MERDEKA 頜智

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23 April 2025

To: The Independent Board Committee and the Independent Shareholders of Hanvey Group Holdings Limited

Dear Sirs/Madams,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO (1) DISPOSAL OF ENTIRE EQUITY INTEREST IN A PRC SUBSIDIARY; AND (2) DISPOSAL OF A HONG KONG PROPERTY

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 Disposals, details of which are set out in the Letter from the Board (the "**Board Letter**") contained in the circular of Hanvey Group Holdings Limited (the "**Company**") dated 23 April 2025 (the "**Circular**"). Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

The Disposals

On 17 December 2024 (after trading hours), the Company and Vendor A (an indirect wholly-owned subsidiary of the Company) entered into Sale and Purchase Agreement A with Purchaser A (a connected person of the Company), pursuant to which Vendor A conditionally agreed to sell, and Purchaser A conditionally agreed to purchase (i) the Sale Equity Interest (representing the entire equity interest and actual paid-up registered capital of the Disposal Company); and (ii) the Sale Loan, at the Disposal A's Consideration.

In addition, under Sale and Purchase Agreement A, upon Disposal A's Completion, the Company shall (i) enter into a deed of set-off with Purchaser A in relation to the set-off of an amount equivalent to the Disposal A's Consideration against the outstanding principal amount of the Amount Due to Purchaser A as of the date of Disposal A's Completion; and (ii) procure Shenzhen 3 Wells to enter into a deed of assignment with the Disposal Company and Purchaser A in relation to the assignment of the Sale Loan by Shenzhen 3 Wells to Purchaser A.

On 17 December 2024 (after trading hours), Vendor B (an indirect wholly-owned subsidiary of the Company) and Purchaser B (a connected person of the Company) entered into Sale and Purchase Agreement B, pursuant to which Vendor B has conditionally agreed to sell, and Purchaser B has conditionally agreed to purchase Property B at the Disposal B's Consideration.

GEM LISTING RULES IMPLICATIONS

Since the Sale and Purchase Agreements were entered into within a 12-month period (or are otherwise related) by the Group with the same parties, Disposal A and Disposal B are required to be aggregated as a series of transactions pursuant to Rules 19.22, 19.23, 20.79 and 20.80 of the GEM Listing Rules. As one or more of the applicable percentage ratio(s) (as defined under the GEM Listing Rules) in respect of the Disposals, on an aggregated basis, exceeds 75%, the Disposals constitute a very substantial disposal on the part of the Company under Chapter 19 of the GEM Listing Rules.

In addition, each of Purchaser A and Purchaser B is owned by Mr. Cheuk and Mrs. Cheuk in equal shares. Mr. Cheuk is the chairman of the Board, the chief executive officer of the Company and an executive Director. Mrs. Cheuk is an executive Director and the spouse of Mr. Cheuk. Each of Mr. Cheuk and Mrs. Cheuk owns 50% of Million Easy, which in turn holds 51.0% of the issued share capital of the Company. Accordingly, each of Mr. Cheuk and Mrs. Cheuk is a substantial shareholder and controlling shareholder (as defined under the GEM Listing Rules) of the Company. As such, under Chapter 20 of the GEM Listing Rules, each of Purchaser A and Purchaser B is a connected person of the Company. As one or more of the applicable percentage ratios (as defined under the GEM Listing Rules) in respect of the Disposals, on an aggregated basis, are greater than 5%, the Disposals constitute a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. The Disposals are subject to reporting, announcement, circular and Independent Shareholders' approval requirements under the GEM Listing Rules.

Each of Mr. Cheuk and Mrs. Cheuk has abstained from voting on the relevant board resolution(s) of the Company in view of their interest in the Disposals by virtue of their respective interests and/or relationships with Purchaser A and Purchaser B. Save for the aforesaid, no other Director had a material interest or conflict of role in the Disposals or has abstained from voting on the relevant board resolution(s).

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Yu Sau Ning Homer, M.H., Ms. Yee Wai Fong Wendy and Mr. Yip Yat Lam, has been established to consider and give a recommendation to the Independent Shareholders as to whether the terms of the Sale and Purchase Agreements are on normal commercial terms or better and fair and reasonable, and are in the interests of the Company and its shareholders as a whole and to advice the Independent Shareholders as to how to vote at the EGM.

THE INDEPENDENT FINANCIAL ADVISER

We, Merdeka Corporate Finance Limited ("**Merdeka**"), have been appointed and approved by the Independent Board Committee for the purpose of the GEM Listing Rules, our role is to give an independent opinion to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Sale and Purchase Agreements are on normal commercial terms or better and fair and reasonable, and are in the interests of the Company and its shareholders as a whole and to advice the Independent Shareholders as to how to vote at the EGM.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, save for this appointment as the Independent Financial Adviser in respect of the Disposals, there were no engagements between the Group or the Shareholders and Merdeka. 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 had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence.

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others (i) the Sale and Purchase Agreements; (ii) the announcement of the Company dated 17 December 2024 in relation to the Disposals; (iii) the annual results announcement of the Company for the year ended 31 December 2024 (the "**2024 Annual Results Announcement**"); (iv) the annual report of the Company for the financial year ended 31 December 2023 (the "**2023 Annual Report**"); (v) the valuation report of the Disposal Company (the "**Equity Valuation Report**") issued by the independent valuer, FVA Advisory Limited (the "**Independent Valuer**"), in respect of the Sale Equity Interest as at 31 October 2024; (vi) the valuation report of Property A (the "**Property Valuation Report A**") issued by the Independent Valuer, in respect of the market value of Property A as at 31 October 2024; (vii) the valuation report of Property B (the "**Property Valuation Report B**") issued by the Independent Valuer, in respect of the market value of Property B as at 31 October 2024; and (viii) other information set out in the Circular.

We have assumed that all statements, information and representations made or referred to in the Circular and all information and representations which have been provided by the Company and its advisers, the Directors and the Management, for which they are solely and wholly responsible, were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Management in the Circular were reasonably made after due and careful enquiry and were based on honestly-held opinions.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries that, to the best of their knowledge and belief, there are no omission of other facts that would make any statements in the Circular misleading. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any omission of any material facts that would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Directors and the Management. Our opinion is based on the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. This letter is issued to the Independent Board Committee and the Independent Shareholders, solely in connection for their consideration of the Disposals, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Sale and Purchase Agreements and the transactions contemplated thereunder, we have considered the following principal factors and reasons.

1. Information of the group

Historical financial information of the Group

Set out below a summary of the audited financial results of the Group for the year ended 31 December 2022 ("**FY2022**"), 31 December 2023 ("**FY2023**") and 31 December 2024 ("**FY2024**") as extracted from the 2023 Annual Report and the 2024 Annual Results Announcement.

Table 1: Summarised financial results of the Group

	For the year ended 31 December		
	2022	**2023**	**2024**
	HK$000	*HK$000*	*HK$000*
	(audited)	(audited)	(audited)
Revenue	272,555	185,667	138,695
– Finished watches	220,579	121,699	41,522
– SKD kits	46,420	58,758	83,819
– Watch parts	5,556	5,210	2,554
Cost of sales	(216,337)	(142,352)	(97,549)
Gross profit	**56,218**	**43,315**	**41,146**
Other income, gains and losses	1,635	(254)	(11,948)
Selling and distribution expenses	(4,176)	(4,080)	(3,672)
Administrative expenses	(57,441)	(48,595)	(37,059)
Finance costs	(6,754)	(9,124)	(7,540)
Loss before tax	**(10,518)**	**(18,738)**	**(19,073)**
Income tax expense	(600)	(1,194)	(160)
Loss for the year	**(11,118)**	**(19,932)**	**(19,233)**
Attributable to:			
– Owners of the Company	(10,646)	(19,764)	(19,229)
– Non-controlling interests	(472)	(168)	(4)
	(11,118)	**(19,932)**	**(19,233)**

*FY2024 vs FY2023_*

According to the 2024 Annual Results Announcement, the revenue of the Group decreased by approximately HK$46.97 million or approximately 25.30% from approximately HK$185.67 million for FY2023 to approximately HK$138.70 million for FY2024. As disclosed in the 2024 Annual Results Announcement, the decrease was mainly due to the ongoing uncertainty across the global market.

As a result of the decrease in revenue, the gross profit of the Group decreased by approximately HK$2.17 million or approximately 5.01% from approximately HK$43.32 million for FY2023 to approximately HK$41.15 million for FY2024. The total comprehensive expenses attributable to owners of the Company decreased to approximately HK$13.73 million for FY2024 from approximately HK$20.70 million for FY2023, representing a decrease of approximately 33.67%. The reduction was mainly due to (i) a reduction in staff cost; and (ii) a reduction in interest expenses after repayment of bank borrowings of the Group by utilising approximately HK$5.98 million of the net proceeds from a rights issue of the Company effected during FY2024.

FY2023 vs FY2022

According to the 2023 Annual Report, the Group recorded a total revenue of approximately HK$185.67 million for the FY2023, representing a decrease of approximately 31.88% as compared to approximately HK$272.56 million for the FY2022. As disclosed in the 2023 Annual Report, the decrease in revenue was mainly attributable to the ongoing uncertainty across the global market for the FY2023.

Furthermore, the gross profit of the Group was approximately HK$43.32 million for the FY2023, representing a decrease of approximately 22.95% as compared to approximately HK$56.22 million for the FY2022. The Group also recorded an increase in loss of approximately 79.23%, from approximately HK$11.12 million for the FY2022 to approximately HK$19.93 million for the FY2023. As advised by the Company, the increase in loss was mainly attributable reduction of the Group's revenue during the year.

Meanwhile, the consolidated assets and liabilities of the Group as at 31 December 2023 and 31 December 2024 as extracted from 2024 Annual Results Announcement are summarized as follows:

Table 2: Summarised financial position of the Group

	As at 31 December 2024 *HK$000* (audited)	**As at 31 December 2023** *HK$000* (audited)
TOTAL ASSETS	**153,341**	**202,594**
Non-current assets		
– Property, plant and equipment	12,513	55,794
– Investment properties	9,188	11,375
– Others	747	1,353
	22,448	**68,522**
Current assets		
– Inventories	11,418	12,582
– Trade receivables	34,159	17,599
– Financial assets at fair value through profit or loss	19,783	22,500
– Cash and bank balances	16,518	71,744
– Others	49,105	9,647
	130,893	**134,072**
TOTAL LIABILITIES	**141,747**	**184,796**
Current liabilities		
– Bank overdrafts	2,873	3,738
– Trade and bills payables	51,415	52,339
– Borrowings	56,184	62,902
– Loan from a related company	–	1,800
– Others	31,275	10,096
	141,747	**130,875**
Non-current liabilities		
– Borrowings	–	53,579
– Lease liabilities	–	342
	–	**53,921**
Equity attributable to owners of the Company	12,481	18,681
Non-controlling interests	(887)	(883)
Total equity	**11,594**	**17,798**

As at 31 December 2024, the Group recorded total assets of approximately HK$153.34 million. The decrease in total assets of approximately HK$49.25 million compared to the total asset of approximately HK$202.59 million as at 31 December 2023 was mainly due to reduction in property, plant and equipment of HK$43.28 million.

As at 31 December 2024, the non-current assets of the Group amounted to approximately HK$22.45 million, mainly comprised of (i) property, plant and equipment of approximately HK$12.51 million; and (ii) investment properties of approximately HK$9.19 million.

As at 31 December 2024, the current assets of the Group amounted to approximately HK$130.89 million, mainly consisted of (i) inventories of approximately HK$11.42 million; (ii) trade receivables of approximately HK$34.16 million; (iii) financial asset at fair value through profit or loss of approximately HK$19.78 million; and (iv) cash and bank balances of approximately HK$16.52 million.

The Group's non-current assets and current assets as at 31 December 2024 remained stable as compared to 31 December 2023.

On the other hand, the Group recorded total liabilities of approximately HK$141.75 million as at 31 December 2024, which was approximately HK$184.80 million as at 31 December 2023.

As at 31 December 2024, the current liabilities of the Group amounted to approximately HK$141.75 million mainly consisted of (i) trade and bills payables of approximately HK$51.42 million; and (ii) borrowings of approximately HK$56.18 million.

2. Information of Vendor A and Vendor B

Vendor A

Vendor A, Creative Profit Investment Limited (意利投資有限公司), is a limited liability company incorporated in Hong Kong on 22 May 2008 and an indirect wholly-owned subsidiary of the Company with principal business of investment holding.

Vendor B

Vendor B, Cheer China Group Holdings Limited (致華集團控股有限公司), is a limited liability company incorporated in Hong Kong on 3 August 2011 and an indirect wholly-owned subsidiary of the Company with principal business of investment holding.

3. Information of Purchaser A and Purchaser B

Purchaser A

Purchaser A, Billion Riches Limited (品億有限公司), is a company incorporated in Hong Kong with limited liability and principally engaged in investment holding. Purchaser A is wholly-owned by Propulsive Future Group Limited, a company incorporated in the British Virgin Islands, which is in turn owned by Mr. Cheuk and Mrs. Cheuk in equal shares.

Purchaser B

Purchaser B, Multiple Yield Limited (萬茂有限公司), is a company incorporated in Hong Kong with limited liability and principally engaged in investment holding. Purchaser B is wholly-owned by Mr. Cheuk and Mrs. Cheuk in equal shares.

Mr. Cheuk is the chairman of the Board, the chief executive officer of the Company and an executive Director. Mrs. Cheuk is an executive Director and the spouse of Mr. Cheuk.

4. Information of the Disposal Company and the Properties

The Disposal Company

The Disposal Company is a company established in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company immediately prior to Disposal A's Completion. The Disposal Company is principally engaged in the business of property investment and is the sole legal and beneficial owner of Property A, which is its main asset.

For the three financial years ended 31 December 2022, 31 December 2023 and 31 December 2024, the audited financial information of the Disposal Company is as follows:

	For the year ended 31 December		
	2024	**2023**	**2022**
	HK$'000	*HK$'000*	*HK$'000*
Revenue *(Note)*	1,225	1,262	2,542
Loss before taxation	(9,892)	(1,622)	(649)
Loss for the year	(9,892)	(1,622)	(649)

Note: The revenue generated for the two financial years ended 31 December 2022 and 31 December 2023 represents the rental income from Property A, which has been leased to the Remaining Group for its office and warehouse use.

The significant increase in rental income from Property A in 2022 was substantially attributable to the Group's decision in 2021 to defer the entire year's rent payable to the Disposal Company, due to the impact of the pandemic on market conditions and the business environment. As a result, Property A's rental income for 2021 was not received by the Disposal Company until 2022. This deferred rental income from 2021 contributed to the 2022 figures instead, causing the revenue for 2022 to be about twice that of 2023.

The unaudited net assets of the Disposal Company valued at approximately RMB2.85 million (equivalent to approximately HK$3.08 million) as at 31 October 2024.

Property A

Property A comprises Units 801, 802 and 803 on 8th Floor situated at Block 1, Innovation Wisdom Port, Huangpu Nandong Ziran Village, Shajing Town, Baoan District, Shenzhen City, the PRC (中國深圳市寶安區沙井鎮黃埔南洞自然村創新智慧港產業院1棟8層801, 802及803室), with total gross area of approximately 1,034 sq. m..

As at the Latest Practicable Date, Property A is currently used by the Group as its office and warehouse.

According to the property valuation reports prepared by the Independent Valuer, the market value of Property A amounted to RMB18.20 million (equivalent to approximately HK$19.66 million) as at 31 October 2024 and 28 February 2025.

After selling the Disposal Company together with Property A to Purchaser A, the Remaining Group will consider the then market conditions and its own operational needs to decide whether to lease back Property A or relocate to another premises for office and warehouse purposes. The Company will closely monitor its position and will publish announcement(s) as and when necessary to disclose any matters that need to be brought to the attention of the Shareholders and the Stock Exchange in accordance with Chapters 19 and 20 of the GEM Listing Rules.

Property B

Property B is a residential house unit situated at House No. 20, Greenery Gardens, No. 3 Fairview Park Boulevard, Yuen Long, New Territories, Hong Kong, with a gross floor area of approximately 2,568 sq. ft.

According to the property valuation reports prepared by the Independent Valuer, the market value of Property B amounted to HK$16.40 million and HK$15.90 million as at 31 October 2024 and 28 February 2025, respectively.

Property B has been held by the Group since 2012 for investment purpose and currently rented out for rental income. Property B will be sold to Purchaser B with the existing tenancy. The unaudited profit or loss generated from the rental income of Property B for each of the three financial years ended 31 December 2022, 31 December 2023 and 31 December 2024 is as follows:

	For the year ended 31 December		
	2024	**2023**	**2022**
	HK$'000	*HK$'000*	*HK$'000*
Rental income	419	360	360
Loss before taxation	(415)	(684)	(459)
Loss for the year	(415)	(684)	(459)

Property B is currently subject to a mortgage in favour of a Hong Kong licensed bank as security for certain term loans and revolving loans granted to the Group. The mortgage over Property B will be discharged through repayment of the aforesaid loans by Vendor B upon receipt of the consideration from Purchaser B at Disposal B's Completion.

5. Reasons for and benefits of the Disposals

The Company is an investment holding company and the Group is principally engaged in the design and development, manufacturing and distribution of watch products on original design manufacturing basis for watch manufacturers, brand owners and watch importers across the globe.

As set out in 2024 Annual Results Announcement, the Group had outstanding borrowings (including bank overdrafts, bank borrowings and loan from a related company (under liabilities classified as held for sale)) with an aggregate amount of approximately HK$82.2 million as at 31 December 2024. As advised by the Company, the aggregate interests on the borrowings amount to approximately HK$0.49 million per month.

According to 2024 Annual Results Announcement, the Group's gearing ratio as of 31 December 2024, calculated as total borrowings (including bills payable, bank overdrafts, bank borrowings, loans from a related company (under liabilities classified as held for sale), and lease liabilities) less cash and bank balances, expressed as a percentage of total equity, stood at approximately 817.34%. This represents a significant increase compared to the gearing ratio of approximately 446.54% as of 31 December 2023.

As set out in the Board Letter, upon completion of the Disposals, it is estimated that the Group would recognize a gain on disposal of a subsidiary and gain on disposal of a property amounting to approximately HK$5.91 million and HK$0.3 million, respectively, for the year ended 31 December 2024 as if Disposal A and Disposal B had been completed on 31 December 2024. The relative net cash inflows (after deducting direct transaction costs and repayment of loans) from the Disposals are in total of approximately HK$16.32 million for the year ended 31 December 2024. The net proceeds from the Disposals will be utilized to repay part of bank borrowings and the remaining will be used for Group's working capital. As a result, the Group's liquidity position will be improved and the gearing ratio will reduce to about 142.63%.

In addition to the high gearing ratio as of 31 December 2024, the 2024 Annual Results Announcement highlights the uncertain business environment in overseas markets. The risk of an economic slowdown or recession in overseas markets and the economic impact of the Russo-Ukrainian War and the U.S. Tariffs poses the greatest challenge to the Group's export performance in the coming months.

Also, the Group is of the view that the equity market is likely to remain volatile because the interest rates announced by the US Federal Reserve had been high for an extended period and have only begun to show a downward trend recently. The increase in the cost of capital has created unprecedented challenges for business operations. The policies that the new president plans to implement may also introduce unknown factors into the Group's business environment. Taking into consideration the challenges faced by the Group, the Group will closely observe the market.

For overseas markets, economic growth in Europe and the United States is projected to slow down due to the negative market outlook under high inflation. However, in the Southeast Asian market that the Group focus on, there is still a huge market demand of automatic mechanical watch and quartz watch. The Group will closely observe the market trend and provide designs that suit the customers and market needs.

Given the abovementioned situation facing by the Company, we are of the view that the Group should prioritize strengthening its financial position and actively reducing its debt levels. By doing so, the Company can better mitigate the potential risks arising from business uncertainties and navigate the challenging market conditions ahead.

Moreover, the real estate market in mainland China continues to face significant challenges in 2024, marked by sluggish demand, oversupply, and financial strain among property developers. According to the National Bureau of Statistics of PRC, property investment in the first half of 2024 declined by 7.9% year-on-year, reflecting ongoing weak sentiment among homebuyers. The central Government's easing measures, including reduced mortgage rates and relaxed home-buying restrictions in certain cities, have had limited success in spurring demand. Besides, financial difficulties among major developers, such as liquidity crises and rising defaults, have further exacerbated market instability. Despite some improvement in sales in first-tier cities, lower-tier cities continue to struggle with excess inventory and tepid demand, signalling uneven recovery prospects for the broader market.

At the same time, the residential property market in Hong Kong remains a key focus, characterized by ongoing challenges stemming from high interest rates, affordability concerns, and global economic uncertainty. According to the Rating and Valuation Department, residential property prices in Hong Kong fell by approximately 8% year-on-year as of 3rd quarter of 2024, marking one of the steepest declines in recent years. Rising mortgage rates, which have reached levels exceeding 4% per annum, have deterred potential buyers and reduced affordability for many households.

In response, the Hong Kong government has introduced several measures aimed at stabilizing the residential market. Policies such as adjustments to stamp duty for first-time buyers, increased quotas for public housing, and incentives for redevelopment of older properties aim to address affordability issues and boost supply. However, the impact of these initiatives has been constrained by broader macroeconomic headwinds, including subdued consumer sentiment and persistent concerns about job security. Moving forward, while demand for affordable housing remains strong, the luxury residential segment may experience continued softness, reflecting shifting investor preferences and the uncertain economic outlook.

Taking into account of (i) the high gearing ratio of the Group as of 31 December 2024 and the Group's liquidity position will be improved and the gearing ratio will reduce to about 142.63% upon completion of the Disposals; (ii) the business prospect of the Remaining Group remains uncertain; and (iii) the outlook of the real estate markets in the PRC and Hong Kong are facing significant challenges, making it increasingly challenging for the Company to capitalise on its investment in the Properties by selling them to potential buyers, we concur with the Board that the Disposals represent a good opportunity for the Group to realise the value of the Properties at a reasonable price to allow the Group to reduce its indebtedness and finance costs and mitigating its liquidity pressure. In addition, the net proceeds from the Disposals could increase the reserve of working capital in supporting the Group's operations and expansions. While the Company currently has no specific plans for the Group's expansion, it remains open to potential opportunities that may arise in the future. Should the Company decide to pursue expansion, it will carefully utilise the proceeds to ensure the alignment with the Group's long-term objectives and the overall interests of the Company and the Shareholders.

6. The Sale and Purchase Agreement

6.1 Sale and Purchase Agreement A

As at the Latest Practicable Date:

(i) the Group was indebted to Purchaser A (a connected person of the Company) for the Amount Due to Purchaser A, which amounted to approximately HK$24.71 million as at 28 February 2025;

(ii) the Disposal Company was indebted to Shenzhen 3 Wells (an indirect wholly-owned subsidiary of the Company) for the Sale Loan, which amounted to approximately RMB15.33 million (equivalent to approximately HK$16.56 million) as at 28 February 2025; and

(iii) the Disposal Company is the sole legal and beneficial owner of Property A, which is its main asset.

On 17 December 2024 (after trading hours), the Company and Vendor A entered into Sale and Purchase Agreement A with Purchaser A, pursuant to which Vendor A conditionally agreed to sell, and Purchaser A conditionally agreed to purchase (i) the Sale Equity Interest (representing the entire equity interest and actual paid-up registered capital of the Disposal Company); and (ii) the Sale Loan, at the Disposal A's Consideration.

Consideration and payment terms

The Disposal A's Consideration is RMB18.20 million (equivalent to approximately HK$19.66 million), which shall be settled by way of set-off of an amount equivalent to the Disposal A's Consideration against the outstanding principal amount of the Amount Due to Purchaser A as of the date of Disposal A's Completion. In the event that the outstanding principal amount of the Amount Due to Purchaser A as of the date of Disposal A's Completion is less than the equivalent of the Disposal A's Consideration, Purchaser A shall pay such a shortfall to Vendor A (or its nominee) in cash. As at the Latest Practicable Date, the Group was indebted to Purchaser A for the Amount Due to Purchaser A, which is unsecured, interest-free and repayable on demand. As at 28 February 2025, the Amount Due to Purchaser A amounted to approximately HK$24.71 million.

Under Sale and Purchase Agreement A, upon Disposal A's Completion, the Company shall (i) enter into a deed of set-off with Purchaser A in relation to the set-off of an amount equivalent to the Disposal A's Consideration against the outstanding principal amount of the Amount Due to Purchaser A as of the date of Disposal A's Completion; and (ii) procure Shenzhen 3 Wells to enter into a deed of assignment with the Disposal Company and Purchaser A in relation to the assignment of the Sale Loan by Shenzhen 3 Wells to Purchaser A.

Basis of consideration

As noted from the Board Letter, the Disposal A's Consideration was arrived at arm's length negotiations between the parties on normal commercial terms with reference to (i) the valuation of the Sale Equity Interest of RMB2.85 million (equivalent to approximately HK$3.08 million) as at 31 October 2024, which was substantially derived from the value of Property A of RMB18.20 million (equivalent to approximately HK$19.66 million) as at 31 October 2024 according to the Property Valuation Report A, net of the Disposal Company's outstanding liabilities as at 31 October 2024) after taking into consideration of the subsequent events in early November 2024 including (a) borrowing of RMB0.99 million from Shenzhen 3 Wells and (b) repayment of RMB3.46 million to a bank in the PRC; (ii) the principal of the Sale Loan in the amount of approximately RMB15.35 million (equivalent to approximately HK$16.58 million) as at 31 October 2024; (iii) the prospect of having the Amount Due from Purchaser A settled in an amiable manner, thereby reducing the Company's indebtedness level and financial reliance on its controlling shareholders, namely Mr. Cheuk and Mrs. Cheuk; and (iv) the prevailing market conditions of the PRC real estate industry.

Valuation Report

To assess the fairness and reasonableness of the Disposal A's Consideration, we have reviewed and considered the Equity Valuation Report which states that the valuation of the fair value of the Sale Equity Interest was approximately RMB2.85 million (equivalent to approximately HK$3.08 million) as at 31 October 2024. According to the Equity Valuation Report, fair value is defined as "the price at which a shareholding of a business or a company would be transferred at arm's length terms between a willing buyer and a willing seller, both having reasonable knowledge of the relevant facts and neither being compelled to buy or sell".

Given that the Company had also engaged the Independent Valuer to conduct a valuation of Property A as at 31 October 2024 because Property A represented the major asset held by the Disposal Company as at the same date, we have also reviewed and considered the Property Valuation Report A. Based on the Property Valuation Report A, the market value of Property A was RMB18.20 million (equivalent to approximately HK$19.66 million) as at 31 October 2024.

We are of the view that it is reasonable to reference to the Equity Valuation Report instead of the Property Valuation Report A when determining the Disposal A's Consideration, given that despite Property A representing the major asset held by the Disposal Company, the Disposal Company also held other assets and liabilities which should be taken into account when determining the fair value, or the Disposal A's Consideration, of the Sale Equity Interest.

We have performed the works as required under Note 1(d) to Rule 17.92(2)(b) of the GEM Listing Rules and paragraph 5.3 of the Corporate Finance Adviser Code of Conduct in respect of the Equity Valuation Report and the Property Valuation Report A, which included, among others, (i) review of the terms of engagement and the scope of work of the Independent Valuer; (ii) assessment of the Independent Valuer's qualification and experience in relation to the preparation of the Equity Valuation Report and the Property Valuation Report A and its independence; and (iii) discussion on the bases, assumptions and methodologies adopted by the Independent Valuer.

Independent Valuer

For our due diligence purpose, we have reviewed and enquired into the qualifications and experience of the Independent Valuer in relation to the preparation of the Equity Valuation Report and Property Valuation Report A. We understand that Mr. Jeff Sin ("**Mr. Sin**"), the director of the Independent Valuer and the signor of the Equity Valuation Report and Property Valuation Report A, is Certified Public Accountant, Chartered Financial Analyst and chartered member of Royal Institution of Chartered Surveyors, respectively. We have also obtained information on the Independent Valuer's track records on other business and property valuations and noted that the Independent Valuer had been the valuer for a wide range of companies listed on the Stock Exchange. As such, we are of the view that the Independent Valuer and Mr. Sin are qualified, experienced and competent in performing business valuations and providing a reliable opinion in respect of the valuation of the Sale Equity Interest and Property A.

We have also enquired with the Independent Valuer as to its independence from the Group and the parties to Sale and Purchase Agreement A and were given to understand that the Independent Valuer is an independent third party of the Group and its connected persons. The Independent Valuer also confirmed to us that it was not aware of any relationship or interest between itself and the Group or any other parties that would reasonably be considered to affect its independence to act as an independent valuer for the Company. The Independent Valuer confirmed to us that apart from normal professional fees payable to it in connection with their engagement for the valuation, they had no other engagement with the Company.

Furthermore, we noted from the engagement letter entered into between the Company and the Independent Valuer that the scope of work was appropriate for the Independent Valuer to form the opinions required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Independent Valuer.

Valuation basis

We have reviewed the Equity Valuation Report and understand that it was prepared based on a going concern basis to evaluate the fair value. During the course of our discussion with the Independent Valuer, we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the valuation methodology and the principal basis and assumptions adopted in arriving at the valuation of the Sale Equity Interest. Since no unusual matters had come to our attention that led us to believe that the Equity Valuation Report was not prepared on a reasonable basis, we believe that the valuation fairly represents the fair value of the Sale Equity Interest and forms a fair and reasonable basis for our further assessment on the Disposal A's Consideration.

Valuation methodologies

We have discussed with the Independent Valuer on the methodology adopted in valuing the fair value of the Sale Equity Interest as at 31 October 2024 and noted they had considered the three generally accepted valuation approaches, namely the market approach, the income approach and the cost approach.

As understood from the Independent Valuer, the adjusted net asset value method under asset approach was considered to be the most appropriate valuation approach in the valuation. It is based on the economic principle of substitution; it essentially measures what is the net asset value as at the date of valuation and how much it would cost to replace those assets. Given the fact that the major business activity of the Disposal Company is to hold Property A, and that most of the assets/liabilities on the book of the Disposal Company are of a monetary nature, the adjusted net asset value method is adopted to estimate the current fair value of the business or its assets.

According to the discussion with the Independent Valuer, under the asset approach, fair values of the assets and liabilities held by the Disposal Company are summed up to arrive at the fair value of the Disposal Company. In determining the fair value of the Sale Equity Interest, book values of all assets and liabilities of the Disposal Company except for Property A are assumed to approximate their fair values after considering the nature of each of the assets and liabilities.

Property Valuation Report A

According to the Property Valuation Report A as set out in Appendix V to the Circular, the fair market valuation of Property A amounted to RMB18.20 million (equivalent to approximately HK$19.66 million) as at 31 October 2024. To assess the fairness and reasonableness of the valuation, we have reviewed the Property Valuation Report A and discussed with the Independent Valuer in relation to (i) the methodologies, basis and assumptions used in performing the valuation on Property A; and (ii) their scope of work for conducting the valuation on Property A.

In selecting an appropriate valuation approach, we have discussed with the Independent Valuer and understood that they have adopted the direct comparison method under market approach. The market approach is based on comparing the subject asset with identical or similar assets for which price information is available, such as a comparison with market transactions in the same, or close similar, type of asset within the appropriate time horizon.

Based on the fact that there is available pricing information reflecting the current market perception of assets similar to Property A and an exhaustive list of 5 comparable transactions which has similar location and property usage (the "**Property A Comparables**") to the subject property that were identified during a transaction period from 2018 to September 2024 to the best of the Independent Valuer's knowledge based on the following selection criteria, we are of the same view as the Independent Valuer that, where there is sufficient relevant evidence to show the price levels that buyers are willing to pay for similar properties in the market, market approach is the most appropriate for assessing the value of Property A.

We noted from the Property Valuation Report A that the Independent Valuer has no reason to doubt the truth and accuracy of the information provided to them by the Group and they have relied on the Company's confirmation that no material facts have been omitted from the information provided. The Independent Valuer considers that they have been provided with sufficient information for them to reach an informed view. No allowances have been made in the valuations for any charges, mortgages or amounts owing on the properties or for any expenses or taxation, which may be incurred in effecting a sale or purchase. Unless otherwise stated, it is assumed that Property A are free from encumbrances, restrictions, and outgoings of an onerous nature, which could affect their values.

Taking into account that (i) the Independent Valuer has sufficient qualification and experience to undertake the valuation of Property A; (ii) the valuation methodology adopted by the Independent Valuer is commonly adopted for assessing the value of similar properties; and (iii) the major assumptions are commonly adopted for similar valuation, we are of the view that the valuation of Property A is determined on a fair and reasonable basis.

We understand from the Independent Valuer that these assumptions adopted are commonly adopted for property valuations, and have not found any material facts that may lead us to doubt the fairness and reasonableness of the principal basis and assumptions adopted for or the information used in the valuation. In light of the above, we are of the view that the assumptions adopted by the Independent Valuer are fair and reasonable.

The appraised value of Property A

In assessing the value of Property A, the Independent Valuer adopted market comparison method assuming sale of the property in its existing state by making reference to comparable sales evidence as available in the relevant market subject to appropriate adjustments including but not limited to location, size and other relevant factors.

Based on our review on the details of comparable transactions and our discussion with the Independent Valuer, set out below are the selection criteria of the comparable transactions adopted by the Independent Valuer and our assessment on each of the selection criterion:

(i) Land use/building age – Similar in land use nature and buildings completed between 2017 to 2024;

We noted that the comparables are of similar land use nature and were completed between 2017–2024.

(ii) Timing – transacted since 2018 and asking price quoted from local agencies in September 2024;

We noted that the comparables are transacted since 2018 and the asking prices are quoted in September 2024.

(iii) Location – comparables of similar accessibility as the property within same district/comparable district; and

We noted that the comparables are within the same/comparable district as Property A.

(iv) Size – floor area of comparables within 400 to 2,000 square metre.

We noted that the size range covers the size of Property A which has a total GFA of approximately 1,034.39 sq. m..

As advised by the Independent Valuer, only 3 comparable transactions were identified in 2024. To obtain sufficient number of comparable transactions, the Independent Valuer extended the search period to include transactions since 2018. Through this extended search, 2 additional comparable transactions were identified. As referred to the Property Valuation Report A, we understood that below comparables 1 and 2 were selected because they represent actual transactions that are considered most similar to the Property A after the Independent Valuer's consideration on change in market conditions from the transaction or offer dates to 31 October 2024. The remaining comprables were also included as they are more recent and considered to be a good representation of current market conditions.

Based on the aforesaid criteria, to the Independent Valuer's best knowledge, there is an exhaustive list of 5 Property A Comparables, with locations in the same or similar district and are of similar land use right as Property A. Based on the documents provided, we noted that the underlying properties vary in size, building age, transaction date, etc.. We made further enquiries with the Independent Valuer and were advised that appropriate adjustments were made to account for the differences in these factors to reflect a reliable and fair assessment of Property A, please refer to the below paragraph for details. Based on the above assessments, we consider that the Property A Comparables are identified by the Independent Valuer based on fair and reasonable selection criteria.

After taking into account that (i) the abovementioned selection criteria for Property A Comparables are with similar nature and location as Property A; (ii) the list of the Property A Comparables is exhaustive to the best of the Independent Valuer's knowledge, and (iii) the unit rate of each Property A Comparable has been properly adjusted by accounting for differences in characteristics, conditions, and market factors between Property A and Property A Comparables, we are of the view that the Property A Comparables are comparable to Property A.

Set out below are the details of Property A Comparables that the Independent Valuer has applied to assess the value of Property A as at 31 October 2024:

No.	**Location**	**Transaction Time**	**Adjusted Unit Rate** *(RMB per sq. m.)*
1	Innovation Wisdom Port	December 2018	19,000
2	Convention Bay China Harbour Plaza	June 2021	20,064
3	Xingzhan Harbour Plaza	September 2024	13,520
4	Shenghui Century Plaza Building	September 2024	14,696
5	Fucheng Times Square	September 2024	18,497
		Weighted average	17,617
	Property A	Adopted unit rate	17,600

In order to assess the adjustments, we obtained and reviewed the calculation, and enquired with the Independent Valuer regarding the rationale behind, and were given to understand that adjustments were made in respect of (i) location of the comparable properties to reflect the potential discount applied to the unit rate of properties located in more remote area with relatively low accessibility, fewer facility nearby and less pedestrian flow and so on; (ii) landscape adjustment of the comparable properties to reflect potential discount applied to unit rate of properties with sea view; (iii) building age of the comparable properties to reflect potential discount applied to the unit rate of properties with higher building age in view of depreciation; (iv) transaction time of the comparable properties to reflect the change in their respective market price based on Savills office index and New Housing Price Index in 100 Cities* (百城新建住宅價格指數) published by China Real Estate Index System; (v) size of the comparable properties to reflect the potential discount applied to the unit rate of larger properties as generally noted in the real estate market and perceived by the valuation practitioners; (vi) floor levels of the comparable properties to reflect the potential discount applied to upper floors as visibility, accessibility, and pedestrian flow usually decrease when going up from the ground floor without extra connection to other properties or transport; and (vii) asking price adjustment based on their professional judgement and market agent's advices, and vice versa. As further advised by the Independent Valuer, all the above factors are considered in equal weighting in the course of their valuation of Property A and adjustments are made to each property. After considering the above adjustments, an adjusted unit rate is concluded. The final adopted unit rate of Property A is the weighted average of the adjusted unit rate of Property A Comparables.

In order to assess the fairness of the adjustment mechanism adopted by the Independent Valuer, we have referred to the HKIS Valuation Standards 2024 issued by the Hong Kong Institute of Surveyors, it is noted that it is a key step in valuation to make adjustments to the valuation metrics to reflect any significant differences between comparable transactions and the subject asset; and (ii) common differences that could warrant adjustments include but not limited to material characteristics such as building age, size, specifications and geographical location. In addition, we discussed with the Independent Valuer and were confirmed that the adjustment was principally determined based on their experience, with all the applied adjustments conform with the market practice. Hence, we are of the view that the adjustment mechanism adopted by the Independent Valuer is in line with the standard and the adjustments are made reasonably, therefore the adjustment mechanism is fair and reasonable.

Having considered the fact that the market value of Property A as at 31 October 2024 was conducted using market approach which reflects the current market condition of similar assets, we are of the view that the market value of Property A is fairly and reasonably arrived at.

We also noted from the discussion with the Independent Valuer that, after having obtained the valuation of Property A of RMB18.20 million (equivalent to approximately HK$19.66 million) as at 31 October 2024, the Independent Valuer had added such value to the Disposal Company's assets. Apart from taking account of the revaluation of Property A of RMB18.20 million (equivalent to approximately HK$19.66 million), the Independent Valuer also added the book values of other receivables amounted to HK$150,150 and bank balances and cash amounted to approximately HK$2.32 million, and reducing income tax payable of HK$3,990, bank loan of approximately HK$3.46 million and sales loan to be assigned of approximately HK$14.36 million. Upon considering the above figures, the Independent Valuer reached the valuation of the fair value of the Sale Equity Interest of RMB2.85 million (equivalent to approximately HK$3.08 million).

Since we are not aware of any material changes regarding the underlying assumptions and factors as at the Latest Practicable Date, we maintain our opinion that the Equity Valuation Report and the Property Valuation Report A, as well as their underlying bases, methodologies and assumptions, are appropriate and that the Equity Valuation Report and the Property Valuation Report A are appropriate references for determining the valuation of the fair value of the Sale Equity Interest and market value of Property A, respectively.

6.2 Sale and Purchase Agreement B

On 17 December 2024 (after trading hours), Vendor B entered into Sale and Purchase Agreement B with Purchaser B, pursuant to which Vendor B conditionally agreed to sell, and Purchaser B conditionally agreed to purchase Property B at the Disposal B's Consideration.

Asset to be disposed of

Pursuant to Sale and Purchase Agreement B, Vendor B has conditionally agreed to sell and Purchaser B has conditionally agreed to purchase Property B.

Consideration and payment terms

The Disposal B's Consideration is HK$16.40 million and shall be paid by Purchaser B to Vendor B (or its nominee) by cash in the following manner:

(i) the first tranche of the Disposal B's Consideration in the sum of HK$1.64 million upon passing of necessary resolution(s) by the Independent Shareholders at the EGM approving Disposal B and the transactions contemplated thereunder; and

(ii) the remaining balance in the sum of HK$14.76 million upon Disposal B's Completion.

Basis of consideration

The Disposal B's Consideration was arrived at arm's length negotiations between the parties on normal commercial terms with reference to (i) the valuation of Property B of HK$16.40 million as at 31 October 2024 according to the valuation by the Independent Valuer; and (ii) the prevailing market conditions of the Hong Kong real estate industry.

Analysis on the Consideration

Valuation of the Property B

In assessing the fairness and reasonableness of the valuation, we have reviewed the Property Valuation Report B and discussed with the Independent Valuer in relation to (i) their relevant professional qualifications as a property valuer; (ii) their scope of work for conducting the valuation; and (iii) the methodology and assumptions used in performing the valuation.

For our due diligence purpose, we have reviewed and enquired into the qualifications and experience of the Independent Valuer in relation to the preparation of the Property Valuation Report B. We understand that Mr. Sin, the director of the Independent Valuer and the signor of the Property Valuation Report B, is Certified Public Accountant, Chartered Financial Analyst and chartered member of Royal Institution of Chartered Surveyors, respectively. We have also obtained information on the Independent Valuer's track records on other business and property valuations and noted that the Independent Valuer had been the valuer for a wide range of companies listed on the Stock Exchange. As such, we are of the view that the Independent Valuer and Mr. Sin are qualified, experienced and competent in performing business valuations and providing a reliable opinion in respect of the valuation of Property B.

We have also enquired with the Independent Valuer as to its independence from the Group and the parties to the Sale and Purchase Agreement B and were given to understand that the Independent Valuer is an independent third party of the Group and its connected persons. The Independent Valuer also confirmed to us that it was not aware of any relationship or interest between itself and the Group or any other parties that would reasonably be considered to affect its independence to act as an independent valuer for the Company. The Independent Valuer confirmed to us that apart from normal professional fees payable to it in connection with their engagement for the valuation, they had no other engagement with the Company.

Furthermore, we noted from the engagement letter entered into between the Company and the Independent Valuer in respect of valuation for Property B, that the scope of work was appropriate for the Independent Valuer to form the opinions required to be given and there were no limitations on the scope of work which might adversely impact the degree of assurance given by the Independent Valuer.

In assessing the market value of Property B, the Independent Valuer has adopted the market approach by making reference to comparable market transactions in respect of comparable properties of similar size, scale, nature, character, and location and weighed against all the respective advantages and disadvantages of comparable properties against Property B in order to arrive at a fair comparison of market value. In addition, as referred to the Property Valuation Report B, the market approach rests on the wide acceptance of the market transactions or sale asking as the best indicator and pre-supposes that evidence of relevant transactions or sale asking in the market place can be extrapolated to similar properties, subject to allowances for variable factors. In selecting appropriate valuation approach, we have discussed with the Independent Valuer and understood that the Independent Valuer has adopted the direct comparison method under market approach. Market approach is based on comparing the subject asset with identical or similar assets for which price information is available, such as a comparison with market transactions in the same, or close similar, type of asset within the appropriate time horizon. Furthermore, the Independent Valuer confirmed that the adoption of market approach is a normal industry practice for the valuation based on their expertise and experience. Given the aforesaid, we concur with the Independent Valuer's view that the adoption of market approach for the valuation is fair and reasonable.

According to the Property Valuation Report B, we understood the Independent Valuer has assumed that the owner sells Property B in the market in its existing state without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the values of Property B. No allowance has been made in the valuation for any charges, mortgages or amounts owing on the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values. As advised by the Independent Valuer, we understand that all the assumptions in the valuation are generally adopted in other valuations of similar properties and are necessary for the Independent Valuer to arrive at a reasonable estimated reference value of Property B, and we have not found any material facts that may lead us to doubt the fairness and reasonableness of the principal basis and assumptions adopted for or the information used in the valuation of Property B. Accordingly, we consider that the adoption of the assumptions in the valuation for Property B is fair and reasonable.

In arriving at the appraised market value of Property B, the Independent Valuer has made reference to 4 transactions for properties similar in size, scale, nature, character and location and in proximity to Property B (the "**Property B Comparables**"). Adjustments have been considered for the differences in certain parameters, such as time, location, building age, size, etc., between the Property B Comparables and Property B. We have obtained and reviewed the information source of the Property B Comparables and the detailed calculation for the valuation.

In assessing the appropriateness of the 4 Property B Comparables, we have enquired with the Independent Valuer the selection criteria and were given to understand that the Property B Comparables were selected based on the following criteria that (i) the properties are of residential use that is of similar nature as Property B; (ii) the properties are suited at Yuen Long district which is in close proximity to Property B; (iii) the comparable transactions were occurred within three (3) years immediately preceding 31 October 2024; (iv) the sale and purchase agreements were registered in the Land Registry; and (v) the unit rate of the underlying property of each Property B Comparable has been properly adjusted by accounting for differences in characteristics, conditions, and market factors between Property B and Property B Comparables to reflect a reliable and fair assessment on Property B. As confirmed by the Independent Valuer, the Property B Comparables represent an exhaustive list of relevant comparables based on their best knowledge and information available.

Having considered that (i) the Property B Comparables are similar to Property B; (ii) the Property B Comparables were all transacted within three (3) years immediately preceding 31 October 2024; (iii) the Property B Comparables are all located at Yuen Long district; (iv) the Property B Comparables are exhaustive to the best of the Independent Valuer's knowledge; and (v) appropriate adjustments have been made when assessing Property B, we are therefore of the view that the aforesaid selection criteria of the Property B Comparables is sufficient, reasonable and appropriate and the Property B Comparables are comparable to Property B.

Set out below are the details of the Property B Comparables that the Independent Valuer has applied to assess the value of Property B as at 31 October 2024:

No.	**Location**	**Transaction Time**	**Adjusted Unite Rate** *(HK$ per sq. ft.)*
1	House No. 23, Greenery Gardens	February 2024	8,006
2	House No. 21, Royal Camellia	April 2024	9,205
3	House No. 23, Royal Camellia	July 2022	7,570
4	House No. 17, Royal Camellia	June 2022	8,498
		Weighted average	8,374
	Property B	Adopted unit rate	8,400

The Independent Valuer further advised us that with closer features shared between the Property B Comparables and Property B, fewer adjustments would be necessary for valuation of Property B. The adjusted unit rate (in effective area basis) for the Property B Comparables ranges from approximately HK$7,570 per square feet to approximately HK$9,205 per square feet. While the unit rate adopted to derive the Disposal B's Consideration of approximately HK$8,400 per square feet lies within the range of those of the Property B Comparables, we consider the valuation of the Property B is a fair and reasonable reference for the determination of the Disposal B's Consideration.

Having considered that (i) the terms of engagement of the Independent Valuer with the Company for valuation of Property B; (ii) the qualifications, experience and independence of the Independent Valuer in relation to the preparation of the Property Valuation Report B; (iii) the steps and due diligence measures taken by the Independent Valuer for conducting the valuation of Property B; (iv) the methodology and assumption used by the Independent Valuer for the valuation of Property B; (v) the appropriate selection of Property B Comparables; and (vi) the Disposal B's Consideration lying within the range of those of the Property B Comparables, we consider that the valuation of Property B is fair and reasonable.

7. Financial effects of the Disposals on the Group

Disposal A

Upon Disposal A's Completion, the Disposal Company will cease to be a subsidiary of the Company and the financial results of the Disposal Company will no longer be consolidated into the financial statements of the Group.

Assuming the outstanding principal amount of the Amount Due to Purchaser A as at the date of Disposal A's Completion equals to or is greater than the equivalent of the Disposal A's Consideration, Disposal A will not generate any new cash funding for the Company. For illustrative purposes, taking into account (i) the Disposal A's Consideration of RMB18.20 million (equivalent to approximately HK$19.66 million) and net of the estimated expenses and tax expenses in relation to Disposal A of approximately HK$0.39 million; (ii) the Sale Loan in the amount of approximately RMB15.33 million (equivalent to approximately HK$16.56 million) as at 28 February 2025; and (iii) the unaudited net asset value of the Disposal Company as stated in the unaudited management accounts of the Disposal Company as at 31 October 2024 in the amount of approximately RMB2.85 million (equivalent to approximately HK$3.08 million), the Group is expected to recognize a loss on Disposal A of approximately HK$0.37 million. The actual figures will be subject to audit by the auditors of the Company and therefore may be different from the aforementioned amount.

Disposal B

For illustrative purposes, taking into account (i) the consideration for Disposal B of HK$16.40 million and net of the estimated expenses and tax expenses in relation to Disposal B of approximately HK$0.39 million; and (ii) the carrying value of Property B as stated in the unaudited management accounts of Vendor B as at 28 February 2025 in the amount of approximately HK$15.90 million, the Group is expected to recognize a gain on Disposal B of approximately HK$0.11 million. The actual figures will be subject to audit by the auditors of the Company and therefore may be different from the aforementioned amount.

The net proceeds from Disposal B (after expenses of approximately HK$0.39 million) is estimated to be approximately HK$16.01 million. The remaining of the net proceeds, after the release and discharge of the existing charge over Property B of approximately HK$9.60 million, is estimated to be approximately HK$6.41 million, which will be used for general working capital of the Group.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that (i) the Sale and Purchase Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) although the Disposals are not in the ordinary course of business of the Group, and as discussed in this letter, the Disposals are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders to vote in favour of the relevant resolution(s) for approving the Disposals.

Yours faithfully,
For and on behalf of
Merdeka Corporate Finance Limited

Wallace So
Managing Director

Mr. Wallace So is a licensed person registered with the Securities and Futures Commission of Hong Kong, a responsible officer of Merdeka Corporate Finance Limited to carry out type 6 (advising on corporate finance) regulated activity under the SFO and a licensed representative of Merdeka Investment Management Limited to carry out type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO. Mr. Wallace So has over 13 years of experience in corporate finance industry.