
Ground Floor	Lobby entrance, café, casino
Lower Ground Mezzanine Floor	Air Handling Unit
Basement 1	Hotel entrance, retail shops, carpark, back office
Basement 2	Hotel entrance, carpark
Basement 3	Carpark
Basement 4	Carpark

10.3.5. Legal Title

Table 10 – 2 Ownership Particulars of the Property

Land Details	:	The Property comprises three parcels of land, known as C1, D1 and K18, having a total site area of approximately 6,059 square metres.
Lease Term	:	The Property is held under leasehold interest for a term of 25 years commencing from 31 October 2007.
Registered Owners	:	The registered owner of the Property is Empresa De Fomento Industrial E Comercial Concordia, S.A (聯生發展股份有限公司) by Revisao Da Concessao Por Arrendamento (租賃批地之修正) vide registration No. 32548F dated 9 October 2009.
Registered Encumbrances	:	The Property is subject to the following encumbrances: <ol style="list-style-type: none"> 1. Revisao Da Concessao Por Arrendamento (租賃批地之修改) vide registration No.32548 F dated 9 October 2009; 2. Hipoteca Voluntária (意定抵押) in favour of Bank of Communications Co., Ltd. Macau Branch at a guaranteed amount of HK\$3,045,000,000 vide registration No.168961 C dated 22 April 2014; and 3. Consignação de Rendimentos (收益用途之指定) in favour of Bank of Communications Co., Ltd. Macau Branch, the Sujeito Activo (權利主體) at a value of HK\$3,045,000,000 vide registration No. 34403 F dated 22 April 2014.

Table 10 – 3 Development Control of the Property

Land Grant	:	The development and uses of the Property were primarily governed under Despacho do Secretário para os Transportes e Obras Públicas n.º. 89/2207 (第89/2007號運輸工務司司長批示) dated 23 October 2007 and were further modified under Despacho do Secretário para os Transportes e Obras Públicas n.º 42/2009 (第42/2009號運輸工務司司長批示) (the “Land Grant”) dated 11 September 2009.						
Usage	:	Pursuant to the Land Grant, the Property comprises three parcels of land situated on Lot 1, having a total site area of approximately 6,059 square metres. The permitted uses and gross floor area of Lot 1 are listed as below.						
		<table border="0"> <thead> <tr> <th style="text-align: left;">User</th> <th style="text-align: right;">GFA (square meters)</th> </tr> </thead> <tbody> <tr> <td>Hotel</td> <td style="text-align: right;">74,300</td> </tr> <tr> <td>Hotel Carpark</td> <td style="text-align: right;">13,500</td> </tr> </tbody> </table>	User	GFA (square meters)	Hotel	74,300	Hotel Carpark	13,500
User	GFA (square meters)							
Hotel	74,300							
Hotel Carpark	13,500							
Grantor	:	Macau Special Administrative Region (澳門特別行政區)						
Grantee	:	Empresa De Fomento Industrial E Comercial Concordia, S.A (聯生發展股份有限公司)						
Annual Rent	:	<p>Pursuant to the Land Grant, the annual rental payable to Lot 1 is as follows:</p> <ol style="list-style-type: none"> 1. During the construction period of the development, the annual rent payable at a unit rate of MOP20 / square metre on land area; and 2. Upon completion of the development, the annual rent payable at a unit rate of MOP15 / square metre on GFA of 5-star hotel portion, and at a unit rate of MOP10 / square metre on GFA of car parking space. 						
Zoning	:	Pursuant to Planta De Condições Urbanísticas (規劃條件圖) No. 93A191 dated 10 May 2013, Lot 1 is zoned for “Hotel” uses.						

10.3.6. Limiting Conditions

Table 10 – 3 Limiting Conditions of the Property

Scope of inspection	:	We have inspected the exterior and, where possible, the interior of the Property. However, no structural survey has been made and we are therefore unable to report as to whether the Property is free from rot, infestation or any other structural defects. No tests were carried out on any of the services.
Ground Conditions	:	No soil investigations have been carried out to determine the suitability of the ground conditions or the services for any property development. Our estimation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction.
Environmental Issue	:	No environmental impact study has been ordered or made. Full compliance with applicable local environmental regulations and laws is assumed. In addition, it is assumed that all required licences, consents or other legislative or administrative authority from any local government or private entity or organization either have been or can be obtained or renewed for any use which the report covers.
Titleship Investigation	:	We have caused searches made at the Conservatoria do Registo Predial (物業登記局) in respect of the Property located in Macau. However, we have not searched the original documents to verify ownership or to ascertain the existence of any amendments which do not appear on the copy handed to us. All legal documents disclosed in this report, if any, are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property interests set out in this report.
Regulations and Restrictions	:	We have assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined, and considered in this report.

XI. VALUATION METHODOLOGY

The valuation of any asset or business can be broadly classified into one of three approaches, namely the cost approach, the market approach and the income approach. In any valuation analysis, all three approaches must be considered, and the approach or approaches deemed most relevant will then be selected for use in the value analysis of that asset.

11.1 Cost Approach

This is a general way of determining a value indication of a business, business ownership interest, security, or intangible asset by using one or more methods based on the value of the assets net of liabilities.

Value is established based on the cost of reproducing or replacing the property, less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable.

We have considered but rejected the cost approach for the valuation of the Project due to the cost approach does not take into account the value to be generated from future earnings. Nevertheless, for the Project at the stage of pre-opening, we have studied relevant cost record as a reference.

11.2 Market Approach

This is a general way of determining a value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have been sold.

Value is established based on the principle of competition. This simply means that if one thing is similar to another and could be used for the other, then they must be equal. Furthermore, the price of two alike and similar items should approximate one another.

We have considered but rejected the market approach for the valuation of the Project due to transactions frequently involves specific parties who pay a premium/discount under its unique circumstances. It is difficult to make adjustment to reflect the unique circumstances of the Project. The valuation of guideline public companies is not applicable to subject valuation due to immature stage of the Project in comparison with the public companies in the same industry.

11.3 Income Approach

This is a general way of determining a value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that convert anticipated benefits into a present value amount.

In the income approach, an economic benefit stream of the asset under analysis is selected, usually based on historical and/or forecasted cash flow. The focus is to determine a benefit stream that is reasonably reflective of the asset's most likely future benefit stream. This selected benefit stream is then discounted to present value with an appropriate risk-adjusted discount rate. Discount rate factors often include general market rates of return at the valuation date, business risks associated with the industry in which the company operates, and other risks specific to the asset being valued.

We have accepted and applied the income approach to the valuation of the Project because:

1. The value of the Project is determined by its potential ability to generate a stream of benefits in the future;
2. For this particular valuation, the Project is at pre-opening stage with approximately 90% of the entire development of the Project completed. According to the Company's business plan, it is understood that the Project will generate economic benefit in two stages. The first stage is to commence the hotel operations and the second stage is to cooperate with the Concessionaire for gaming operations to be operated by the Concessionaire (subject to government approval discussed in previous section). Income approach can reflect the specific stages of development of the Project; and
3. Economic benefit streams of the Project can be identified based on projected cash flows prepared by the management of the Company.

XII. COST ANALYSIS

As mentioned above, since the Project is still at the stage of pre-opening as at the Valuation Date, we have studied its relevant cost record as a reference. First of all, the Company has identified and provided the unaudited book value of the assets of the Project as at the Valuation Date which are summarised as below.

Table 12 – 1 Unaudited Book Value of the Project Assets

<i>HK\$' Million</i>	As at Valuation Date
Hotel under Development	8,171
Prepaid Land Lease Payments – Hotel Segment	1,534
* Other Assets – Hotel Segment	<u>456</u>
 Total Project Assets	 <u><u>10,161</u></u>

* Other assets include furniture, fixtures & equipment, operating supplies & equipment, inventories & Rolls Royce

The Company has further provided the cost estimates regarding the cost incurred and recognised as payables as at the Valuation Date.

Table 12 – 2 Actual Cost Paid

<i>HK\$' Million</i>	Actual Cost Paid as of the Valuation Date
Hotel under Development	5,540
Prepaid Land Lease Payments – Hotel Segment	2,030
* Other Assets – Hotel Segment	<u>523</u>
Total Project Assets	<u><u>8,093</u></u>

* Other assets include furniture, fixtures & equipment, operating supplies & equipment, inventories and Rolls Royce.

According to the management of the Company, in addition to the project assets, there were other hotel pre-opening expenses paid including pre-opening staff and other costs, loan interest and fundraising transaction costs amounting to HK\$1,877 million as at the Valuation Date.

According to the cost breakdown provided by the Company in relation to the Project, construction costs accounted for the most significant portion. Furthermore, it is an important indicator to assess the Company's direction to position the Project as a luxury hotel and casino project. Therefore, we have requested the Company to appoint an independent quantitative surveyor to provide an opinion on the construction cost of the Project at current market rates as a comparison with the actual construction cost.

The Cost Consultant has provided an estimation of replacement cost new as at December 2017 for the Project located at Lot 1 of Concordia, Coloane, Macau.

The Project consists of hotel and entertainment accommodation and carparking facilities. The total GFA of the Project is approximately 87,800 square metres, of which 4,470 square metres are allocated to entertainment facilities portion. The hotel portion provides a total of 200 suites. The superstructure is already completed with minor works undergoing.

The Estimation Report has established a maximum price based on a process program rather than some well-designed construction drawings. It is regarded to be reasonable for the Project as the Company did not have a strong in-house engineering team. Overall, the price was based on the process program as at 26 January 2017 and not specific documents that suited to the Company.

The estimation is based on the prevailing rates in construction market as at 26 January 2017 under the Project Management Contract and further adjusted the rate to the 3rd quarter of 2017 by making reference to the average Tender Price Indices, which are published by the Landgon & Seah and Rider Levett Bucknall (“RLB”) and the price in the 4th quarter is anticipated to be flatted out by the qualified quantity surveyor of RLB. The contract is a cost-type basis where the contractor is compensated for actual costs incurred plus a fixed fee subject to a ceiling price. The contractor is responsible for cost overruns unless additional scope is requested by the client. The estimation includes the construction cost, professional fee and project manager’s fee, but does not include the value of land and any evacuation cost, operation cost, financial and legal expenses. Besides, there are some general exclusions in this estimation.

The total estimated replacement cost new of the Project is HK\$6,056 million, representing approximately HK\$69,000 per square metre on GFA.

The above construction cost estimation was undertaken by a qualified quantity surveyor in the Hong Kong Institute of Surveyors which should have relevant professional experience.

As a result, the cost analysis of the Project as a start-up project that is relevant for knowledgeable parties in assessing the valuation of the Project is summarised below:

Table 12 – 3 Cost Analysis Summary

	<i>HK\$’ Million</i>
Total Book Value of the Project Assets (unaudited)	10,161
Total Actual Cost Paid	9,970
Total Cost Excluding Transaction Costs	9,648
Total Cost Excluding Transaction Costs with Construction Costs Replaced by GMP	10,471

XIII. PRINCIPAL FACTORS CONSIDERED

13.1. Positioning

The Company aims to position THE 13 Hotel as an ultra-luxury hotel and focus on the niche high premium mass segment. Under the plan from the Company, THE 13 Hotel will consist of approximately 200 duplex villas with an average size of approximately 2,500 gross square feet. To attract and provide a unique hotel experience for high-end customers in Macau, THE 13 Hotel is designed to offer personalised services for guests, such as private gaming rooms, Rollers-Royce pick-up service and 24-hour butler service, which is differentiated from local competitors. The brand positioning of the Company is targeted to international high net worth individuals.

Facing with the potentially new high end competitors with multi-million square foot integrated resorts about to be launched in the market for 2018, the Company expects that it is getting more competitive to differentiate from the premium market. The Company will position THE 13 Hotel as an ultra-high-end, private club-like, exclusive and world class hotel and casino property. The Company is confident that the environment and the quality of service of THE 13 Hotel will be maintained by servicing between 200 and 300 guests per day as a part of strategy targeting the premium players (those casino players with high end of average bet and hence high end of revenue contribution to casino).

We have considered that the Project is unlikely to create new demand so the success of the Project will be highly dependent on whether the business strategies would be effective to attract the players from the premium market. On the other words, the Project should capture certain market share from the existing casino operators in Macau in order to make a profit. However, the operation has not yet commenced as at the Valuation Date; therefore, historical financial information could not be used to justify the financial projection. Since the Company has stressed that their positioning has been unique in the market, we have performed additional cost analysis for this valuation. From our comparison table below, it can be noted that the average construction cost per GFA of THE 13 is comparable to other 5-star hotel and casino projects. It is noted that the ratio of estimated construction cost to the total number of rooms is the highest among the comparable projects. From this perspective, it coincides with the Company's direction to focus their resources in developing the high end of the premium market.

Table 13 – 1 Construction Cost Comparison with Other Projects

	THE 13	Wynn Palace	The Parisian Macao	Studio City Macao	MGM Cotai	Grand Lisboa Palace
[^] GFA/CFA	*945,079 sq.ft. (GFA)	4,843,800 sq.ft. (CFA)	2,152,800 sq.ft. (GFA)	4,699,562 sq.ft. (GFA)	4,216,797 sq.ft. (GFA)	5,612,726 sq.ft. (GFA)
Estimated Construction cost (approx.)	*HK\$6.06 billion	HK\$34.32 billion	HK\$21.06 billion	HK\$24.96 billion	HK\$27 billion	HK\$36 billion
Opening year	2018 (estimate)	2016	2016	2015	2018 (estimate)	2018 (estimate)
Total number of rooms	200 suites	1,706 rooms	3,000 rooms	1,600 rooms	1,390 rooms	1,980 rooms across three hotels Grand Lisboa Palace – 1,400 rooms Palazzo Versace – 290 rooms Karl Lagerfeld – 290 rooms
Unit Rate on Construction cost (approx.)	HK\$6,412 per sq.ft. on GFA	HK\$7,085 per sq.ft. on CFA	HK\$9,783 per sq.ft. on GFA	HK\$5,311 per sq.ft. on GFA	HK\$6,403 per sq.ft. on GFA	HK\$6,414 per sq.ft. on GFA

Remarks: ^ GFA refers to Gross Floor Area and CFA refers to Construction Floor Area.

* Based on the estimated amount of replacement cost new stated in the Estimation Report.

13.2. Management

According to the Company, the CEO of THE 13 Hotel is the longest serving casino expatriate in Macau, well known within the market, and has established a solid reputation as a leader and employer of choice from which to base recruiting efforts.

13.3. Location

THE 13 Hotel is located within a 2-minute vehicle ride from the Cotai Strip which is close to Studio City. The location will be an ongoing potential issue as the site of THE 13 Hotel is located at residential development district. The Altira Macau, as an example of high end property, currently owned and operated by Melco Resorts & Entertainment Limited is situated in the residential district of Taipa.

13.4. Gaming Concession and Gaming Table Allocation

Gaming concession and gaming table allocation are subject to obtaining relevant licences and approvals from the Macau Government. Both are beyond the Company's control. THE 13 Hotel does not possess its own gaming concession as at the date of this assessment. The opening of THE 13 Hotel is no assurance that the casino will open contemporaneously. From the history of the market, gaming table allocation will not be confirmed until shortly before opening of the casinos. Facing with this uncertainty, the risks on operation delay and budget overrun in the gaming operating exist.

In addition, the regulatory risk on renewal criteria of concessions and the influence on how the Central Government in Beijing will react to the change on regulations of gaming industry provide both threats and opportunities to the market.

13.5. Opportunities

There is a rebound from recession in the gaming industry and leading to the resurgence of the VIP sector from 2016. The premium segments are resurging at a pace that will continue to expect increasing number of VIPs followed by premium mass players over the next year or until such time as China imposes restriction on visitation again.

THE 13 Hotel is located near the Lotus Bridge, which is a cross-border bridge linking Hengqin Island in Zhuhai and Cotai Strip in Macau, has yet to reach its potential traffic flow. This is an opportunity for the Project once the light rail transit in Macau spur to Hengqin Island has been completed.

XIV. GENERAL ASSUMPTIONS OF VALUATION

A number of general valuation assumptions have been established in order to sufficiently support our conclusion. The general assumptions adopted in this valuation assessment include:

1. There would be no material changes in the existing political, legal, fiscal, foreign trade and economic conditions in countries where the Project is located and carrying on its businesses;
2. There would be no significant deviation in the industry trends and market conditions from the current market expectation;
3. There would be no major changes in the current taxation law in Macau;
4. There would be no material changes in interest rates or foreign currency exchange rates from those currently prevailing;
5. All relevant legal approvals, business certificates or licenses for the normal course of operation have been formally obtained, in good standing and that no additional costs or fees are needed to procure such during the application; and
6. The Company would retain competent management, key personnel, and technical staff to support the ongoing operation of the Project.

XV. LIMITATIONS AND SPECIFIC ASSUMPTIONS**15.1 Limitations on Data Availability, Independence and Unbiasedness**

The subject project has this top-notch positioning that primary market data may not be publicly, sufficiently and readily available to us. As such, our analysis has relied on other data sources and secondary references that might have this inherited limitation on independence of the data provider, data transparency and completeness, and unbiasedness and neutrality. For instance, our initial analysis was substantially based on the project blueprint ascertained and forecast provided by the management of the Company.

As a part of the remedy measure to the independence and unbiasedness issues, the Industry Expert, being considered as one the world's leading experts on Asian gaming industry, has addressed our questions from a viewpoint of market participants and provided us with the Industry Expert Report with related data reference that appears capable, comprehensive, cohesive and balanced for our assessment purpose. The Industry Expert Report, together with other in-house research conducted by us, subsequently forms the primary basis for our later attempts on alignments of the management forecast to the market participants' view for value analysis.

15.2 Valuation under Different Scenarios of Gaming Tables

In March 2010, the Macau Government announced that the number of gaming tables operating in Macau would not exceed 5,500 until the end of the first quarter of 2013, and in September 2011, the Macau Government announced that for the 10 years after 2013, the total number of gaming tables to be authorized in Macau will be limited to an annual increase of 3.0%. However, the number of tables to be granted for each application has been unpredictable based on historical information. For example, the number of tables granted to Wynn Palace was 150, way below anticipated, while 250 tables were granted to Studio City, Macau, despite Wynn Palace's higher estimated total investment. Furthermore, the details of application of gaming tables submitted by the concessionaires to the Macau Government have been confidential non-public information, we are unable to obtain enough samples to perform statistical analysis to estimate the outcome of gaming table application for the Project.

As a result, it is unavoidable to present the number of gaming tables in the Project as a variable. Under the most optimistic scenario, we assess the value of the Project based on 66 gaming tables. Subject to the limitation mentioned above, the other two scenarios assessed are also purely hypothetical for illustration of impact the Project Value. Nevertheless, to assess the impact of gaming tables on revenue, we have made reference to various analysis of the Industry Expert Report. For details, please refer to major assumptions that would be summarised in the section of Income Approach.

15.3 Limitations on Providing a Single Valuation Opinion

Despite that our project team has exercised due care and professional scepticism in our fact-finding and model building stages, we must admit that no single valuation opinion can be concluded given the inherently speculative nature of the Project with a number of unknowns (where public information on peer benchmarks are not available), mostly being the uncertainty relating to the table allotment and the concessionaire's renewal upon year 2020/2022. No market participant, only the ultimate concession grantor (i.e. the Macau Government), has the good standing to comment on factors such as the table allotment outcomes.

Having said that, it does not mean the Project cannot be valued but it requires relevant stakeholders to critically evaluate management ability to execute any proposed investments based on the stakeholders' unique analytics and insights. As market participants might have heterogenous views on possible outcomes, our value analysis serves the sole purpose to lay down the objective economic facts and potential price-sensitive events surrounding the Project and determine its hypothetical present values in various scenarios based on generally accepted valuation methodologies. Users of this report must have their own views on the likelihood of possible outcomes before they rely on our present value calculations for making their own decisions.

15.4 Limitations on Modelling an Exhaustive List of Sequential Events

The scenarios in our value analysis do not come from a full exhaustive list of potential outcomes, neither would it be possible to cover the all-event scenarios in a publicly readable format given the dynamic and complex interrelationship. Each of the potential events, if occurring in a particular sequence, could lead to a new “path-dependent” scenario. For example, if the MOU is subsequently executed into a binding agreement with fair terms but the Concessionaire later fails to renew the gaming license in 2022 or renews only on unfavourable terms and cost, the Concessionaire might alter the 3%/5% license terms or withdraw from aforesaid agreement at some practical moment in time. Any modelling attempt to capture a more exhaustive list of events would cast undue complication in input modelling and reporting of our value assessment.

As such, we have only illustrated the scenarios in line with the project blueprint (i.e. operate as a casino-hotel throughout its useful life). Our analysis does NOT cover the hotel-only scenario where the gaming operation is totally abandoned, as management has proposed to continue taking all steps within their capabilities to avoid an hotel-only outcome. Our conclusion of the value analysis comes with a table with a range of present values based on various selected scenarios determined from discounted cash flow analyses. Since we cannot authoritatively opine on the probability distribution of the outcomes, our conclusion cannot rest on a single estimate compliant to any basic of value definition in the latest International Valuation Standards.

Nevertheless, it is expected that a hotel-only scenario, along with other unanticipated adverse events could result in significantly lower valuations. Users of this report must be aware of these possible scenarios and associated risks before making their own decisions.

XVI. RISK FACTORS

In the following section, we list below the risks relating to the Project and explain how the Project Value would be impacted. Users of this assessment report shall be reminded of addressed heightened risks and the limitation of our value analysis which do not typically concern other valuations on established businesses.

Users of this assessment report shall be aware of the limitation of our analysis and shall exercise due care in re-assessing the impact and likelihood of the risks addressed in this report to form their own judgements.

16.1 Uncertainty on Completion Schedule of THE 13 Hotel

As of the date of our report, management of the Company has estimated that approximately 90% of the entire development of the Project has been completed. During our on-site visit to the hotel-in-construction, we have viewed the major grand hall areas and the interior of a few hotel rooms. While the Project appears to be approaching its completion, it is worth noting that the expected opening date in late April 2018 is still a significant uncertainty, since a few conditions precedent are still outstanding. For instance, the hotel operation license from the authority and other necessary clearance remain outstanding.

Any material postponement in hotel opening may result in reduction in the Project Value unless otherwise justified with intended business reasons.

16.2 Significant Uncertainty on a License Arrangement on the Proposed Casino

The proposed casino operation of the Project requires further cooperation(s) with at least one of the existing six concessionaires or sub-concessionaires before year 2022 (and 2020 in some cases). Despite being shown copies of the signed MOUs with one existing Concessionaire on potential cooperation, it remains a significant uncertainty on whether official binding agreement(s), reflecting the same terms, can be subsequently entered into between the Company and the Concessionaire, or whether an alternative concessionaire/sub-concessionaire, if available, would propose terms that are acceptable to the Company.

Any unexpected unfavourable events upon effecting the signed MOUs with the identified Concessionaire or negotiating and effecting cooperation with an alternative concessionaire/sub-concessionaire may result in reduction in the Project Value.

16.3 Significant Uncertainty on Government Approval on Application to be Made by the Licensed Operator

Subject to the government's approval on the application to be made by the licensed operator, it is inevitable that the Company significantly relies on continued support from the Concessionaire, being the licensed operator. The current business status of the Concessionaire and the alignment of its business plans with the government's policy agenda would seriously impact the outcome of any applications.

Any unexpected misalignments among the aforesaid interested parties or unintended interruptions may result in immediate and significant reduction in the Project Value.

16.4 Significant Uncertainty on Post-2022 Concession Policies

The six gaming concessions and sub-concessions granted by the Macau government are approaching their expiration between year 2020 and 2022. The Macau Government has the utmost authority to technically withhold any renewal of concessions or to re-assign the concessions based on the latest policy agenda. Despite there being no precedent on concession renewals/denial by the Macau Government upon expiration, it remains a significant uncertainty for each of individual concessions/sub-concessions on the concession renewal.

Any unexpected unfavourable events upon expiration of the concessions, in whole or in part, may result in immediate and significant reduction in the Project Value.

16.5 Uncertainty on Approved and Allotted Gaming Tables

The allotted new casino table count, if approved by the Macau Government, remains an uncertainty. Based on precedents of other concessionaires, the approved table count could be significantly lower than the applied count, such that these concessionaires/sub-concessionaires have to re-allocate the tables among their portfolio of casinos.

Based on the MOU, a 66-table application to be appears a reasonable starting proposition, even where management is aware of precedents of lower-than-expected table approval but any unfavourable event on approved table counts from the authority and allotment from its concessionaire partner will result in potential reduction in the Project Value.

16.6 Uncertainty on this Exclusive and High-end Gaming Cluster

The Project aims for an unparalleled positioning to attract the most exclusive top-notch wealthy individuals for its luxury gaming and hotel experience. It remains an uncertainty on whether this exclusive positioning can be sufficiently actualized and monetized by the business.

Any unfavourable demand may result in significant reduction in the Project Value if the Project were not repositioned for a less exclusive market.

16.7 Uncertainty on the Betting Behaviour and Frequency of Casino Visits

The proposed gaming operation intends to derive its net revenue primarily from the total amount wagered by the players and the winning percentage of the casino. While the winning percentage is understood to be a statistical outcome that would be reasonably expected to realize upon the law of large numbers and appropriate casino risk control (there remains a slim chance that a casino could suffer from extreme tail events that stresses the casino's liquidity), the daily wagered amount by its players remains the single most uncertain value driver that could adversely hit (or benefit) the casino's profitability and its financial condition.

The daily wagered amount is determined by many factors, including but not limited to availability of casino tables, frequency of player visits, average bet per hand, average hands played per player, etc. In all, both the quantity and quality of the plays matters to total wagered amount.

Any unfavourable factors leading to a structurally less-than-expected amount wagered will result in reduction in the Project Value, depending on magnitude and persistence of the shortfall.

16.8 Uncertainty on Execution of the Business Plan

The Project is still under its development progress towards its planned casino-hotel operation. The Company itself does not have any historical track record in developing similar projects of this nature and scale (despite the fact that some members of the project team are veterans in the gaming and hotel industry). As such the anticipated plan might not be able to be smoothly and adequately executed, especially since a proposed cooperation with a concessionaire/sub-concessionaire is still highly uncertain.

The Project is still under this uncertainty to recruit and retain sufficient and qualified management and employees to run each operation. Given its premium positioning and relationship-based marketing plan, the Project will need to actively manage the manpower risk of all general staffs, relationship managers, key management and network of key business contacts. Any loss of key management and contacts without timely replacement and handover will adversely impact the business. (In particular, we view the marketing role as one of the most important business function in the earlier business stage upon the opening of The 13 Hotel and, the proposed casino operation.)

The Project is under the inherent operation risk that players might have a default intention to out-win the casino by luck or with plans, whether legitimately or not. Some professional players could potentially out-smart the casino routine and exploiting any identified loopholes. Some players could attempt to commit fraud or cheat to increase winnings. These events heighten the risk to all operators in the industry.

16.9 Uncertainty on Compliance

The Macau gaming industry is strictly regulated on prevention of money laundering, corruption and terrorist financing. The proposed casino operation shall carry this responsibility to comply with the relevant laws and procedures and bear the outcome of any non-compliance and irregularities.

Any non-compliance events might have an impact on the casino concessionaries/ sub-concessionaries and their license renewal upon year 2020/2022.

16.10 Uncertainty on Volatile Market Demand

Apart from the general China economic condition, the Macau gaming market has traditionally experienced this volatile demand era of ups and downs because of the central government's various policies and interventions. The ongoing industry demand will likely be sensitive in the similar manner should any related policies be executed in the future.

The premium player clusters are typical introduced into exclusive casinos based on networks of relationship among the in-house relationship managers, promoters, junkets and the customers. Any loss of key relationship managers, or loss of key accounts, could result in significant reduction in net gaming revenue, especially the premium casinos where this right-skewed distribution of player contributions is typically observed. As described in the Industry Expert Report, this cluster of premium players is more concerned about their perceived status and self-fulfilment. As such, the marketing strategy and resources will have to be focused primarily on creating the brand and service exclusivity rather than board based advertising and promotional approaches. Hiring player marketing hosts with those databases backed up by an ultra-efficient VIP services team is crucial to the Project.

16.11 Uncertainty on Capital Adequacy

As at the date of this report, the Company is in need of financing and is proposing to raise capital through the right issues, the placing of loan notes and the Disposal for completion of the remaining works on THE 13 Hotel and avoid trigger default of existing loans.

Pursuant to an existing facility agreement for a HK\$3,045 million bank loan granted by a lending bank to the Company, among other things, the Company was required to open THE 13 Hotel by no later than 31 March 2017. The Company had previously successfully applied to extend the opening date to 31 July 2017, and has been in discussions with the lending bank to further extend the opening date of THE 13 Hotel. As at the date of this report, the Company is still in discussions with the lending bank regarding possible options.

In addition, further fundraising may be required to finance the casino pre-opening costs for the gaming operations to be operated by Concessionaire.

The successfulness of fund raising by the Company is utmost important for the Project as this may affect the going concern of the Project and even the Company.

XVII. INCOME APPROACH

17.1 Major Assumptions of Valuation

Our development of the Project Value will be performed by using a discounted cash flow (“DCF”) method, which requires a number of assumptions, including revenue and expense forecasts and capital expenditure requirement. The nature and underlying rationale for these assumptions will be discussed below.

The essential elements of DCF are: (1) the expected earnings stream to be discounted, and (2) the discount rate.

The net cash flows from the Project were estimated, and we discounted the sum to a present value at the appropriate discount rate, as illustrated below:

$$PV = \frac{E_1}{(1+k)} + \frac{E_2}{(1+k)^2} + \frac{E_3}{(1+k)^3} + \dots + \frac{E_n}{(1+k)^n}$$

$E_1, E_2, E_3, \text{ etc.}$ = Expected economic income in the 1st, 2nd, 3rd periods, and etc.

E_n = Expected economic income in the last period

k = Discount Rate

The financial projection is prepared by the management of the Company. We have reviewed the calculation and discussed with the management of the Company about the validity of the projection. Our valuation is developed based on this financial projection and the assumption that the income forecast of the Project in the projection period will conform to those forecasted by the management of the Company.

Brief description of major assumptions has been shown as below:

17.1.1 Financial Projection of the Project under Different Scenarios

We have discussed that we do not deny the possibility that no casino table would be approved by the Macau Government or the Company might not be able to reach a formal agreement with the Concessionaire. The valuation based on scenarios below focuses only on the possible scenarios that the Company would eventually reach agreement with the Concessionaire and gaming tables would be granted to the Project. Total gaming tables of 66 under Scenario A came from the MOU. Scenario B reflects 25% discount of that number while Scenario C reflects 50% discount of that number. It is important to note that the probability of happening of each scenario is unlikely to be even.

According to the Industry Expert Report, there is no proven linear relationship between the reduction of gaming tables and the resulting table gaming revenue. The relationship is totally dependent on a variety of market and environmental factors such as a monopolistic vs a free market, saturation of marketplace, location of property etc. with no single factor being the sole determinant of that relationship. As estimated by the Company, even the number of tables granted would be less than the 66 as planned, the Company will mitigate the impact by effective yield management and marketing strategy. In our valuation assessment, we have applied the estimate by the Industry Expert (based on their proprietary analysis on data gathered from different casino properties) for the sensitivity of gaming table on the gaming revenue.

Table 17 – 1 Gaming Table Assumptions

From FY2020	Total Gaming Tables	Mass Table	Cash Rolling Table	Junket Table
Scenario A	66	50	10	6
Scenario B	50	35	10	5
Scenario C	33	18	10	5

Source: the management of the Company

Table 17 – 2 Impact on Gaming Revenue

	Impact on Gaming Revenue	Implied Table Elasticity of Gaming Revenue
Scenario A	–	–
Scenario B	–15%	0.61
Scenario C	–29%	0.58

We assume that all the non-gaming revenue, mainly contributed by hotel and food and beverage's revenue, would follow the trend of gaming revenue under Scenario B and C because most of their demands are expected to be driven by casino players.

17.1.2 Basis of Revenue from the Project

In accordance with the business plan of the Project, there are five revenue streams to be earned which are gaming revenue, hotel revenue, food and beverage revenue, retail revenue and other revenue. The management of the Company expected that THE 13 Hotel and restaurants will start operation on 30 April 2018 and the casino and retail shops will be opened on 31 March 2019.

Gaming revenue represents the revenue earned from casino operation and has been projected by player segments of mass table, cash rolling, slot and junket. For mass table, cash rolling and junket, revenue has been projected by taking into account the estimated number of players per day, average bet, total hands per player and a win rate that was in line with the industry practice. The revenue growth in the first 5 years of operation was assumed to be approximately 5% per annum and then slow down to 2.8% per annum, which reflects the long-term inflation forecast of Macau by the IMF, afterwards.

Revenue from the slot machines has been projected by taking into account the average coin in per unit and a win rate that was in line with the industry practice. The revenue growth in the first 5 years of operation was assumed to be approximately 3% per annum and then slow down to 2.8% per annum, which reflects the long-term inflation forecast of Macau by the IMF, afterwards.

The revenue forecast for mass table, cash rolling, slot and junket have been compared to the data cited in the Industry Expert Report and our in-house research results. The estimated win per unit per day of mass table, slot, cash rolling and junket could be derived from daily revenue divided by number of units. We have made reference to the daily win per unit of the comparable casino operators and considered that these estimates in FY2020 under Scenario A were within the reasonable range of the comparable.

Table 17 – 3 Estimated Win per Unit per Day by Player Segment in FY2020 under Scenario A

<i>HK\$</i>	Average Daily Win per Unit
The Project (under scenario A) in FY2020	
Mass Table	182,033
Slot	13,519
Cash Rolling	482,161
Junket	493,007

According to the business strategy and position of the Project, the target market of the Project's mass tables is basically players that have the same profile and propensity for gambling large amounts as the VIP segment of other currently operating casinos in Macau.

Table 17 – 4 Average Daily Win per Table of Comparable Casino Operator in 1H 2017

	Net/Gross Win	Average Daily Net/ Gross Win per Table (HK\$)
Comparable Casino Operator in 1H 2017 (VIP Segment):		
SJM Holdings Limited		
– Casino Grand Lisboa	Net Win	220,653
– Other Self-promoted Casinos (Casino Lisboa, Casino Oceanus at Jai Alai and Casino Taipa)	Net Win	197,188
MGM China Holdings Limited	Gross Win	151,600
Wynn Macau	Gross Win	467,491
Wynn Palace	Gross Win	257,552

Source: Companies' FY2017 interim reports

Table 17 – 5 Junket Table Yields Extracted from the Industry Expert Report

Junket Table Yield	Win per Table per Day (HK\$)
Casino A	686,274
Casino B	569,884
Casino C	511,753
Casino D	381,161
Casino E	363,790
Casino F	269,084
Overall	466,543

Source: Industry Expert Report

Table 17 – 6 Electronic Gaming Machines Yield on Two High End Properties

	No. of Slots	Daily Yield (HK\$)
Casino X	150	12,000 – 15,000
Casino Y	First 40	15,000 – 23,000
	Second 60 – 80	15,000

Source: Industry Expert Report

Hotel revenue has been projected by taking into account the total of number rooms, average daily rates and occupancy rates. Different occupancy rates and average daily rates have been applied to different room types. We have benchmarked the average daily rates of luxury 5-star hotel in Macau before applying the projected figures provided by the management of the Company. According to the data published by the Macau Government Tourism Office, the occupancy rate of 5-star hotel in Macau from January 2017 to November 2017 and in 2016 were 87.9% and 83.8%.

Under the assumption that the casino would be commenced 11 months after the hotel opening, the occupancy rate of the hotel rooms would be approximately 50% only in the first year of operation i.e. FY2019. With the commencement of the casino, the demand for hotel rooms would increase to industry level. Based on the above, it has been projected that the assumed overall average occupancy rate would increase from 50% in FY2019 to 80% in FY2023. The annual growth rate of the hotel revenue after FY2023 was assumed to be 2.8% per annum.

Food and beverage revenue represents the revenue generated by restaurants and bars operated by the Company. It has been projected by taking into account the average cover per day and average check. The management of the Company expected that the business of food and beverage would ramp up to stabilised operations in FY2023, which is consistent with the growth trend of hotel revenue. The annual growth rate of the food and beverage revenue after FY2023 was assumed to be 2.8% per annum.

Retail revenue represents rental and management income of retail shops located in THE 13 Hotel. Other revenue are ancillary room charges like laundry, telephone, business centre, etc.

After FY2025, it was assumed the revenue would be increased by to 2.8% per annum which reflects the long-term inflation forecast of Macau by the IMF.

APPENDIX II VALUATION ASSESSMENT ON THE 13 HOTEL PROJECT

Table 17 – 7 Revenue Assumptions under Scenario A

<i>HK\$' Million</i>	FY2019 (335 days)	FY2020 (366 days)	FY2021 (365 days)	FY2022 (365 days)	FY2023 (365 days)	FY2024 (366 days)	FY2025 (365 days)
Gaming revenue							
Mass Table	–	3,331.2	3,490.2	3,666.8	3,852.4	4,058.4	4,161.3
Cash Rolling	–	1,764.7	1,848.9	1,942.5	2,040.8	2,149.9	2,204.5
Slot	–	247.4	254.1	261.7	269.6	278.4	285.5
Junket	–	1,082.6	1,134.3	1,191.7	1,252.0	1,319.0	1,352.4
Non-gaming revenue							
Hotel	394.9	784.0	822.4	863.1	905.9	931.3	957.4
F & B	144.6	231.7	238.7	245.9	253.3	260.4	267.7
Retail	–	59.1	58.2	61.2	66.0	67.9	69.8
Other Revenue	10.9	18.0	18.6	19.1	19.7	20.2	20.8
Total Revenue	550.4	7,518.7	7,865.4	8,252.0	8,659.7	9,085.5	9,319.4

Table 17 – 8 Revenue Assumptions under Scenario B

<i>HK\$' Million</i>	FY2019 (335 days)	FY2020 (366 days)	FY2021 (365 days)	FY2022 (365 days)	FY2023 (365 days)	FY2024 (366 days)	FY2025 (365 days)
Gaming revenue							
Mass Table	–	2,840.1	2,975.6	3,126.2	3,284.4	3,460.0	3,547.8
Cash Rolling	–	1,764.7	1,848.9	1,942.5	2,040.8	2,149.9	2,204.5
Slot	–	247.4	254.1	261.7	269.6	278.4	285.5
Junket	–	1,082.6	1,134.3	1,191.7	1,252.0	1,319.0	1,352.4
Non-gaming revenue							
Hotel	394.9	668.4	701.1	735.9	772.4	794.0	816.2
F & B	144.6	197.5	203.5	209.6	216.0	222.0	228.2
Retail	–	50.4	49.6	52.2	56.3	57.9	59.5
Other Revenue	10.9	15.4	15.8	16.3	16.8	17.2	17.7
Total Revenue	550.4	6,866.5	7,182.9	7,536.1	7,908.3	8,298.4	8,511.8

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Table 17 – 9 Revenue Assumptions under Scenario C

<i>HK\$' Million</i>	FY2019 (335 days)	FY2020 (366 days)	FY2021 (365 days)	FY2022 (365 days)	FY2023 (365 days)	FY2024 (366 days)	FY2025 (365 days)
Gaming revenue							
Mass Table	–	2,370.3	2,483.4	2,609.1	2,741.1	2,887.7	2,960.9
Cash Rolling	–	1,764.7	1,848.9	1,942.5	2,040.8	2,149.9	2,204.5
Slot	–	247.4	254.1	261.7	269.6	278.4	285.5
Junket	–	1,082.6	1,134.3	1,191.7	1,252.0	1,319.0	1,352.4
Non-gaming revenue							
Hotel	394.9	557.8	585.1	614.1	644.6	662.6	681.2
F & B	144.6	164.8	169.8	175.0	180.2	185.3	190.5
Retail	–	42.1	41.4	43.5	47.0	48.3	49.7
Other Revenue	10.9	12.8	13.2	13.6	14.0	14.4	14.8
Total Revenue	550.4	6,242.5	6,530.2	6,851.2	7,189.3	7,545.6	7,739.5

17.1.3 Basis of Cost of Revenue

The cost of gaming revenue consists on the following major elements:

Table 17 – 10 Cost of Gaming Revenue Assumption

	Mass Table	Slot	Cash Rolling	Junket
^ Licenses Fee – % of Revenue	5.00%	5.00%	3.00%	3.00%
Gaming Tax – % of Revenue	39.00%	39.00%	39.00%	39.00%
* Gaming Premium – HK\$	145,631	971	291,262	291,262
Commission – % of Revenue	NA	NA	25.00%	38.00%
Tourism Tax on Complimentary Expenses – % of				
Complimentary Expenses	5.00%	5.00%	5.00%	5.00%
Cash Gaming Promotion	0.83%	0.60%	NA	NA
Tourism Tax on Player Development Expenses – % of				
Player Development Expenses	5.00%	NA	5.00%	5.00%

^ The rate of License fee paid to the Concessionaire is based on the MOU

* Fixed gaming premium is assumed to be subject to annual increment of 2.8%

Cash gaming promotion represents promotional events e.g. tournaments, VIP dinners and marketing expenses to stimulate casino play. In addition, the Company has estimated that 80% of hotel revenue and 45% of revenue from food and beverage will be the complimentary expenses and player development expenses allocated to different player types.

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The cost of food and beverage revenue and other revenue were assumed to be approximately 30% and 2.7% of the respective revenue. There was no direct cost of revenue assumed for hotel and retail revenue.

Table 17 – 11 Summary of Costs of Revenue under Scenario A

<i>HK\$' Million</i>	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Gaming cost of revenue							
– Mass Table	–	(1,967.9)	(2,061.1)	(2,163.1)	(2,270.2)	(2,373.9)	(2,436.0)
– Cash Rolling	–	(1,372.9)	(1,438.3)	(1,510.6)	(1,586.5)	(1,667.8)	(1,710.5)
– Slot	–	(124.3)	(127.7)	(131.5)	(135.5)	(139.9)	(143.5)
– Junket	–	(961.7)	(1,007.5)	(1,058.3)	(1,111.8)	(1,170.3)	(1,200.1)
Non-gaming cost of revenue							
– Hotel	–	–	–	–	–	–	–
– F & B	(43.0)	(69.5)	(71.6)	(73.8)	(76.0)	(78.1)	(80.3)
– Retail	–	–	–	–	–	–	–
– Other	–	–	–	–	–	–	–
Revenue	<u>(0.3)</u>	<u>(0.5)</u>	<u>(0.5)</u>	<u>(0.5)</u>	<u>(0.5)</u>	<u>(0.5)</u>	<u>(0.6)</u>
Total Cost of Revenue	<u>(43.3)</u>	<u>(4,496.8)</u>	<u>(4,706.7)</u>	<u>(4,937.8)</u>	<u>(5,180.5)</u>	<u>(5,430.5)</u>	<u>(5,571.0)</u>

Table 17 – 12 Summary of Costs of Revenue under Scenario B

<i>HK\$' Million</i>	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Gaming cost of revenue							
– Mass Table	–	(1,740.5)	(1,822.8)	(1,912.9)	(2,007.4)	(2,083.0)	(2,137.7)
– Cash Rolling	–	(1,377.0)	(1,442.6)	(1,515.1)	(1,591.2)	(1,670.1)	(1,712.8)
– Slot	–	(124.3)	(127.7)	(131.5)	(135.5)	(139.9)	(143.5)
– Junket	–	(962.4)	(1,008.3)	(1,059.2)	(1,112.6)	(1,170.6)	(1,200.4)
Non-gaming cost of revenue							
– Hotel	–	–	–	–	–	–	–
– F & B	(43.0)	(59.3)	(61.0)	(62.9)	(64.8)	(66.6)	(68.5)
– Retail	–	–	–	–	–	–	–
– Other	–	–	–	–	–	–	–
Revenue	<u>(0.3)</u>	<u>(0.4)</u>	<u>(0.4)</u>	<u>(0.4)</u>	<u>(0.4)</u>	<u>(0.5)</u>	<u>(0.5)</u>
Total Cost of Revenue	<u>(43.3)</u>	<u>(4,263.9)</u>	<u>(4,462.8)</u>	<u>(4,682.0)</u>	<u>(4,911.9)</u>	<u>(5,130.7)</u>	<u>(5,263.4)</u>

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Table 17 – 13 Summary of Costs of Revenue under Scenario C

<i>HK\$' Million</i>	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Gaming cost of revenue							
– Mass Table	–	(1,522.5)	(1,594.5)	(1,673.1)	(1,755.5)	(1,804.4)	(1,852.0)
– Cash Rolling	–	(1,380.9)	(1,446.7)	(1,519.4)	(1,595.8)	(1,672.3)	(1,715.1)
– Slot	–	(124.3)	(127.7)	(131.5)	(135.5)	(140.0)	(143.5)
– Junket	–	(963.4)	(1,009.3)	(1,060.2)	(1,113.7)	(1,171.2)	(1,201.0)
Non-gaming cost of revenue							
– Hotel	–	–	–	–	–	–	–
– F & B	(43.0)	(49.5)	(50.9)	(52.5)	(54.1)	(55.6)	(57.1)
– Retail	–	–	–	–	–	–	–
– Other	–	–	–	–	–	–	–
Revenue	<u>(0.3)</u>	<u>(0.3)</u>	<u>(0.4)</u>	<u>(0.4)</u>	<u>(0.4)</u>	<u>(0.4)</u>	<u>(0.4)</u>
Total Cost of Revenue	<u>(43.3)</u>	<u>(4,040.9)</u>	<u>(4,229.5)</u>	<u>(4,437.1)</u>	<u>(4,655.0)</u>	<u>(4,843.9)</u>	<u>(4,969.1)</u>

17.1.4 Basis of Operating Expenses

The operating expenses are related to gaming operation, hotel operation, food and beverage operation and general operation of the whole Project.

The gaming operating expenses mainly include staff costs and departmental service charges which related to non-gaming regulated support services such as wait staff, security and surveillance, international marketing and employee dining etc. Per management of the Company, less gaming table numbers would reduce headcounts required and hence lower staff costs.

Table 17 – 14 Estimated Staff Costs of Gaming Operation in FY2020

	Staff Costs in FY2020 (HK\$' million)
Scenario A	174.4
Scenario B	157.0
Scenario C	130.8

Source: the management of the Company

The remaining operating expenses mainly include staff costs, operating supplies, utilities, rental, insurance and depreciation expenses. It is assumed that the operating expenses would be increased by to 2.8% per annum after FY2023.

Table 17 – 15 Operating Expenses Forecast Under Scenario A

<i>HK\$' Million</i>	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Gaming Operating Expenses	–	(673.1)	(686.6)	(700.3)	(714.3)	(734.3)
Hotel Operating Expenses	(177.7)	(215.6)	(219.9)	(224.3)	(228.8)	(235.2)
Food and Beverage Operating Expenses	(102.3)	(115.0)	(118.5)	(120.9)	(123.4)	(126.8)
General and Administrative	(69.1)	(324.4)	(330.9)	(337.5)	(344.3)	(353.9)
Insurance, Rental and Utilities	(87.5)	(206.4)	(216.7)	(227.5)	(238.9)	(245.6)
Other Operating Expenses	(436.3)	(553.1)	(559.9)	(566.9)	(600.6)	(592.8)
Total	(872.9)	(2,087.6)	(2,132.5)	(2,177.4)	(2,250.3)	(2,288.6)

Table 17 – 16 Operating Expenses Forecast Under Scenario B

<i>HK\$' Million</i>	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Gaming Operating Expenses	–	(655.7)	(668.8)	(682.2)	(695.8)	(715.3)
Hotel Operating Expenses	(177.7)	(215.6)	(219.9)	(224.3)	(228.8)	(235.2)
Food and Beverage Operating Expenses	(102.3)	(115.0)	(118.5)	(120.9)	(123.4)	(126.8)
General and Administrative	(69.1)	(324.4)	(330.9)	(337.5)	(344.3)	(353.9)
Insurance, Rental and Utilities	(87.5)	(206.4)	(216.7)	(227.5)	(238.9)	(245.6)
Other Operating Expenses	(435.9)	(550.1)	(556.8)	(563.8)	(597.4)	(589.5)
Total	(872.5)	(2,067.2)	(2,111.6)	(2,156.2)	(2,228.6)	(2,266.3)

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Table 17 – 17 Operating Expenses Forecast Under Scenario C

<i>HK\$' Million</i>	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Gaming Operating Expenses	–	(629.5)	(642.1)	(654.9)	(668.0)	(686.7)
Hotel Operating Expenses	(177.7)	(215.6)	(219.9)	(224.3)	(228.8)	(235.2)
Food and Beverage Operating Expenses	(102.3)	(115.0)	(118.5)	(120.9)	(123.4)	(126.8)
General and Administrative	(69.1)	(324.4)	(330.9)	(337.5)	(344.3)	(353.9)
Insurance, Rental and Utilities	(87.5)	(206.4)	(216.7)	(227.5)	(238.9)	(245.6)
Other Operating Expenses	(434.8)	(546.4)	(553.1)	(560.1)	(593.7)	(585.5)
Total	(871.4)	(2,037.3)	(2,081.2)	(2,125.2)	(2,197.1)	(2,233.7)

17.1.5 Basis of Capital Expenditure (“Capex”) and Asset Disposal

According to the management of the Company, the remaining cash costs of capital expenditure to be incurred in the Project’s prospective before hotel opening as at the Valuation Date was estimated to be approximately HK\$530 million, and additional capital required for casino opening was estimated to be approximately HK\$352 million if 66 gaming tables would be granted. The capital expenditure for casino opening would be reduced if less gaming tables would be granted eventually.

The remaining Capex projected are replacement and maintenance of furniture, fixtures & equipment, Rolls Royce, fitting-out and mechanical and electrical installation of the hotel building.

In addition, there would be a renewal land premium to be paid to the Macau Government upon expiry of the existing land lease according to the relevant land laws in Macau. As stipulated in article 2 of Order no. 219/93, the land premium payable upon renewal of the Land Grant is set at an amount equivalent to 10 years of land rent. Since the current land rent is about MOP1.26 million per annum, the land premium in today’s dollar would be MOP12.6 million or HK\$12.2 million. The land premium adjusted with 2.8% annual inflation of HK\$18.5 million is therefore assumed to be paid in FY2033.

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Table 17 – 18 Estimated Cash Costs Before Hotel Opening

<i>HK\$' Million</i>	Cash to be paid excluding settlement of payables
Decoration	72
Furniture, Fixtures & Equipment	130
Operating Supplies & Equipment	148
Hotel Preparation Costs	<u>110</u>
Pre-opening Costs	460
Transaction Cost	<u>70</u>
Total	<u><u>530</u></u>

Source: the management of the Company

According to the management of the Company, the total pre-opening cost for THE 13 Hotel to be paid was about HK\$862 million representing Decoration, Furniture, Fixtures & Equipment, Operating Supplies & Equipment and hotel preparation costs, in which approximately HK\$402 million was recognised in the management accounts of the Company as at the Valuation Date, hence the cash to be paid excluding settlement of such payables for pre-opening costs would be approximately HK\$460 million. If we include the transaction cost of approximately HK\$70 million, the cash to be paid excluding settlement of payables for hotel project would be approximately HK\$530 million as at the Valuation Date.

The transaction costs of HK\$70 million include costs related to the rights issue, the placing of loan notes and the Disposal (i.e. engagement of professional parties and fundraising commissions).

Table 17 – 19 Estimated Capital Required for Casino Opening

	<i>HK\$' million</i>
Gaming Operating Supplies and Equipment	219
Other pre-opening expenses (including staff cost)	<u>133</u>
Total	<u><u>352</u></u>

Source: the management of the Company

Table 17 – 20 Reduction in Capital Required for Casino Opening under Different Scenarios

	<i>HK\$' million</i>
Scenario A	0
Scenario B	-5.0
Scenario C	-17.3

Source: the management of the Company

17.1.6 Corporate Income Tax

The Macau Government taxes casino business mainly by gaming tax. In addition, the Macau Government imposes a tax on corporate profits. We have been informed by the management of the Company, after discussion with its tax advisors, that the Project will not generate any taxable profits in Macau based on the assumptions used in our analysis. Such assumption does not contravene the effective corporate tax rate we have observed from comparable public casino operators in Macau.

17.1.7 Basis of Working Capital

Account receivables, inventories, other current assets, account payables, other current liabilities and cage cash reserve are the components of the working capital. The basis of the estimation of working capital is listed below:

1. The account receivables would be collected in 12 days which is the average of comparable public casino operators in Macau;
2. The inventory would be estimated as 0.6% of revenue which is the average of comparable public casino operators in Macau;
3. The other current assets would be estimated as 2.3% of revenue which is the average of comparable public casino operators in Macau;
4. The account payables would be estimated as 1.8% of revenue which is the average of comparable public casino operators in Macau; and
5. The other current liabilities arising from operating expenses would be settled in 0.5 month;
6. The cage cash reserve of HK\$325 million would be set aside to cover unexpected house gaming losses one month before the casino operation. This is an expected requirement by the licensed operator as prudent risk management. This amount was assumed to remain constant during the project life and would be fully returned from the Concessionaire at the end of the Project.

Since more than one comparable listed companies have not disclosed the amount of cost of revenue in their annual reports, ratio of percentage of revenue has been calculated instead of inventory turnover days and account payables turnover days.

For the cage cash reserve, since the amount of balance and timing of cashflow are relatively certain, we have discounted the cashflows in relation to the cage cash reserve at 5% which is Hong Kong prime rate as at the Valuation Date.

17.1.8 Duration of the Project

Pursuant to the Dispatch of the Secretary for the Transports and Public Works number 89/2007, the land use rights were granted for a 25-year period up to 31 October 2032 renewable in accordance with the relevant law. According to the Macau land law, the renewal period will not be more than 10 years.

On the other hand, as mentioned in the section of Limitations and Specific Assumptions, our analysis does NOT cover the hotel-only scenario where the gaming operation is totally abandoned. In this valuation assessment, it is assumed that sub-concession or concession of gaming license for 20 years (which is the same as the current gaming concession term) could be obtained by the Concessionaire; and gaming tables would be granted by the Macau Government in FY2022 which is the expiry of the existing gaming concession of the Concessionaire.

Therefore, we have assumed 10-year extension of land lease to match with the expiry of presumed sub-concession or concession of gaming license granted by the Macau Government to the Concessionaire in FY2022. The duration of the Project is extended to 31 October 2042 i.e. the end of the extended lease term.

17.2 Determination of Discount Rate

We developed the cost of equity (“ R_e ”) and the cost of debt (“ R_d ”) for this valuation assessment based on the data and factors relevant to the economy, the industry and the Project as at the Valuation Date. These costs were then weighted in terms of a typical or market participant industry capital structure to arrive at the estimated weighted average cost of capital (“WACC”).

17.2.1 Development of Weighted Average Cost of Capital

We considered market and industry data to develop the WACC for this valuation assessment.

The traditional formula for calculating the WACC is:

$$\text{WACC} = [(\%D) \times (R_d) \times (1 - \text{Tax Rate})] + [(\%E) \times (R_e)]$$

Where WACC : Weighted Average Cost of Capital;
%D : Weight of Interest Bearing Debt;
 R_d : Cost of Debt;
%E : Weight of Equity; and
 R_e : Cost of Equity

17.2.2 Development of Cost of Equity

We considered the Modified Capital Asset Pricing Model (“MCAPM”) to calculate the R_e for this valuation assessment.

Modified Capital Asset Pricing Model

MCAPM, as applied to this valuation, can be summarized as follows:

$$R_e = R_f + \text{Beta} \times \text{ERP} + \text{RP}_s + \text{RP}_u$$

Where R_e : Cost of Equity;
 R_f : Risk Free Rate;
 Beta: A measure of systematic risk;
 ERP: Equity Risk Premium;
 RP_s : Size Premium; and
 RP_u : Specific Company Adjustment

1. Risk Free Rate

R_f was found by looking at the yields of the government bond. Ideally, the duration of the security used as an indication of R_f should match the horizon of the projected cash flows that were being discounted. In the view of this Project, since (1) there is no reliable pricing for Macau Government bond; (2) “the movements of policy rates in Hong Kong and Macao should be basically consistent in order to maintain the effective operation of the linked exchange rate system between the two SARs”¹ according to the Monetary Authority of Macao; and (3) the Company has financed the Project in Hong Kong dollar, we relied on the yield of the 15-Year Hong Kong government bond as at the Valuation Date.

2. Beta

In the MCAPM formula, beta is a measure of the systematic risk of a particular investment relative to the market for all investment assets. We obtained betas from Guideline Public Companies. The identified betas were unlevered to remove the effects of financial leverage with the consideration of the effective tax rate and the debt-to-equity ratio of the Guideline Public Companies on the indication of relative risk provided by the beta, and re-levered at the capital structure of the Project.

The formula to calculate the unlevered beta, can be illustrated as below:

$$Bu = \frac{BL}{(1 + (1 - Te) \times (D/E))}$$

Where Bu : Un-levered Beta;
 BL : Levered Beta;
 Te : Effective Tax Rate of the Guideline Public Companies; and
 D/E : Debt-to-equity Ratio of the Guideline Public Companies

¹ <http://www.amcm.gov.mo/en/about-amcm/press-releases/gee/discount-window>

The formula to calculate the re-levered beta, can be illustrated as below:

$$Br = Bu \times (1 + (1 - Tc) \times (D/E))$$

Where Br : Re-levered Beta;
Bu : Un-levered Beta;
Tc : Corporate Tax Rate of the Project; and
D/E : Debt-to-equity Ratio of the Public Guideline Companies

3. Selection of Guideline Public Companies

As aforementioned, the Guideline Public Companies are selected to compute beta in our determination of R_c . One would start with a description of the subject company, in terms of lines of business, markets served, size and other criteria.

For this valuation, we have searched information from Bloomberg and reviewed the business description on the website of the Guideline Public Companies to ensure the companies adopted are fair and representative. We have selected the companies which are engaged in casino operation in Macau, the shares are listed on the Hong Kong Stock Exchange and the revenue are mainly generated from Macau which is comparable to the Project. The following is the list of Guideline Public Companies that we have reviewed and selected in connection with this valuation assessment:

Table 17 – 21 Guideline Public Companies

	Guideline Public Companies	Ticker	Business Activities
1.	Sands China Ltd	1928 HK	• develops, owns, and operates integrated resorts and casinos in Macau
2.	Galaxy Entertainment Group Ltd	27 HK	• operates casino, hotels, and other entertainment facilities in Macau.
3.	Wynn Macau Ltd	1128 HK	• owns and operates Wynn Macau, a destination casino resort featuring hotel rooms and suites, a casino, casual and fine dining restaurants, retail space and leisure amenities.
4.	MGM China Holdings Ltd	2282 HK	• owns a luxury resort, hotel, and casino located in Macau.
5.	SJM Holdings Ltd	880 HK	• operates casinos, hotels, and other tourism-related facilities in Macau.
6.	Melco International Development Ltd	200 HK	• develops, owns and operates casino gaming and entertainment casino resort facilities in Asia.
7.	Macau Legend Development Ltd	1680 HK	• operates casino gaming facilities, shopping complexes, themed hotels, convention and entertainment complexes and other leisure facilities in Macau.
8.	Emperor Entertainment Hotel Ltd	296 HK	• operates a hotel and casino in Macau.

Source: Bloomberg; Company's Annual Report

Table 17 – 22 Summary of Beta

	Un-Levered Beta	Re-levered Beta
Sands China Ltd	0.94	1.21
Galaxy Entertainment Group Ltd	1.19	1.54
Wynn Macau Ltd	0.92	1.18
MGM China Holdings Ltd	0.82	1.05
SJM Holdings Ltd	0.94	1.21
Melco International Development Ltd	0.65	0.84
Macau Legend Development Ltd	0.83	1.08
Emperor Entertainment Hotel	0.94	0.96
Median Un-Levered Beta		Median Re-levered Beta
	0.88	1.13

Source: Bloomberg

4. Equity Risk Premium (“ERP”)

We adopted the recent 30 years of equity risk premium of the market where the Project is located. The long-term equity risk premium of the United States market is multiplied by the relative volatility between S&P 500 and equity indices of respective country where the subject company is located to obtain the equity risk premium of the respective country. The volatilities of the United States equity market and other equity indices are developed based on the daily closing price of the indices which obtained from Bloomberg database. This is one of the common market practices in estimating the equity risk premium of different countries. The formula to calculate the ERP, can be illustrated as below:

U. S. ERP x Volatility of respective equity indices/Volatility of S&P 500

We also made reference to the ERP published by Prof. Aswath Damodaran of New York University. We took average of the aforesaid two ERPs and adopted in this valuation assessment.

5. Size Premium (“RP_s”)

RP_s, over the risk premium for the market, can be calculated by subtracting the estimated return in excess of the riskless rate from the realised return in excess of the riskless rate of companies. In the case, we applied the size premium return in excess of CAPM of companies in the 7th deciles micro-cap of NYSE/AMEX/NASDAQ in the United States. We relied on the studies performed by Duff & Phelps as reflected in their 2017 Valuation Handbook: U.S. Guide to Cost of Capital.

6. Specific Company Adjustment (“RP_u”)

RP_u for unsystematic risk attributable to the specific company is designed to account for additional risk factors specific to the Project.

Firm specific risk factors may include the following:

1. Abnormal competition
2. Customer concentration
3. Size smaller than the Guideline Public Companies
4. Poor access to capital
5. Thin management
6. Lack of business diversification
7. Potential environment issue
8. Potential litigation
9. Narrow distribution channels
10. Obsolete technology
11. Dim company outlook

The magnitude of the RP_u depends on the corresponding risk level of the valuation subject and whether the underlying risk has been fairly captured by the other factors. In this valuation, the Project, including the renovation of THE 13 Hotel, was assumed to be carried on without further delay. The casino operation however is subject to further agreement to be entered with the Concessionaire and governmental approval on application to be made by the Concessionaire. As such, the projected cashflow timing is subject to uncertainty which would affect the reliability of the projected cash flow of the Project. In addition, the success of the Project will be highly dependent on whether the business strategies would be effective to attract the players from the premium market. Overall speaking, we consider that a RP_u of 3% on the unadjusted value can reasonably reflect such risks.

In view of the specific nature of the RP_u , we would like to provide further references of its nature. From the KPMG Valuation Practices Survey 2017, the author said “Ideally, all of an asset’s risk is reflected in the forecast cash flows. The reality is that cash flows are often not prepared on a risk-adjusted basis and therefore, as the respondents have indicated, valuers include an adjustment in the calculation of the cost of equity to account for the risk that’s not reflected in the cash flows”. In another publication by Deloitte in 2014, the author said in an example “Size and specific risk as per judgment based on market dynamics, school operations, competitive advantage, etc.”.

Hence, RP_u is an overall assessment by us based on the factors considered as at the Valuation Date. Since RP_u is a valuer’s judgment which has direct impact on the discount rate and the valuation result, we have performed sensitivity analysis to study the impact of discount rate on the overall result.

Table 17 – 23 Cost of Equity Conclusion

MCAPM

R_f	2.05%
Beta	1.13
ERP	7.07%
RP_s	1.72%
RP_u	3.00%
R_e	14.76%

17.2.3 Development of Cost of Debt

In order to estimate the R_d for this valuation assessment, we relied on the Project’s weighted average borrowing rates as at the Valuation Date, which was 7.14%.

17.2.4 Weighted Average Cost of Capital

We have “levered” the Project as if it mirrored the mean percentage of debt as the comparable companies on the assumption that over time, the Project would need to approach the average amount of debt of the Guideline Public Companies. Subsequent to the calculations of the R_e and the R_d , the calculation of the WACC, or the discount rate, therefore becomes:

Table 17 – 17 Weighted Average Cost of Capital

WACC	
Weight of Interest Bearing Debt	22.44%
× Cost of Debt	7.14%
× (1 – Tax Rate)	0.00%*
Weighted Cost of Debt	1.60%
+	
Weight of Equity	77.56%
× Cost of Equity	14.76%
Weighted Cost of Equity	11.45%
Weighted Average Cost of Capital (Applied Discount Rate)	13.00%

* We have been informed by the management of the Company, after discussion with its tax advisors, that the Project will not generate any taxable profits in Macau based on the assumptions used in our analysis. Such assumption does not contravene the effective corporate tax rate we have observed from the Guideline Public Companies.

XVIII. SUMMARY OF VALUATION

The following comparative data summarizes the various methods and the respective valuation bases that we have accepted or considered and rejected, along with their respective final values. Each method relative to the applicability and the facts and circumstances of the Project is discussed.

Asset Approach	
Application	Rejected
Cost Analysis	Reference only
Market Approach	
Application	Rejected

Income Approach

Application. Accepted
 Discounted Cash Flow Method. Values based on scenarios

Table 18 – 1 Project Values Under Different Scenarios

Scenario	Total Gaming Tables	Mass Tables	Cash Rolling Tables	Junket Tables	Project
					Value as at 31 October 2017 <i>(HK\$' Million)</i>
A	66	50	10	6	8,988
B	50	35	10	5	5,761
C	33	18	10	5	2,758

* Remark: It is possible to have gaming tables lower than 33 or at 0.

XIX. LIMITING CONDITIONS

We have made no investigation of and assumed no responsibility for the title to or any liabilities against the Company and the Project. Furthermore, we have not assessed any potential tax implication incidental to the transaction, in which the Company should seek advice from the tax adviser.

The opinions expressed in this report have been based on the information supplied to us by the Company and their staff, as well as from various institutes and government bureaus without verification. All information and advice related to this valuation were provided by the management of the Company. Readers of this report may perform due diligence themselves. We have exercised all due care in reviewing the supplied information. Although we have compared key supplied data with expected values, the accuracy of the results and conclusions from the review were reliant on the accuracy of the supplied data. We have relied on this information and have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional information. We do not accept responsibility for any errors or omissions in the supplied information and do not accept any consequential liability arising from commercial decision or actions resulting from them.

This valuation reflected facts and conditions existing at the Valuation Date. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

XX. CONCLUSION OF VALUE

In conclusion, under the specific assumptions that (1) gaming tables would be granted to the Project; (2) the Company would reach an agreement with the Concessionaire; and (3) the Concessionaire would possess the concession or sub-concession to operate the casino during the life of the Project; and based on the analysis stated above and the valuation methods employed, the values of THE 13 Hotel Project located at Estrada de Seac Pai Van, Macau under different scenarios as at 31 October 2017 were as follows:

Scenario	Total Gaming Tables	Mass Tables	Cash Rolling Tables	Junket Tables	Project Value as at 31 October 2017 <i>(HK\$' Million)</i>
A	66	50	10	6	8,988
B	50	35	10	5	5,761
C	33	18	10	5	2,758

* Remark: It is possible to have gaming tables lower than 33 or at 0

We do not express any opinion on the probability of different scenarios (including the no gaming scenario).

It is important to note it is possible that THE 13 Hotel will have no gaming table at all and hence the Project value could be significantly lower than the value presented in the scenarios.

It is expected that a hotel-only scenario, along with other unanticipated adverse events could result in significantly lower valuations. Users of this report must be aware of these possible scenarios and associated risks before making their own decisions.

The opinion of value was based on generally accepted valuation procedures and practices that relied extensively on the use of numerous assumptions and consideration of many uncertainties, not all of which could be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the subject under valuation. Moreover, we have neither personal interests nor bias with respect to the parties involved.

This valuation report is issued subject to our general service conditions.

GREATER CHINA APPRAISAL LIMITED

APPENDIX II VALUATION ASSESSMENT ON THE 13 HOTEL PROJECT

APPENDIX A – SENSITIVITY ANALYSIS OF THE PROJECT VALUE

Both the discount rate, license fee paid to the Concessionaire and gaming revenue adopted play pivotal roles in the valuation as they are very sensitive to the Project Value. The Project Values under different combinations of the discount rate, license fee paid to the Concessionaire and gaming revenue are presented below:

Table A – 1 Sensitivity Analysis of the Project Values under Different Discount Rates

WACC	Project Value (HK\$' Million)		
	Scenario A	Scenario B	Scenario C
10.0%	12,132	7,939	4,036
11.0%	10,929	7,102	3,539
12.0%	9,890	6,382	3,118
13.0%	8,988	5,761	2,758
14.0%	8,200	5,220	2,448
15.0%	7,509	4,748	2,181
16.0%	6,899	4,334	1,948

Table A – 2 Sensitivity Analysis of the Project Value under Different License Fees

% Change in License Fee	Project Value (HK\$' Million)		
	Scenario A	Scenario B	Scenario C
0.0%	8,988	5,761	2,758
+50.0%	8,179	5,027	2,096
+100.0%	7,369	4,293	1,435

Table A – 3 Sensitivity Analysis of the Project Value under Different Gaming Revenues

% Change in Gaming Revenue	Project Value (HK\$' Million)		
	Scenario A	Scenario B	Scenario C
+10.0%	20,759	16,630	12,764
+8.0%	18,034	14,114	10,448
+6.0%	15,517	11,790	8,308
+4.0%	13,184	9,635	6,325
+2.0%	11,013	7,631	4,480
0.0%	8,988	5,761	2,758
-2.0%	7,090	4,009	1,145
-4.0%	5,306	2,361	(372)
-6.0%	3,623	807	(1,803)
-8.0%	2,028	(666)	(3,158)
-10.0%	512	(2,065)	(4,447)

Table A – 4 Sensitivity Analysis of Total Gaming Revenue in FY2020 to FY2024 under Scenario A

% Change in Gaming Revenue	Total Gaming Revenue (HK\$' Million)				
	FY2020	FY2021	FY2022	FY2023	FY2024
+10.0%	7,069	7,400	7,769	8,156	8,586
+8.0%	6,940	7,266	7,628	8,008	8,430
+6.0%	6,812	7,131	7,487	7,860	8,274
+4.0%	6,683	6,997	7,345	7,711	8,118
+2.0%	6,554	6,862	7,204	7,563	7,962
0.0%	6,426	6,728	7,063	7,415	7,806
-2.0%	6,297	6,593	6,922	7,266	7,650
-4.0%	6,169	6,458	6,780	7,118	7,493
-6.0%	6,040	6,324	6,639	6,970	7,337
-8.0%	5,912	6,189	6,498	6,822	7,181
-10.0%	5,783	6,055	6,356	6,673	7,025

Table A – 5 Sensitivity Analysis of Total Gaming Revenue in FY2020 to FY2024 under Scenario B

% Change in Gaming Revenue	Total Gaming Revenue (HK\$' Million)				
	FY2020	FY2021	FY2022	FY2023	FY2024
+10.0%	6,528	6,834	7,174	7,531	7,928
+8.0%	6,410	6,710	7,044	7,395	7,784
+6.0%	6,291	6,586	6,913	7,258	7,640
+4.0%	6,172	6,462	6,783	7,121	7,496
+2.0%	6,054	6,337	6,653	6,984	7,351
0.0%	5,935	6,213	6,522	6,847	7,207
-2.0%	5,816	6,089	6,392	6,710	7,063
-4.0%	5,697	5,964	6,261	6,573	6,919
-6.0%	5,579	5,840	6,131	6,436	6,775
-8.0%	5,460	5,716	6,000	6,299	6,631
-10.0%	5,341	5,592	5,870	6,162	6,487

APPENDIX II VALUATION ASSESSMENT ON THE 13 HOTEL PROJECT

Table A – 6 Sensitivity Analysis of Total Gaming Revenue in FY2020 to FY2024 under Scenario C

% Change in Gaming Revenue	Total Gaming Revenue (HK\$' Million)				
	FY2020	FY2021	FY2022	FY2023	FY2024
+10.0%	6,012	6,293	6,606	6,934	7,299
+8.0%	5,902	6,178	6,485	6,808	7,166
+6.0%	5,793	6,064	6,365	6,682	7,033
+4.0%	5,684	5,950	6,245	6,556	6,900
+2.0%	5,574	5,835	6,125	6,430	6,768
0.0%	5,465	5,721	6,005	6,303	6,635
-2.0%	5,356	5,606	5,885	6,177	6,502
-4.0%	5,246	5,492	5,765	6,051	6,370
-6.0%	5,137	5,378	5,645	5,925	6,237
-8.0%	5,028	5,263	5,525	5,799	6,104
-10.0%	4,919	5,149	5,405	5,673	5,972

GENERAL SERVICE CONDITIONS

The service(s) provided by Greater China Appraisal Limited will be performed in accordance with professional appraisal standard. Our compensation is not contingent in any way upon our conclusions of value. We assume, without independent verification, the accuracy of all data provided to us. We will act as an independent contractor and reserve the right to use subcontractors. All files, working papers or documents developed by us during the course of the engagement will be our property. We will retain this data for at least seven years after completion of the engagement.

Our report is to be used only for the specific purpose stated herein and any other use is invalid. No reliance may be made by any third party without our prior written consent. You may show our report in its entirety to those third parties who need to review the information contained herein. No one should rely on our report as a substitute for their own due diligence. No reference to our name or our report, in whole or in part, in any document you prepare and/or distribute to third parties may be made without our written consent.

You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses, or liabilities, including reasonable attorneys' fees, to which we may become subject in connection with this engagement. You will not be liable for our negligence. Your obligation for indemnification and reimbursement shall extend to any controlling person of Greater China Appraisal Limited, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless of legal theory advanced, such liability will be limited to the amount of fees we received for this engagement.

We reserve the right to include your company/firm name and logo in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.

END OF REPORT

A. LETTER FROM THE REPORTING ACCOUNTANTS IN RELATION TO THE PROFIT FORECAST IN THE VALUATION ASSESSMENT OF THE 13 HOTEL PROJECT

The following is the text of a letter received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

Deloitte.**德勤****INDEPENDENT ASSURANCE REPORT ON CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION ASSESSMENT OF THE 13 HOTEL PROJECT****TO THE DIRECTORS OF THE 13 HOLDINGS LIMITED**

We have examined the calculations of the discounted future estimated cash flows on which the valuation assessment prepared by Greater China Appraisal Limited dated 24th January, 2018, of The 13 Hotel project located at Estrada de Seac Pai Van, Macau (“The 13 Hotel Project”) as at 31st October, 2017 (the “Valuation Assessment”) is based. The Valuation Assessment based on the discounted future estimated cash flows is regarded as a profit forecast under paragraph 29(2) of Appendix 1B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and will be included in a circular dated 24th January, 2018 to be issued by The 13 Holdings Limited (the “Company”) in connection with the Rights Issue on the basis of ten Rights Issue Shares for every one Adjusted Share of the Company at the Subscription Price of HK\$1.10 per Rights Issue Share by issue of not less than 920,867,010 Rights Issue Shares (assuming no change in the number of issued Shares on or before the date by reference to which entitlements to the Rights Issue will be determined (the “Record Date”) other than from the Capital Reorganisation becoming effective) and not more than 1,048,593,270 Rights Issue Shares (assuming no change in the number of issued Shares on or before the Record Date other than from the Capital Reorganisation becoming effective and other than the issue of new Shares upon the exercise in full of the subscription rights attaching to the Non-undertaken Convertible Securities on or before the Record Date) (the “Circular”).

Directors’ Responsibility for the Discounted Future Estimated Cash Flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and set out in the section headed “XIV. General Assumptions of Valuation” and “XVII. Income Approach” in Appendix II of the Circular (the “Assumptions”). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation Assessment and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibility

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation Assessment is based and to report solely to you, as a body, as required by paragraph 29(2) of Appendix 1B of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work was limited primarily to making inquiries of the Company’s management, considering the analyses and assumptions on which the discounted future estimated cash flows are based and checking the arithmetic accuracy of the compilation of the discounted future estimated cash flows. Our work does not constitute any valuation of The 13 Hotel Project.

Because the Valuation Assessment relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation Assessment and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

24th January, 2018

B. LETTER FROM THE FINANCIAL ADVISER IN RELATION TO THE PROFIT FORECAST IN THE VALUATION ASSESSMENT OF THE 13 HOTEL PROJECT

The following is the text of a letter received from the financial adviser of the Company, Anglo Chinese Corporate Finance, Limited, which is prepared for the purpose of incorporation in this circular.

ANGLO CHINESE
CORPORATE FINANCE, LIMITED
www.anglochinesegroup.com

40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong

24th January, 2018

The Board of Directors
The 13 Holdings Limited
2901 AIA Central
1 Connaught Road Central
Hong Kong

Dear Sirs,

We refer to the circular (the “Circular”) of The 13 Holdings Limited (the “Company”) published on 24th January, 2018 in relation to the Rights Issue. Unless otherwise stated, capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular.

We refer to the independent valuation assessment in connection with the valuation assessment of the hotel and casino development project at THE 13 Hotel (the “Project”) by Greater China Appraisal Limited (“GCA”) as at 31st October, 2017 (the “Valuation Assessment”) as set out in appendix II in the Circular (the “Valuation Report”).

The valuation methodology of the Valuation Assessment was based on the discounted cash flow of the future estimated cash flows of the proposed hotel and gaming development (the “Forecast”) as prepared by the Company, and for which the management of the Company are solely responsible. We note that the underlying financials applied in the income approach in the Valuation Report are regarded as a profit forecast under Rule 14.61 of the Listing Rules.

We have discussed with the management of the Company and GCA regarding the bases and assumptions adopted under which the Valuation Report have been prepared, and reviewed the Valuation Report for which GCA is responsible. We have also considered the letter from the reporting accountants set out in Appendix III-A to the Circular regarding the calculations upon which the Forecast have been made.

On the basis of the foregoing and in the absence of unforeseeable circumstances, the bases and assumptions made by GCA and the accounting policies and calculations adopted by GCA and reviewed by Deloitte Touche Tohmatsu, we are of the opinion that the Forecast, for which the management of the Group are solely responsible, has been made after due and careful enquiry.

We have not independently verified the computations leading to GCA's determination of the values of the Project. We have had no role or involvement and have not provided and will not provide any assessment of the values of the Project. Accordingly, we take no responsibility for and express no views, whether expressly or implicitly, on the values of the Project as determined by GCA and set out in the Valuation Report issued by GCA or otherwise.

The consideration, review and discussion carried out by us as described above are primarily based on financial, economic, market and other conditions in effect, and the information made available to us as of the Latest Practicable Date. We have, in arriving at our views, relied on information and materials supplied to us by GCA, the Company and opinions expressed by, and representations of, the employees and, or management of GCA and the Company. We have assumed that all information, materials and representations were true, accurate, complete and not misleading at the time they were supplied or made and that no material fact or information has been omitted from the information and materials supplied. No representation or warranty, expressed or implied, is made by us on the accuracy, truth or completeness of such information, materials, opinions and, or representations. Circumstances could have developed or could develop in the future that, if known to us at the time of this letter, would have altered our respective assessment and review. Further, the qualifications, bases and assumptions adopted by GCA are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and GCA.

Our opinion has been given for the sole purpose of compliance with Rule 14.62(3) of the Listing Rules and for no other purpose.

Yours faithfully,
For and on behalf of
Anglo Chinese Corporate Finance, Limited
Stuart Wong
Director

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of financial years ended 31st March, 2015 and 31st March, 2016 and 31st March, 2017, and the six months ended 30th September, 2017, together with the relevant notes thereto are disclosed in the following documents which have been published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.the13.com>):

- (i) annual report of the Company for the financial year ended 31st March, 2015 published on 9th July, 2015 (pages 81 to 204), which can be accessed via the link at

(<http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0709/LTN20150709489.pdf>)
- (ii) annual report of the Company for the financial year ended 31st March, 2016 published on 14th July, 2016 (pages 85 to 216), which can be accessed via the link at

(<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0714/LTN20160714227.pdf>)
- (iii) annual report of the Company for the financial year ended 31st March, 2017 published on 21st July, 2017 (pages 103 to 256), which can be accessed via the link at

(<http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0721/LTN20170721862.pdf>)
- (iv) interim report of the Company for the six months ended 30th September, 2017 published on 14th December, 2017 (pages 34) to 69), which can be assessed via the link at

(<http://www.hkexnews.hk/listedco/listconews/SEHK/2017/1214/LTN20171214668.pdf>)

The auditor of the Company has not issued a qualified opinion but included a statement on material uncertainty related to going concern on the Group's financial statements for the financial year ended 31st March, 2017. Please refer to the section headed "Independent Auditor's Report" of the annual report of the Company for the year ended 31st March, 2017 for details. The auditor of the Company has not issued any qualified opinion on the Group's financial statements for the financial years ended 31st March, 2015 and 2016.

2. STATEMENT OF INDEBTEDNESS

As at 30th November, 2017, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding indebtedness and contingent liabilities as follows:

- (i) Bank and other borrowings

The Group had outstanding bank borrowings of approximately HK\$4,134 million, comprising secured and guaranteed bank borrowings of approximately HK\$3,871 million, unsecured and unguaranteed bank borrowings of approximately HK\$90 million and unsecured and guaranteed bank borrowings of approximately HK\$173 million. The secured bank borrowings were secured by the Group's hotel under development, property, plant and equipment,

deposits paid for acquisition of property, plant and equipment, prepaid land lease payments situated in Macau, pledged bank deposits and, or charges over the Group's benefit from certain construction contracts, assignment of all rights and benefits of insurance policies and all receivables relating to the Group's hotel under development and the Group's interests in certain subsidiaries.

The Group also had outstanding other borrowings of approximately HK\$565 million, comprising secured and guaranteed other borrowing of approximately HK\$300 million which was secured by the Group's deposits paid for acquisition of property, plant and equipment and inventories and charges over the Group's interests in certain subsidiaries, unsecured and guaranteed other borrowing of approximately HK\$15 million and secured and unguaranteed other borrowing of approximately HK\$250 million which was secured by the Group's hotel under development and charges over the Group's interest in a subsidiary.

(ii) Convertible bonds

The Group had outstanding unsecured and unguaranteed convertible bonds with face values of approximately HK\$2,219 million.

(iii) Amounts due to joint operations

The Group had outstanding amounts due to joint operations of approximately HK\$111 million which were unsecured and unguaranteed.

(iv) Loan from a subsidiary of a shareholder

The Group had outstanding loan from a subsidiary of a shareholder of approximately HK\$75 million which was unsecured and unguaranteed.

(v) Contingent liabilities and guarantees

The Group had contingent liabilities of approximately HK\$66 million, out of which approximately HK\$51 million was issued to financial institutions for bonds on construction contracts of an associate and joint operations and corporate guarantee given for banking facilities granted to an associate of approximately HK\$15 million.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdraft, loans or other similar indebtedness, liabilities under acceptances, or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities outstanding as at the close of business of 30th November, 2017.

3. WORKING CAPITAL STATEMENT

The Directors after due and careful enquiry, are of the opinion that, after taking into account the net proceeds from the Rights Issue and the financial resources available to the Group, including cash and cash equivalents on hand, cash flows from operating activities and available facilities, and based on the assumptions that following financing plans and measures can be successfully executed, the Group will have sufficient working capital for its present operating requirements and for at least the next twelve months from the date of this circular, in the absence of unforeseeable circumstances. However, if any of the following matters become unsuccessful, the Group will not have sufficient working capital for at least the next twelve months from the date of this circular.

- i. Likelihood of the successful extension of requirement on opening of the Group's hotel in Macau in certain loan covenants

Certain loan covenants of the Group's bank borrowing of approximately HK\$3,042 million outstanding as at 30th November, 2017, which require the opening of the Group's hotel in Macau to be no later than 31st March, 2017 and all authorisations for the operation of hotel business will be obtained. The Group has previously successfully applied to extend the hotel's opening date to 31st July, 2017. Following the announcement of the proposed Rights Issue, the Group applied for a further extension of the opening date to 30th April, 2018 and such application is currently under review by the relevant lender. As such, the entire bank borrowing is repayable on demand if the extension is not granted by the relevant lender.

- ii. Likelihood of successful execution of the proposed Rights Issue and the Disposal (the "**Proposed Transactions**")

The gross proceeds from the Rights Issue at not less than approximately HK\$1,013 million by way of the issue of not less than 920,867,010 Rights Issue Shares and the remaining proceeds from the Disposal at HK\$121 million, as included in working capital forecast respectively, is subject to the successful execution of the Proposed Transactions.

- iii. Likelihood of successful execution of further financing plans

The Group has been actively negotiating with a number of commercial banks and other financial institutions as well as certain potential new investors to secure certain new sources of funding in the form of debt and, or equity in the aggregate amount of HK\$1,590 million. The Group appointed the Placing Agent to procure placees to subscribe for the Loan Notes, in which the completion of the Placing is conditional upon the fulfilment of certain conditions, and received indicative conditional offers of HK\$850 million to provide further financing to the Group.

4. MATERIAL ADVERSE CHANGE

Save as disclosed in the interim report published on 14th December, 2017 and in all other announcements of the Company published since 31st March 2017, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position or outlook of the Group since 31st March, 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up, and up to and including the Latest Practicable Date.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Company is a hospitality, entertainment and construction group that combines a unique ultra-luxury hotel and entertainment development on the Cotai Strip of Macau, THE 13 Hotel, with the Hong Kong-based business of Paul Y. Engineering Group Limited.

As global economic conditions improve in the world's two largest economies, the United States of America and the PRC, both central banks are refocusing on monetary tightening and debt reduction, whether it be the central bank balance sheet or in the broader economy. This secular change is coming after nearly a decade of unconventional monetary policy and during a period of growing political and trade uncertainty arising from populist movements in the Eurozone and the US. While most baseline global macroeconomic forecasts remain sanguine, the scope of the potential secular changes also increases the potential for unpredictable outcomes.

Hotel development

Overall the GGR of Macau continued to grow robustly in 2017. GGR for the year ended 31st December, 2017 recorded an increase of 19.1% when compared to the year ended 31st December, 2016. Visitation to Macau also recorded an increase of approximately 5.1% for the eleven months ended 30th November, 2017 when compared to the same period in 2016.

The Group is building an exclusive luxury hotel and entertainment complex on a site of some 65,000 square feet located on the Cotai Strip of Macau. THE 13 Hotel is currently expected to be opened by the end of April, 2018 following suspension of works since July, 2017 pending securing additional financing.

As at the Latest Practicable Date, the development of THE 13 Hotel was nearing completion but has been delayed due to delays in putting in place the final stage of necessary funding. With the funding plans as disclosed in the Announcement and this circular, and assuming Shareholders approve the Rights Issue, the management of the Company expects that THE 13 Hotel would be opened by the end of April, 2018. For the details about THE 13 Hotel and its development, please refer to the letter from the Board and Appendix I.

Engineering business and the Disposal

The construction market in Hong Kong experienced steady growth despite prevailing challenges such as skilled labour shortage and rising operating costs. The PYE Group and its subsidiaries strove to minimise operating costs and streamline workflow to further improve efficiency. In addition, the proactive strategies adopted by the PYE Group and its subsidiaries in tendering successfully broadened the client base of the PYE Group and its subsidiaries.

On 28th June, 2017, the Company agreed to sell its indirect interests of 51.76% in PYE Group to Precious Year Limited and Tycoon Bliss Limited for a consideration of HK\$300 million, and the Company received a deposit of HK\$179 million. The Disposal is subject to approval from the Shareholders in a special general meeting to be convened. Please refer to the announcement of the Company dated 28th June, 2017 for details.

As the Company is nearing the opening of THE 13 Hotel, the management of the Company believes that it is timely for the Disposal to take place so that the management team could focus more time and resources on the core hotel business.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30th September, 2017 (the “**Unaudited Pro Forma Financial Information**”) has been prepared by the Directors of the Company in accordance with paragraph 4.29 of the Listing Rules to illustrate the effect of the Rights Issue of not less than 920,867,010 but not more than 1,048,593,270 Rights Issue Shares at the Subscription Price of HK\$1.10 per Rights Issue Share payable in full upon acceptance on the basis of ten Rights Issue Shares for every Adjusted Share held on the consolidated net tangible assets of the Group as if the Rights Issue had been taken place on 30th September, 2017.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company had the Rights Issue been completed as at 30th September, 2017 or at any future dates.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited consolidated net assets of the Group attributable to owners of the Company as at 30th September, 2017, as extracted from the published condensed consolidated financial statements of the Group for the six months ended 30th September, 2017, with pro forma adjustments described below:

	Unaudited consolidated net assets of the Group attributable to owners of the Company as at 30 th September, 2017 <i>HK\$'000</i> <i>(Note 3)</i>	Less: goodwill and intangible assets <i>HK\$'000</i> <i>(Note 4)</i>	Unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 th September, 2017 <i>HK\$'000</i>	Estimated net proceeds from the Rights Issue <i>HK\$'000</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 th September, 2017 as adjusted for the Rights Issue <i>HK\$'000</i>
Based on 920,867,010 Rights Issue Shares to be issued at the Subscription Price of HK\$1.10 <i>(Note 1)</i>	5,683,226	(60,305)	5,622,921	973,184 <i>(Note 5)</i>	6,596,105
Based on 1,048,593,270 Rights Issue Shares to be issued at the Subscription Price of HK\$1.10 <i>(Note 2)</i>	5,683,226	(60,305)	5,622,921	1,112,983 <i>(Note 6)</i>	6,735,904

HK\$

Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 th September, 2017 per Share as adjusted for the Rights Issue with 920,867,010 Rights Issue Shares issued and with effect of the Capital Reorganisation	(Note 7)	<u>6.51</u>
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Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 th September, 2017 per Share as adjusted for the Rights Issue with 1,048,593,270 Rights Issue Shares issued and with effect of the Capital Reorganisation	(Note 8)	<u>5.91</u>
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Notes:

- Assuming no Convertible Securities outstanding as at 30th September, 2017 are exercised or converted, 920,867,010 Rights Issue Shares would have been issued based on 920,867,010 Shares in issue as at 30th September, 2017 and adjusted for the effect of the Capital Reorganisation.
- Assuming all the Non-undertaken Convertible Securities outstanding as at 30th September, 2017 are vested and being exercised or being converted, 1,048,593,270 Rights Issue Shares would have been issued based on 920,867,010 Shares in issue as at 30th September, 2017 and 127,726,260 new Shares issued upon the exercise in full of the subscription rights attached to the Non-undertaken Convertible Securities, and adjusted for the effect of the Capital Reorganisation.
- The unaudited consolidated net assets of the Group attributable to owners of the Company as at 30th September, 2017 was 5,683,226,000 as extracted by the Directors from the published unaudited condensed consolidated financial statements of the Group for the six months ended 30th September, 2017.
- Goodwill and intangible assets of the Group attributable to owners of the Company as at 30th September, 2017 amounted to HK\$56,086,000 and HK\$4,219,000, respectively, and was derived based on the carrying amounts of goodwill and intangible assets of the Group amounted to HK\$61,646,000 and HK\$8,907,000, respectively, as extracted by the Directors from the published unaudited condensed consolidated financial statements of the Group for the six months ended 30th September, 2017 and the corresponding percentages attributable to owners of the Company as at 30th September, 2017.
- The estimated net proceeds from the Rights Issue of approximately HK\$973,184,000 are based on 920,867,010 Rights Issue Shares to be issued (based on the total number of 920,867,010 Shares in issue as at 30th September, 2017 and adjusted for the effect of the Capital Reorganisation and assuming no change in the number of issued Shares) at the Subscription Price of HK\$1.10 per Rights Issue Share and after deduction of the estimated related expenses, including among others, underwriting commission, financial advisory fee and other professional fees, which are directly attributable to the Rights Issue, of approximately HK\$39,770,000.
- The estimated net proceeds from the Rights Issue of approximately HK\$1,112,983,000 are based on 1,048,593,270 Rights Issue Shares to be issued (based on the total number of 920,867,010 Shares in issue as at 30th September, 2017 and adjusted for the effect of the Capital Reorganisation and assuming no change in the number of issued Shares, other than the issue of new Shares upon the exercise in full of the subscription rights attached to the Non-undertaken Convertible Securities) at the Subscription Price of HK\$1.10 per Rights Issue Share and after deduction of the estimated related expenses, including among others, underwriting commission, financial advisory fee and other professional fees, which are directly attributable to the Rights Issue, of approximately HK\$40,470,000.

7. Assuming that the Rights Issue had been completed on 30th September, 2017, taking into account the effect of the Capital Reorganisation, but not taking into account the proceeds and new Shares which may be issued upon the exercise in full of the subscription rights attached to the Non-undertaken Convertible Securities, options which may be granted under the share option scheme or any shares which may be issued or repurchased by the Company pursuant to the general mandate granted to the Directors, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 30th September, 2017 per Share as adjusted for Rights Issue is calculated based on 1,012,953,711 Shares, comprising as follows:
- (i) 92,086,701 Adjusted Shares, which is calculated based on 920,867,010 Shares in issue as at 30th September, 2017 and adjusted for the effect of the Capital Reorganisation; and
 - (ii) 920,867,010 Rights Issue Shares to be issued.
8. Assuming that the Rights Issue had been completed on 30th September, 2017, taking into account the effect of the Capital Reorganisation but not taking into account the proceeds and new Shares which may be issued upon the exercise in full of the subscription rights attached to the Non-undertaken Convertible Securities, options which may be granted under the share option scheme or any shares which may be issued or repurchased by the Company pursuant to the general mandate granted to the Directors, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 30th September, 2017 per Share as adjusted for Rights Issue is calculated based on 1,140,679,971 Shares, comprising as follows:
- (i) 92,086,701 Adjusted Shares, which is calculated based on 920,867,010 Shares in issue as at 30th September, 2017 and adjusted for the effect of the Capital Reorganisation; and
 - (ii) 1,048,593,270 Rights Issue Shares to be issued.
- Whilst, assuming that the Rights Issue had been completed on 30th September, 2017, and taking into account the effect of the Capital Reorganisation and the proceeds and new Shares which may be issued upon the exercise in full of the subscription rights attached to the Non-undertaken Convertible Securities, but not taking into account options which may be granted under the share option scheme or any shares which may be issued or repurchased by the Company pursuant to the general mandate granted to the Directors, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 30th September, 2017 per Share as adjusted for Rights Issue is HK\$5.95, calculated based on the followings:
- (a) Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as of 30th September, 2017 as adjusted for the Rights Issue is HK\$6,865,581,000, comprising HK\$6,735,904,000 and the increase in consolidated net tangible assets of the Group attributable to owners of the Company of HK\$129,677,000 as a result of exercise in full of the subscription rights attached to the Non-undertaken Convertible Securities; and
 - (b) 1,153,452,597 Shares, comprising 92,086,701 Adjusted Shares, which is calculated based on 920,867,010 Shares in issue as at 30th September, 2017 and adjusted for the effect of the Capital Reorganisation, 12,772,626 new Shares which may be issued upon the exercise in full of the subscription rights attached to the Non-undertaken Convertible Securities and adjusted for the effect of the Capital Reorganisation and 1,048,593,270 Rights Issue Shares to be issued.
9. No adjustments have been made to reflect any trading result or other transactions of the Group entered into subsequent to 30th September, 2017.

**B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report from Deloitte Touche Tohmatsu, the independent reporting accountants, in respect of the unaudited pro forma financial information of the Group as set out in this appendix and prepared for the sole purpose of inclusion in this circular.

Deloitte.**德勤****INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****To the Directors of The 13 Holdings Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of The 13 Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at 30th September, 2017 and related notes as set out on pages V-1 to V-3 of the circular issued by the Company dated 24th January, 2018 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages V-1 to V-3 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed rights issue of not less than 920,867,010 Rights Issue Shares (assuming no change in the number of issued Shares on or before the date by reference to which entitlements to the Rights Issue will be determined (the "Record Date") other than from the Capital Reorganisation becoming effective) and not more than 1,048,593,270 Rights Issue Shares (assuming no change in the number of issued Shares on or before the Record Date other than from the Capital Reorganisation becoming effective and other than the issue of new Shares upon the exercise in full of the subscription rights attaching to the Non-undertaken Convertible Securities on or before the Record Date) at HK\$1.10 per Rights Issue Share on the basis of ten Rights Issue Shares for every one Adjusted Share of the Company (the "Rights Issue") on the Group's consolidated financial position as at 30th September, 2017 as if the Rights Issue had taken place at 30th September, 2017. As part of this process, information about the Group's consolidated financial position has been extracted by the Directors from the Group's condensed consolidated financial statements for the six months ended 30th September, 2017, on which no auditor's report or review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountant’s plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30th September, 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (a) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24th January, 2018

(c) Immediately upon Completion

- (i) Assuming no further change in the number of issued Shares other than from the Capital Reorganisation becoming effective:

<i>Authorised share capital:</i>		<i>HK\$</i>
25,000,000,000	Adjusted Shares at nominal value of HK\$0.20 each	5,000,000,000.00
<i>Issued and fully paid:</i>		
92,086,701	Adjusted Shares at nominal value of HK\$0.20 each	18,417,340.20
920,867,010	Rights Issue Shares to be allotted and issued under the Rights Issue	184,173,402.00
1,012,953,711	Adjusted Shares in issue immediately upon Completion of the Rights Issue	202,590,742.20

- (ii) Assuming no further change in the number of issued Shares other than from the Capital Reorganisation becoming effective and other than the issue of new Shares upon exercise in full of the subscription rights attaching to the Non-undertaken Convertible Securities on or before the Record Date:

<i>Authorised share capital:</i>		<i>HK\$</i>
25,000,000,000	Adjusted Shares at nominal value of HK\$0.20 each	5,000,000,000.00
<i>Issued and fully paid:</i>		
104,859,327	Adjusted Shares at nominal value of HK\$0.20 each	20,971,865.40
1,048,593,270	Rights Issue Shares to be allotted and issued under the Rights Issue	209,718,654.00
1,153,452,597	Adjusted Shares in issue immediately upon Completion of the Rights Issue	230,690,519.40

All the Shares in issue are fully paid and rank *pari passu* in all respects with each other, including, in particular, as to dividends, voting rights and return of capital. The Rights Issue Shares, once allotted, issued and fully-paid, will rank *pari passu* with the existing Shares in issue as at the respective date of their allotment and issue in all respects. Holders of fully-paid Rights Issue Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of allotment and issue of the Rights Issue Shares.

The Company will apply to the Listing Committee for the listing of and permission to deal in the Rights Issue Shares (in both their nil-paid and fully-paid forms). No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or Rights Issue Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

As at the Latest Practicable Date, there were no arrangements under which future dividends are waived or agreed to be waived.

As at the Latest Practicable Date, the Company has 59,997,500 outstanding Share Options exercisable by its holders to subscribe for up to 59,997,500 Existing Shares, Existing CBs convertible into 465,814,719 Existing Shares, and Exchange Right exercisable by its holders for up to 88,235,294 Existing Shares. Save as disclosed above, the Company has no other outstanding warrants, options or convertible securities or other similar rights which are convertible or exchangeable into Shares.

3. DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules; or (c) were required pursuant to section 352 of the SFO to be entered in the register referred to therein were as follows:

Long positions in the Shares and underlying Shares

Name of Director	Capacity	Number of Shares held	Interest in underlying Shares	Total number of Shares and underlying Shares held	Approximate percentage (Note 1)
Mr. Stephen Hung	Beneficial owner	–	9,207,500 (Note 2)	9,207,500	1.00%
	Interest of spouse	–	180,000 (Note 4)	180,000	0.02%
Mr. Peter Lee Coker Jr.	Beneficial owner	11,593,200 (Note 5)	9,207,500 (Note 2)	20,800,700	2.26%
Mr. Lau Ko Yuen, Tom	Beneficial owner	–	9,207,500 (Note 2)	9,207,500	1.00%
Mr. Walter Craig Power	Beneficial owner	–	9,207,500 (Note 2)	9,207,500	1.00%
Ir James Chiu	Beneficial owner	–	816,000 (Notes 3)	816,000	0.09%
Professor Lee Chack Fan	Beneficial owner	–	816,000 (Notes 3)	816,000	0.09%
Mr. Iain Ferguson Bruce	Beneficial owner	81,711	816,000 (Notes 3)	897,711	0.10%
Mr. Francis Goutenmacher	Beneficial owner	–	816,000 (Notes 3)	816,000	0.09%
Mr. Chan Kok Chung, Johnny	Beneficial owner	–	816,000 (Note 3)	816,000	0.09%

Notes:

- Shareholding percentage is based on 920,867,010 issued Shares as at the Latest Practicable Date.
- 9,207,500 share options were granted to Mr. Stephen Hung, Mr. Peter Lee Coker Jr., Mr. Lau Ko Yuen, Tom, Mr. Walter Craig Power on 18th September, 2015 under the share option scheme adopted on 11th August, 2015 (the “2015 Share Option Scheme”) and entitle each of them to subscribe for Shares upon exercise at an exercise price of HK\$3.00 per Share. The share options shall vest in 3 tranches, as to one-third on 18th September, 2016, as to a further one-third on 18th September, 2017 and as to the final one-third on 18th September, 2018. The share options are exercisable from the aforesaid vesting dates until 17th September, 2019 (both dates inclusive).
- 816,000 share options were granted to Ir James Chiu, Professor Lee Chack Fan, Mr. Iain Ferguson Bruce, Mr. Francis Goutenmacher and Mr. Chan Kok Chung, Johnny on 18th September, 2015 under the 2015 Share Option Scheme and entitle each of them to subscribe for Shares upon exercise at an exercise price of HK\$3.00 per Share. The share options shall vest in 3 tranches, as to one-third on 18th September, 2016, as to a further one-third on 18th September, 2017 and as to the final one-third on 18th September, 2018. The share options are exercisable from the aforesaid vesting dates until 17th September, 2019 (both dates inclusive).
- 180,000 share options were granted to Ms. Deborah Alejandra Valdez Perez, an advisor of the Company and the spouse of Mr. Stephen Hung on 15th March, 2016 under the 2015 Share Option Scheme and entitle her to subscribe for Shares upon exercise at an exercise price of HK\$3.00 per Share. The share options shall vest in 3 tranches, as to one-third on 18th September, 2016, as to a further one-third on 18th September, 2017 and as to the final one-third on 18th September, 2018. The share options are exercisable from the aforesaid vesting dates until 17th September, 2019 (both dates inclusive).
- These Shares comprise (i) 5,796,600 Existing Shares which were beneficially owned by Mr. Peter Lee Coker Jr. prior to the Rights Issue; (ii) 5,796,600 Rights Issue Shares which Mr. Peter Lee Coker Jr. has undertaken to take up pursuant to the Irrevocable Undertaking.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules; or (c) were required pursuant to section 352 of the SFO to be entered in the register referred to therein.

(b) Interests of Substantial Shareholders

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company in accordance with disclosure by the substantial shareholders under Part XV of the SFO, the following substantial Shareholders of the Company within the meaning of the Listing Rules and other persons (in each case other than the Directors and chief executive of the Company) had an interest or a short position in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Capacity	Long/Short position/ Lending Pool	Number of Shares held	Interest in underlying Shares	Total number of Shares and underlying Shares held	Approximate percentage (Note 1)
Get Nice Securities Limited (“Get Nice Securities”)	Underwriter	Long position	897,802,440	–	897,802,440 (Note 2)	97.50%
Get Nice Incorporated	Interest of controlled corporation	Long position	897,802,440	–	897,802,440 (Note 2)	97.50%
Get Nice Financial Group Limited (“Get Nice Financial”)	Interest of controlled corporation	Long position	897,802,440	–	897,802,440 (Note 2)	97.50%
Get Nice Holdings Limited (“Get Nice Holdings”)	Interest of controlled corporation	Long position	897,802,440	–	897,802,440 (Note 2)	97.50%
Global Allocation Fund (“Global Allocation”)	Beneficial owner	Long position	–	338,628,459	338,628,459 (Note 3)	36.77%
Evolution Capital Management, LLC (“Evolution”)	Interest of controlled corporation	Long position	–	338,628,459	338,628,459 (Note 3)	36.77%
Evo Fundamental Fund (“Evo Fundamental”)	Underwriter/Other	Long position	15,247,230	101,752,770	117,000,000 (Note 4)	12.71%
Evo Fundamental	Other	Short position	–	117,000,000	117,000,000 (Note 4)	12.71%

Name of Shareholder	Capacity	Long/Short position/ Lending Pool	Number of Shares held	Interest in underlying Shares	Total number of Shares and underlying Shares held	Approximate percentage (Note 1)
Evolution Japan Asset Management Co., Ltd. (“Evo Japan”)	Interest of controlled corporation	Long position	15,247,230	101,752,770	117,000,000 (Note 4)	12.71%
Evolution Japan	Interest of controlled corporation	Short position	–	117,000,000	117,000,000 (Note 4)	12.71%
Evo Fund	Interest of controlled corporation	Long position	15,247,230	101,752,770	117,000,000 (Note 4)	12.71%
Evo Fund	Interest of controlled corporation	Short position	–	117,000,000	117,000,000 (Note 4)	12.71%
Tiger Holdings Limited	Interest of controlled corporation	Long position	15,247,230	101,752,770	117,000,000 (Note 4)	12.71%
Tiger Holdings Limited	Interest of controlled corporation	Short position	–	117,000,000	117,000,000 (Note 4)	12.71%
Tiger Inn Enterprises Limited (“Tiger Inn”)	Interest of controlled corporation	Long position	15,247,230	101,752,770	117,000,000 (Note 4)	12.71%
Tiger Inn	Interest of controlled corporation	Short position	–	117,000,000	117,000,000 (Note 4)	12.71%
Tiger Trust	Interest of controlled corporation	Long position	15,247,230	440,381,229	455,628,459 (Note 4)	49.48%
Tiger Trust	Interest of controlled corporation	Short position	–	117,000,000	117,000,000 (Note 4)	12.71%
Lerch Michael (“Mr. Lerch”)	Interest of controlled corporation	Long position	15,247,230	440,381,229	455,628,459 (Notes 3 & 4)	49.48%
Mr. Lerch	Interest of controlled corporation	Short position	–	117,000,000	117,000,000 (Note 4)	12.71%
Qin Hui	Beneficial Owner	Long position	227,000,000	–	227,000,000	24.65%
Opus HK Advisors Limited (“Opus HK”)	Underwriter	Long position	127,726,260	–	127,726,260 (Note 5)	13.87%
Opus Financial Group Limited (“Opus Financial Group”)	Beneficial Owner	Long position	127,726,260	–	127,726,260 (Note 5)	13.87%
Opus Strategic International Limited (“Opus Strategic”)	Beneficial Owner	Long position	244,726,260	–	244,726,260 (Note 5)	26.58%
Opus Strategic	Other	Short position	101,752,770	–	101,752,770 (Notes 5 & 6)	11.05%

Name of Shareholder	Capacity	Long/Short position/ Lending Pool	Number of Shares held	Interest in underlying Shares	Total number of Shares and underlying Shares held	Approximate percentage (Note 1)
Opus Financial Holdings Limited (“Opus Financial Holdings”)	Beneficial Owner	Long position	244,726,260	–	244,726,260 (Note 5)	26.58%
Opus Financial Holdings	Other	Short position	101,752,770	–	101,752,770 (Notes 5 & 6)	11.05%
Strategic Apex Limited (“Strategic Apex”)	Beneficial Owner	Long position	244,726,260	–	244,726,260 (Note 5)	26.58%
Strategic Apex	Other	Short position	101,752,770	–	101,752,770 (Notes 5 & 6)	11.05%
Lai Shu Fun, Francis Alvin (“Mr. Alvin Lai”)	Beneficial Owner	Long position	244,726,260	–	244,726,260 (Note 5)	26.58%
Mr. Alvin Lai	Other	Short position	101,752,770	–	101,752,770 (Notes 5 & 6)	11.05%
Advance Tech Limited	Beneficial owner	Long position	101,985,600	–	101,985,600 (Note 7)	11.07%
ITC Properties Management Group Limited (“ITC Properties Management”)	Interest of controlled corporation	Long position	101,985,600	–	101,985,600 (Note 7)	11.07%
ITCP	Interest of controlled corporation	Long position	101,985,600	–	101,985,600 (Note 7)	11.07%
Chan Kwok Keung Charles (“Dr. Chan”)	Beneficial owner & Interest of controlled corporation	Long position	101,985,600	45,000,000	146,985,600 (Note 7)	15.96%
Ng Yuen Lan Macy (“Ms. Ng”)	Interest of spouse	Long position	101,985,600	45,000,000	146,985,600 (Note 7)	15.96%
Pride Wisdom Group Limited	Beneficial owner	Long position	82,477,999	–	82,477,999 (Note 8)	8.96%
Chief Wise Limited	Beneficial owner	Long position	–	88,235,294	88,235,294 (Note 9)	9.58%
I Hung Limited	Interest of controlled corporation	Long position	82,477,999	88,235,294	170,713,293 (Notes 8 & 9)	18.54%
S Hung Limited	Interest of controlled corporation	Long position	82,477,999	88,235,294	170,713,293 (Notes 8 & 9)	18.54%
Sean Hung	Interest of controlled corporation	Long position	82,477,999	88,235,294	170,713,293 (Notes 8 & 9)	18.54%

Notes:

1. Shareholding percentage is based on 920,867,010 issued Shares as at the Latest Practicable Date.
2. Get Nice Securities was wholly owned by Get Nice Incorporated which was in turn wholly owned by Get Nice Financial. Get Nice Holdings has 72.99% interest in issued shares of Get Nice Financial. Get Nice Incorporated, Get Nice Financial and Get Nice Holdings were deemed to be interested in the Shares held by Get Nice Securities.
3. Global Allocation was wholly owned by Evolution, which was in turn wholly owned by Tiger Trust. Mr. Lerch has 100% interest in Tiger Trust. Evolution, Tiger Trust and Mr. Lerch were deemed to be interested in the underlying Shares held by Global Allocation.
4. Evo Fundamental was wholly owned by Evo Fund and Evolution Japan which were wholly owned by Tiger Holdings Limited. Tiger Holdings Limited was wholly owned by Tiger Inn which was in turn wholly owned by Tiger Trust. Mr. Lerch has 100% interest in Tiger Trust. Evo Fund, Evolution Japan, Tiger Holdings Limited, Tiger Inn, Tiger Trust and Mr. Lerch were deemed to be interested in the Shares held by Evo Fundamental.

Evo Fundamental has an arrangement with a sub-underwriter of the Rights Issue to subscribe up to 117,000,000 Shares. Evo Fundamental also has (1) a long position as it has been granted a call option by a party to require such party to deliver up to 101,752,770 Shares; and (2) a short position as it has been granted a put option by a party to require such party to take up up to 117,000,000 Shares.
5. Opus HK was wholly owned by Opus Financial Group which was in turn wholly owned by Opus Strategic. Opus Strategic was wholly owned by Opus Financial Holdings which was owned as to 40.03% by Strategic Apex. Mr. Alvin Lai held 52.00% interest in Strategic Apex. Opus Financial Group, Opus Strategic, Opus Financial Holdings and Mr. Alvin Lai were deemed to be interested in the Shares held by Opus HK. Mr. Lau Ko Yuen, Tom, the deputy chairman and executive Director of the Company, is also the non-executive chairman and director of Opus Financial Holdings.
6. Opus Strategic has a short position as it granted a call option to a party and has the obligation to deliver the number of Shares to the said party upon the said party exercising the call option in respect of up to 101,752,770 Shares.
7. Advance Tech Limited was a wholly-owned subsidiary of ITC Properties Management, which was in turn a wholly-owned subsidiary of ITCP. Dr. Chan and Ms. Ng (the spouse of Dr. Chan) indirectly held approximately 26.22% and 23.73% interest in issued shares of ITCP respectively. ITC Properties Management, ITCP, Ms. Ng and Dr. Chan were deemed to be interested in the Shares held by Advance Tech Limited.
8. Pride Wisdom Group Limited was jointly owned by S Hung Limited and I Hung Limited, which were wholly owned by Mr. Sean Hung. S Hung Limited, I Hung Limited and Mr. Sean Hung were deemed to be interested in the Shares held by Pride Wisdom Group Limited. Mr. Stephen Hung, the joint chairman and executive Director of the Company, is also a director of S Hung Limited, I Hung Limited and Pride Wisdom Group Limited respectively.
9. Chief Wise Limited was jointly owned by S Hung Limited and I Hung Limited, which were wholly owned by Mr. Sean Hung. S Hung Limited, I Hung Limited and Mr. Sean Hung were deemed to be interested in the 88,235,294 Shares to be issued by the Company by way of the Exchange Right. Mr. Stephen Hung, the joint chairman and executive Director of the Company, is also a director of Chief Wise Limited.

(c) Interests of other persons

Name of person	Capacity	Number of Shares held (Note 1)	Interest in underlying Shares	Total number of Shares and underlying Share held	Approximate percentage (Note 2)
Janus Henderson Group PLC	Investment manager	91,728,200 (L)	–	91,728,200	9.96%
Omega Advisors, Inc.	Investment manager	67,755,376 (L) (Note 3)	23,664,121	91,419,497	9.93%
FIL Limited	Investment manager	51,250,500 (L) (Note 4)	–	51,250,500	5.57%

Notes:

- (L) denotes a long position.
- Shareholding percentage is based on 920,867,010 issued Shares as at the Latest Practicable Date.
- Omega Advisors, Inc., as investment adviser of Omega Capital Investors, L.P., Omega Capital Partners, L.P., Omega Equity Investors, L.P., Omega Overseas Partners, Ltd. and VMT II, LLC (the “Omega Group”), was deemed to be interested in the Shares held by the Omega Group.
- FIL Limited has direct/indirect interest in FIL Fund Management Limited, FIL Holdings (Luxembourg) S.A., FIL Holdings (UK) Limited, FIL Investment Management (Luxembourg) S.A., FIL Asia Holdings Pte Limited, FIL Investment Services (UK) Limited, FIL Investment International, FIL Pensions Management, FIL Japan Holdings (Singapore) Limited, FIL Japan Holdings KK, FIL Investments (Japan) Ltd, FIL Investment Management (Hong Kong) Limited and FIL Investment Management (Singapore) Limited (collectively, the “FIL Group”). FIL Limited was deemed to be interested in the Shares held by the FIL Group.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company were not aware of any substantial Shareholder of the Company within the meaning of the Listing Rules or other person (in each case other than a Director or chief executive of the Company) who had, as at the Latest Practicable Date, an interest or a short position in Shares or underlying Shares which was required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by such member of the Group within one year without payment of compensation (other than statutory compensation)).

5. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS AND COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors had: (a) any direct or indirect interests in any assets which have been, since 31st March, 2017 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group; and (b) any subsisting material interest in any contract or arrangement which is significant in relation to the business of the Group.

As at the Latest Practicable Date, to the best knowledge of the Directors, none of the Directors or their respective close associates had any interests in a business which competes or may compete, either directly or indirectly, with the business of the Group or any other conflicts of interests with the Group.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) had been entered into by the Group within two years immediately preceding the Latest Practicable Date and are or may be material:

- (a) the conditional sale and purchase agreement dated 28th June, 2017 (as may be amended or supplemented) entered into between The 13 (BVI) Limited and Precious Year Limited in relation to the disposal of 558,494,429 shares of Paul Y. Engineering Group Limited;
- (b) the conditional sale and purchase agreement dated 28th June, 2017 (as may be amended or supplemented) entered into between The 13 (BVI) Limited and Tycoon Bliss Limited in relation to the disposal of 73,233,540 shares of Paul Y. Engineering Group Limited;
- (c) the Underwriting Agreement and the Supplemental Agreement;
- (d) the Placing Agreement; and
- (e) the Bridge Loan Agreement

7. LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware of, no member of the Group was involved in any litigation or claims of material importance and no litigation or claims of material importance were known to the Directors to be pending or threatened against any member of the Group.

8. QUALIFICATIONS AND CONSENT OF EXPERTS

The following are the qualifications of the experts who have given their opinions, letters or advice contained in this circular:

Name	Qualifications
Anglo Chinese Corporate Finance, Limited	a corporation licensed to carry out type 1(dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
GCA	independent valuer
Lego Corporate Finance	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

Each of Anglo Chinese Corporate Finance, Limited, Deloitte Touche Tohmatsu, GCA and Lego Corporate Finance has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report and the reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of Anglo Chinese Corporate Finance, Limited, Deloitte Touche Tohmatsu, GCA and Lego Corporate Finance had any shareholding, directly or indirectly, in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of Anglo Chinese Corporate Finance, Limited, Deloitte Touche Tohmatsu, GCA and Lego Corporate Finance had any direct or indirect interest in any assets which have been, since 31st March, 2017 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

9. PARTICULARS OF DIRECTORS

Business address

The business address of the Directors and the senior management of the Company is the same as the address of the Company's principal place of business at 2901 AIA Central, 1 Connaught Road Central, Hong Kong.

Executive Directors

Mr. Stephen Hung (“**Mr. Hung**”), aged 59, has been the Joint Chairman (executive Director) of the Company since February, 2013. He is also the Chairman of the Executive Committee of the Company, and a member of the Nomination Committee, Finance and Investment Committee of the Company, and a director of various subsidiaries of the Company. He has over 34 years of experience in the finance and investment industries. He is the Chairman of The Taipan Investment Group and the Vice Chairman of Rio Entertainment Group, which operates the Rio Hotel & Casino through its affiliates in Macau. Mr. Hung was formerly co-head of investment banking for Asia at Merrill Lynch and subsequently formed his own investment banking firm, Amida Capital Limited in 1992. From 2000 to 2002, Mr. Hung served as the Vice Chairman of eSun Holdings Limited (0571.HK). From 2000 to 2004, he also served as a non-executive director of AcrossAsia Limited (8061.HK). Mr. Hung graduated from University of Southern California, Los Angeles with a master’s degree in business administration in 1981. Mr. Hung is also a director of I Hung Limited, S Hung Limited, Pride Wisdom Group Limited and Chief Wise Limited, all of which have interests in the shares/underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Mr. Peter Lee Coker Jr. (“**Mr. Coker**”), aged 49, has been the Joint Chairman (executive Director) of the Company since February, 2013. He is also a member of the Finance and Investment Committee, Disclosures Committee and Executive Committee of the Company, and a director of various subsidiaries of the Company. He has over 26 years of experience in the finance and investment industries. He is the Managing Partner of Pacific Advisers, and is also a partner of TDR Capital Investment Ltd (a Shenzhen-based private equity firm). Mr. Coker served as an officer of the Bridge Companies prior to joining Wellington Securities (New Zealand) in 2002. During his service with the Bridge Companies, Mr. Coker held the title of Managing Director-Asia, Chief Executive Officer of E-Bridge and Managing Director of Bridge Asia where he was responsible for the firm’s equity business in Japan and South East Asia/Australia. From 2000 to 2001, Mr. Coker served as the Chairman of IRESS Market Technology Limited (formerly BridgeDFS) (ASX: IRE). From 2002 to 2005, Mr. Coker served as the Chairman of Wellington Securities (New Zealand). From 2006 to 2009, Mr. Coker served as the Chairman of Global Trading Offshore Pte (Singapore). Mr. Coker graduated from Lehigh University in the United States with a Bachelor of Arts degree in 1990.

Mr. Lau Ko Yuen, Tom (“**Mr. Lau**”), aged 66, is the Deputy Chairman (executive Director) of the Company. He is also a member of the Remuneration Committee, Nomination Committee, Finance and Investment Committee, Disclosures Committee, Corporate Governance Committee, PYE Committee and Executive Committee of the Company. He is also the Deputy Chairman and non-executive director of a subsidiary of the Company and a director of various subsidiaries of the Company. Mr. Lau has over 40 years’ international corporate development and management experience in infrastructure developments as well as construction and engineering services involving the road, rail, port, power, telecommunications, mining and resources sectors in the Asia Pacific Region. Mr. Lau has been the Deputy Chairman of the Company since January, 2005. He has been re-designated from non-executive Director of the Company to executive Director of the Company since February, 2013. Mr. Lau is the Chairman and Managing Director of PYI Corporation Limited (0498.HK), a significant developer and operator of major bulk cargo ports in the Yangtze River Region in China. He is also the Deputy Chairman and non-executive director of Prosperity Investment Holdings Limited (0310.HK) and he was an independent non-executive director of China National Building Material Company Limited (3323.HK) until November, 2011.

Mr. Walter Craig Power (“**Mr. Power**”), aged 63, has been the Chief Executive Officer (executive Director) of the Company since February, 2013. He is also a member of the Finance and Investment Committee and Executive Committee of the Company, and a director of various subsidiaries of the Company. He is one of the longest serving casino executive expatriates in Macau’s gaming industry. Arrived in Macau in January, 2003, Mr. Power has held the positions of Chief Operating Officer of New Cotai Entertainment, an investor and developer of Macau Studio City, as well as Senior Vice President of Operations of Venetian Macau Limited. Mr. Power was instrumental to the success of the development, opening and operation of the Sands, the first western casino in Macau. During his tenure at the Sands, he was responsible for casino operations, hotel operations, all food and beverage outlets and security operations. He was also a member of the Compliance and Credit Committee. Being one of first western executives to enter the Macau gaming market, and having worked in Macau for over fourteen years, Mr. Power is known internationally for his extensive knowledge of Macau gaming to include junket, VIP, and mass market operations. A 25-year gaming industry veteran, Mr. Power accumulated extensive international gaming experience through executive operational positions at casino resorts in the United States, Argentina, South Africa and the Philippines, in addition to his work in Macau. Mr. Power, a former United States Marine Corps Major and Naval Aviator, received his BA and MBA from the University of Michigan. He is also a graduate of the casino industry’s Executive Development Program offered by the University of Nevada/Reno.

Independent non-executive Directors

Ir James Chiu (“**Ir Chiu**”), *OBE, JP*, aged 78, has been an independent non-executive Director of the Company since March, 2006. He is also the Chairman of the Audit Committee, Remuneration Committee, Corporate Governance Committee and PYE Committee of the Company. He is also the Chairman and independent non-executive director of a subsidiary of the Company, and an independent non-executive director of a subsidiary of the Company. Ir Chiu has served Hong Kong’s construction industry for 53 years. He was the Managing Director of the General Electric Company of Hong Kong Limited from 1984 to 1998. Ir Chiu has held a number of important industry roles. He was a president of The Hong Kong Federation of Electrical and Mechanical Contractors Limited, The Hong Kong Institution of Engineers and a Chairman of the British Chamber of Commerce in Hong Kong. Currently, he is a Council Member of Hong Kong Electrical & Mechanical Contractors Association and Hong Kong Electrical Contractors Association Limited. Ir Chiu is an Honorary Fellow of the Hong Kong Institution of Engineers, and a Fellow of Hong Kong Academy of Engineering Sciences.

Mr. Iain Ferguson Bruce (“**Mr. Bruce**”), aged 76, has been an independent non-executive Director of the Company since January, 2005. He is also the Chairman of the Finance and Investment Committee and Disclosures Committee of the Company, and a member of the Audit Committee, Nomination Committee, Corporate Governance Committee and PYE Committee of the Company. He is also an independent non-executive director of a subsidiary of the Company. Mr. Bruce joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the Senior Partner of KPMG from 1991 until his retirement in 1996 and served as Chairman of KPMG Asia Pacific from 1993 to 1997. Since 1964, Mr. Bruce has been a member of the Institute of Chartered Accountants of Scotland, and is a fellow of the Hong Kong Institute of Certified Public Accountants with over 50 years of international experience in accounting and consulting. He is also a fellow of The Hong Kong Institute of Directors, and the Hong Kong Securities and Investment Institute. He is an independent non-executive director of MSIG Insurance (Hong Kong) Limited. Mr. Bruce serves as an independent non-executive director on the boards of several

publicly listed companies in Hong Kong, including, Wing On Company International Limited (0289.HK), Tencent Holdings Limited (0700.HK) and Goodbaby International Holdings Limited (1086.HK). He is also an independent non-executive director of Yingli Green Energy Holding Company Limited, a company whose shares are traded on the New York Stock Exchange. Mr. Bruce was an independent non-executive director of China Medical Technologies, Inc., a China-based medical device company that was listed on NASDAQ, up to 3rd July, 2012. He was an independent non-executive director of Vitasoy International Holdings Limited (0345.HK) and retired from that company's board on 4th September, 2014, and was the chairman of KCS Limited until 1st August, 2015. He was an independent non-executive director of Sands China Ltd. (1928.HK) until 11th March, 2016. He was a non-executive director of Noble Group Limited, effective from 1st March, 2017, a company whose shares are listed on The Singapore Exchange Securities Trading Limited, and resigned from that company's board on 11th May, 2017. He was also an independent non-executive director of Citibank (Hong Kong) Limited, and resigned from that company's board on 2nd August, 2017.

Professor Lee Chack Fan (“**Professor Lee**”), GBS, SBS, JP, aged 72, has been an independent non-executive Director of the Company since January, 2005. He is also the Chairman of the Nomination Committee of the Company, and a member of the Audit Committee, Remuneration Committee and PYE Committee of the Company. He is also an independent non-executive director of a subsidiary of the Company. Professor Lee is the chair professor of geotechnical engineering and is the Chancellor of the Chu Hai College of Higher Education. He is also an academician of Chinese Academy of Engineering. Professor Lee graduated from The University of Hong Kong in 1968 and subsequently received his master's degree from the University of Hong Kong in 1970 and a Ph.D. from the University of Western Ontario, Canada in 1972. Professor Lee is an internationally renowned expert in geotechnical engineering. He worked for Ontario Hydro in Canada for some 20 years before he joined his alma mater in 1994. He has participated in the design of many massive dams and nuclear power stations. He has served as a specialist consultant or an advisor to many international bodies such as the United Nations Development Plan, World Bank, Asian Development Bank, etc. on numerous energy and infrastructure projects in many parts of the world. Professor Lee's eminent achievement in civil engineering has been highly recognised; he was awarded the KY Lo Medal in 2000 by the Engineering Institute of Canada and was elected the academician of the Chinese Academy of Engineering in 2003 in recognition of his contributions to the engineering profession. He has been appointed as Justice of the Peace by the Hong Kong Government in July, 2003, and he has been awarded the Silver Bauhinia Star and Gold Bauhinia Star in July, 2005 and July, 2013 respectively. Professor Lee is currently the chairman of Hong Kong Institute for Promotion of Chinese Culture, member of the Commission on Strategic Development, and the president of the Fu Hui Charity Foundation.

Mr. Francis Goutenmacher (“**Mr. Goutenmacher**”), aged 76, has been an independent non-executive Director of the Company since February, 2013. He is also a member of the Audit Committee and Nomination Committee of the Company. Mr. Goutenmacher has been with Richemont Luxury Group, S.A. (“Richemont”), one of the world leading luxury goods groups, for over 30 years. He has been the managing director and chief executive officer of several prestigious brands, like Cartier and Piaget, encompassed by Richemont. After retiring as the regional chief executive of Richemont Asia Pacific Limited, Mr. Goutenmacher is now running a marketing consultancy firm, Gouten Consulting Limited, and is a director of this consultancy company. Mr. Goutenmacher holds a Bachelor's degree from Ecole Nationale des Arts Decoratifs in Paris, France. He was an independent non-executive director of Natural Beauty Bio-Technology Limited (0157.HK) until 18th December, 2015.

Mr. Chan Kok Chung, Johnny (“**Mr. Chan**”), aged 58, has been an independent non-executive Director of the Company since November, 2014. He is also a member of the Audit Committee of the Company. Mr. Chan has over 32 years of experience in investment banking and investment management industry. He is a co-founder of Techpacific Capital Limited since 1999, and the chairman and chief executive officer of Crosby Asset Management (Hong Kong) Limited from 2002 to 2016. Mr. Chan is the president of the Hong Kong Venture Capital and Private Equity Association. He is also the Secretary General of the Asia Venture Capital and Private Equity Council. Mr. Chan is a member of the Innovation and Technology Commission from 2014 to 2017. He is a member of the Choate Rosemary Hall Parent Advisory Council. He is an independent non-executive director of CNQC International Holdings Limited (1240.HK) and a director of Repton International (Asia Pacific) Limited. Mr. Chan holds a Master of Business Administration degree from City University Business School in the United Kingdom, a postgraduate diploma from The Securities Institute of Australia and a Bachelor of Arts (Hons) degree in Economics from the London Metropolitan University.

10. GENERAL

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company in Hong Kong is located at 2901 AIA Central, 1 Connaught Road Central, Hong Kong.
- (b) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (c) The company secretary of the Company is Ms. Mui Ching Hung, Joanna, an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. She holds a Bachelor (Hons) Degree in Law and a Master of Arts Degree in Language and Law.
- (d) If there is any inconsistency between this circular and the Chinese translation of this circular, the English text of the circular shall prevail over the Chinese text.

11. CORPORATE INFORMATION AND THE PARTIES INVOLVED IN THE RIGHTS ISSUE

Registered Office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Principal Place of Business	2901 AIA Central 1 Connaught Road Central Hong Kong
Authorised Representatives	Mr. Lau Ko Yuen, Tom and Ms. Mui Ching Hung, Joanna
Company Secretary	Ms. Mui Ching Hung, Joanna

Reporting Accountants	Deloitte Touche Tohmatsu 35 th Floor, One Pacific Place 88 Queensway, Hong Kong
Principal Bankers	Banco Nacional Ultramarino 2 Avenida Almeida Ribeiro, Macau Bank of China, Macau Branch Bank of China Building, Avenida Doutor Mario Soares, Macau Bank of Communications Co., Ltd., Hong Kong Branch 20 Pedder Street, Central Hong Kong Bank of Communications Co., Ltd., Macau Branch 16 th Floor, AIA Tower, No.251A-301 Avenida Comercial De, Macau Hang Seng Bank Limited 21 st Floor, 83 Des Voeux Road Central Hong Kong Industrial and Commercial Bank of China (Asia) Limited 29 th Floor, ICBC Tower, 3 Garden Road Central, Hong Kong Industrial and Commercial Bank of China (Macau) Limited 18 th Floor, Macau Landmark 555 Avenida da Amizade, Macau The Bank of East Asia, Limited 38 th Floor, BEA Tower, Millennium City 5 418 Kwun Tong Road, Kwun Tong, Kowloon Hong Kong
Hong Kong Share Registrar	Tricor Standard Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
Financial Adviser to the Company	Anglo Chinese Corporate Finance, Limited 40 th Floor, Two Exchange Square 8 Connaught Place, Central, Hong Kong

Legal Adviser to the Company as to Hong Kong Law	Reed Smith Richards Butler 20 th Floor, Alexandra House 18 Chater Road, Central, Hong Kong
Legal Adviser to the Company as to Bermuda Law	Conyers Dill & Pearman 29 th Floor, One Exchange Square 8 Connaught Place, Central, Hong Kong
Legal Adviser to the Company as to the PRC Law	JunHe LLP Suite 1301, 13/F, E Building, G.T. Land Plaza, No. 13 Zhujiang East Road, Zhujiang New Town, Tianhe District Guangzhou, PRC
Underwriter	Get Nice Securities Limited 10 th Floor, Cosco Tower Grand Millennium Plaza 183 Queen's Road Central, Hong Kong
Independent Financial Adviser to the Independent Board Committee as to the Rights Issue	Lego Corporate Finance Limited Room 1601, 16/F, China Building, 29 Queen's Road Central, Hong Kong
Independent Valuer	Greater China Appraisal Limited Room 2703, 27/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong

12. EXPENSES

The expenses in connection with the Rights Issue, including the financial advising fees, printing, registration, translation, legal and accounting fees, and underwriting commissions are estimated to be approximately HK\$40 million and are payable by the Company.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 2901 AIA Central, 1 Connaught Road Central, Hong Kong, from the date of this circular up to and including the date of the SGM:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company for the two years ended 31st March, 2016 and 31st March, 2017;
- (c) the interim report of the Company for the six months ended 30th September, 2017;

- (d) the letter from the Independent Board Committee, the text of which is set out on pages 61 to 62 of this circular;
- (e) the letter from Lego Corporate Finance, containing the advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 63 to 94 of this circular;
- (f) the valuation assessment in respect of The 13 Hotel project, the text of which is set out in Appendix II of this circular;
- (g) the letter from Deloitte Touche Tohmatsu relating to the valuation assessment in respect of The 13 Hotel project, the text of which is set out in Appendix III-A of this circular;
- (h) the letter from Anglo Chinese Corporate Finance, Limited relating to the valuation assessment in respect of The 13 Hotel project, the text of which is set out in Appendix III-B of this circular;
- (i) the reporting accountants' report on the unaudited pro forma financial information of the Group issued by Deloitte Touche Tohmatsu set out in Appendix V of this circular;
- (j) the material contracts referred to in the section headed "6. Material contracts" of this Appendix;
- (k) the written consents referred to in the section headed "8. Qualifications and consent of experts" of this Appendix;
- (l) a copy of each circular issued pursuant to the requirements set out in Chapters 14 and, or 14A which has been issued since 31st March 2017 (being the date to which the latest published audited consolidated financial statements of the Group are made up); and
- (m) this circular.

14. GENERAL

This circular, the notice of SGM and the accompanying proxy form are prepared in both English and Chinese. In the event of inconsistency, the English texts shall prevail.

NOTICE OF SGM



The 13 Holdings Limited

十三集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 00577)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**SGM**”) of The 13 Holdings Limited (the “**Company**”) will be held at 10:00 a.m. on Friday, 9th February, 2018 at 1804A, 18/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong for the purpose of considering and, if thought fit, passing (with or without amendments), the following resolutions of the Company:

SPECIAL RESOLUTION

1. **“THAT**, subject to and conditional upon: (i) the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting the listing of, and permission to deal in, the Adjusted Shares (as defined below); (ii) the compliance by the Company with the requirements applicable to the Capital Reduction (as defined below) pursuant to the Companies Act 1981 of Bermuda (the “**Companies Act**”); and (iii) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required to effect the Capital Reorganisation (as defined below), with effect from the first business day immediately following the passing of this resolution (the “**Effective Date**”):
 - (a) every ten (10) existing shares of HK\$2.00 each in the issued and unissued share capital of the Company be consolidated into one (1) share of HK\$20.00 (the “**Consolidated Shares**”) in the issued and unissued share capital of the Company (the “**Share Consolidation**”);
 - (b) all of the Consolidated Shares resulting from the Share Consolidation shall rank *pari passu* in all respects with each other and have the rights and privileges and be subject to the restrictions contained in the bye-laws of the Company;

NOTICE OF SGM

- (c) all fractional Consolidated Shares shall be disregarded and not be issued to the shareholders of the Company (the “**Shareholders**”) and any fractional entitlements to the issued Consolidated Shares arising as a result of the Share Consolidation will be aggregated and, if possible, sold and the net proceeds shall be retained for the benefit of the Company by an agent appointed by the Company’s board of directors (the “**Board**”) for that purpose;
- (d) subject to and forthwith upon the Share Consolidation taking effect, the issued share capital of the Company be reduced by way of cancellation of the paid-up capital of the Company to the extent of HK\$19.80 on each issued Consolidated Share so that the nominal value of each issued Consolidated Share be reduced from HK\$20.00 to HK\$0.20 (each such reduced share, an “**Adjusted Share**”) and any liability of the holders of Adjusted Shares to make any further contribution to the capital of the Company on each Adjusted Share shall be treated as satisfied (the “**Capital Reduction**”);
- (e) subject to and forthwith upon the Capital Reduction taking effect, each of the then authorised but unissued Consolidated Shares (including those arising from the Capital Reduction) be subdivided into one hundred (100) shares of HK\$0.20 nominal value each (the “**Share Subdivision**”, together with the Share Consolidation and the Capital Reduction, the “**Capital Reorganisation**”);
- (f) the credit arising from the Capital Reduction be transferred to the contributed surplus account of the Company within the meaning of the Companies Act and that the directors of the Company (the “**Directors**”) or a committee thereof be and are hereby authorised to apply the balance in the contributed surplus account in any manner permitted by the Companies Act and the bye-laws of the Company in effect from time to time and all applicable laws without further authorisation from the Shareholders, including but not limited to setting off against the accumulated losses of the Company, and all such actions in relation thereto be approved; and
- (g) any one or more Directors be and is/are hereby authorised for and on behalf of the Company to do all such acts and things and approve, sign and execute such documents, including under seal where applicable, and to take all steps which he/they may consider necessary, desirable or expedient to implement and/or give effect to the Capital Reorganisation.”

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ORDINARY RESOLUTION

2. **“THAT** subject to the passing of the resolution numbered 1 above and conditional upon the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having revoked the listing of and permission to deal in the Rights Issue Shares (as defined below) to be allotted and issued to the Shareholders pursuant to the terms and conditions of the Rights Issue (as defined below); and (ii) the Underwriting Agreement (as defined below) becoming unconditional and not being terminated in accordance with its terms:
- (a) the issue by way of rights (the **“Rights Issue”**) of not less than 920,867,010 new Adjusted Shares (assuming no change in the number of issued Shares on or before the Record Date (as defined below)) and not more than 1,048,593,270 new Adjusted Shares (assuming no change in the number of issued Shares up to the Record Date other than the issue of new Shares upon the exercise in full of the subscription rights attaching to the Non-undertaken Convertible Securities (as defined in the Circular, as defined below) on or before the Record Date (as defined below)) (each a **“Rights Issue Share”**) to the Shareholders (the **“Qualifying Shareholders”**) whose names appear on the register of members of the Company on Friday, 23rd February, 2018 (or such other date as the Company may agree with the Underwriter (as defined below) in writing) (the **“Record Date”**) other than those Shareholders whose registered addresses as shown on the register of members of the Company on the Record Date are in any place outside Hong Kong and whom the Board, based on the enquiries made by the Board, consider it necessary or expedient not to offer the Rights Issue Shares to such Shareholders (the **“Excluded Shareholders”**) on account of the legal restrictions under the laws of the relevant overseas place(s) and/or the requirements of the relevant regulatory body or stock exchange in such place(s), on the basis of ten (10) Rights Issue Shares for every one (1) Adjusted Share then held on the Record Date at the subscription price of HK\$1.10 per Rights Issue Share and otherwise on the terms and conditions set out in the circular of the Company dated 24th January, 2018 (the **“Circular”**) be and is hereby approved;
- (b) the underwriting agreement dated 19th October, 2017 (as amended and supplemented by a supplemental agreement date 6th December, 2017) (the **“Underwriting Agreement”**) entered into between the Company as issuer and Get Nice Securities Limited (the **“Underwriter”**) as underwriter (a copy of the Underwriting Agreement, which has been produced to the SGM marked “A” and initialed by the chairman of the SGM for the purpose of identification) and the transactions contemplated thereunder (including but not limited to the underwriting of the Rights Issue Shares by the Underwriter) be and are hereby approved, confirmed and ratified;

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- (c) the Board or a committee thereof be and is hereby authorised to allot and issue the Rights Issue Shares (in both nil-paid and fully-paid forms) pursuant to or in connection with the Rights Issue on the terms and conditions set out in the Circular and to make such exclusions or other arrangements in relation to the Excluded Shareholders (if any) and to make such arrangements for application by the Qualifying Shareholders for the Rights Issue Shares in excess of their entitlement under the Rights Issue, as it may, at its absolute discretion, deem necessary, desirable or expedient; and
- (d) the performance of all transactions contemplated under the Rights Issue be and is hereby approved, confirmed and ratified and any one or more Directors be and is/are hereby authorised to do all acts, deeds and things and to sign and execute all documents as he, or they may, at his, or their absolute discretion, deem necessary, desirable or expedient to carry out or to give effect to the Rights Issue, the Underwriting Agreement and any or all transactions contemplated thereunder.”

By order of the Board of
The 13 Holdings Limited
Mui Ching Hung, Joanna
Company Secretary

Hong Kong, 24th January, 2018

Principal Place of Business:
2901 AIA Central
1 Connaught Road Central
Hong Kong

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

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Notes:

1. A form of proxy for use at the SGM is enclosed herewith.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his, or her attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hands of any officer or attorney duly authorised.
3. Any member entitled to attend and vote at the SGM is entitled to appoint one or more proxies to attend and vote instead of him, or her. A proxy need not be a member of the Company.
4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, must be lodged at the Company's Hong Kong branch share registrar and transfer office, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof.
5. Completion and return of the form of proxy will not preclude members from attending and voting in person at the SGM or any adjournment thereof should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
6. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he, or she, or it was solely entitled thereto, but if more than one of such joint holders are present at the Meeting, the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
7. The votes to be taken at the meeting for the resolution will be by way of a poll.
8. The register of members of the Company will be closed from Thursday, 8th February, 2018 to Friday, 9th February, 2018 (both dates inclusive), during which period no transfers of shares will be registered. To determine the entitlement to attend and vote at the meeting, all transfers of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 7th February, 2018.

As at the date of this notice, the directors of the Company are:

Mr. Stephen Hung	:	Joint Chairman (Executive Director)
Mr. Peter Lee Coker Jr.	:	Joint Chairman (Executive Director)
Mr. Lau Ko Yuen, Tom	:	Deputy Chairman (Executive Director)
Mr. Walter Craig Power	:	Chief Executive Officer (Executive Director)
Ir James Chiu, <i>OBE, JP</i>	:	Independent Non-Executive Director
Professor Lee Chack Fan, <i>GBS, SBS, JP</i>	:	Independent Non-Executive Director
Mr. Iain Ferguson Bruce	:	Independent Non-Executive Director
Mr. Francis Goutenmacher	:	Independent Non-Executive Director
Mr. Chan Kok Chung, Johnny	:	Independent Non-Executive Director