PELICAN FINANCIAL
百 利 勤 金 融

PELICAN FINANCIAL LIMITED

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

12 June 2023

To the Independent Board Committee and the Independent Shareholders of Hailan Holdings Limited

Dear Sirs,

(1) PROPOSED PRIVATISATION BY WAY OF VOLUNTARY CONDITIONAL CASH OFFER BY YU MING INVESTMENT MANAGEMENT LIMITED ON BEHALF OF ZHONG JIA (INTERNATIONAL) INVESTMENT CONSTRUCTION COMPANY LIMITED TO ACQUIRE ALL THE ISSUED SHARES OF HAILAN HOLDINGS LIMITED (OTHER THAN THOSE SHARES ALREADY OWNED AND/OR AGREED TO BE ACQUIRED BY THE OFFEROR AND PARTIES ACTING IN CONCERT WITH IT); AND (2) PROPOSED WITHDRAWAL OF LISTING OF THE SHARES

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 Offer, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the composite document of the Offeror and the Company dated 12 June (the "**Composite Document**"), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context requires otherwise.

Reference is made to the joint announcement on 8 May 2023 (the "**Joint Announcement**"), in relation to among other things, the Offer. After trading hours of the Stock Exchange on 27 April 2023, the Offeror informed the Board that Yu Ming will, on behalf of the Offeror, make a voluntary conditional cash offer to acquire all the Shares (other than those already owned and/or agreed to be acquired by the Offeror and Offeror Concert Parties).

Subject to the Offer becoming unconditional and satisfaction of the requirements under the Cayman Companies Act and the Takeovers Code, the Offeror intends to privatise the Company by exercising its right to compulsorily acquire those Offer Shares not already acquired by the Offeror under the Offer. If the Offeror completes the compulsory acquisition, the Company will become a direct wholly-owned subsidiary of the Offeror and an application will be made for the withdrawal of listing of the Shares from the Stock Exchange.

As at the Latest Practicable Date, the Company has 300,000,000 Shares in issue. There were no outstanding options, warrants, derivatives, convertible securities or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company. The Offeror and the Offeror Concert Parties held 75% of the total number of shares in issue of the Company.

The Offer to be made by the Offeror is subject to the only Condition that valid acceptances of the Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the Takeovers Code, decide) in respect of such number of Offer Shares which would result in the Offeror holding at least 90% of the Offer Shares with the further proviso that, within that holding, the Offeror would also hold at least 90% of the Disinterested Shares.

The Condition is not waivable. If the Condition cannot be fulfilled by the Closing date, the Offer will lapse.

The Board currently consists of four executive directors and three independent non-executive directors. The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Li Yong, Dr. Zhao Guoqing and Prof. Fan Conglai, has been established to advise the Independent Shareholders as to whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned, and to make a recommendation to the Independent Shareholders as to whether to acceptance the Offer. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on these matters.

Pelican Financial Limited ("**Pelican**") is not connected to the Directors, chief executive or substantial shareholders of the Company, the Offeror, or any of their respective associates, any company controlled by any of them, or any party acting, or presumed to be acting, in concert with any of them, and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. As at the Latest Practicable Date, we did not have any relationships or interest (including any financial or other professional advisor engagements) with the Company, the Offeror, the Offeror Concert Parties or any of their respective controlling shareholders, or any party acting, or presumed to be acting in concert with, or have control over any of them, that could be reasonably be regarded as a hindrance to Pelican's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Offer. In the last two years, there was no engagement between the Company and us. Apart from normal professional fees payable to us in connection with this appointment of us as the Independent Financial Adviser, no arrangement exists whereby Pelican will receive any fees or benefits from the Company or the Directors, chief executive or substantial shareholders of the Company or any of their respective associates, and we are not aware of the existence of or change in any circumstances that would affect our independence. Accordingly, we consider that we are eligible to give independent advice on the Offer.

Our role is to provide you with our independent opinion and recommendation as to (i) whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the Independent Shareholders should accept the Offer.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, we have performed relevant procedures and those steps which we deemed necessary in forming our opinions. Our procedures include, among other things, review of the relevant agreements, documents as well as information contained or referred to in the Composite Document and/or provided by the management of the Group and validation of such information, to an extent, to the relevant public information, statistics and market data, the relevant industry guidelines and rules and regulations as well as information, facts and representations provided, and the opinions expressed, by the Company, the Directors and/or the management of the Group. The documents reviewed include, but are not limited to the annual report of for the financial year ended 31 December 2022 (the "**2022 Annual Report**"), the Joint Announcement and the Composite Document. We have assumed that all information and representations that have been provided by the management of the Group, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than any information relating to the Offeror) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than those expressed by the respective directors of the Offeror in their capacity as such) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statements in the Composite Document misleading.

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than any information relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document (other than those expressed by the respective directors of the Company in their capacity as such) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement in the Composite Document misleading.

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Composite Document, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Composite Document and provided to us by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Company and the Offeror or their respective shareholders, subsidiaries or associates (if applicable). The Company will notify the Shareholders of any material changes during the Offer Period as soon as possible in accordance with Rule 9.1 of the Takeovers Code. Independent Shareholders will also be notified of any material changes to such information provided and our opinion as soon as practicable throughout the Offer Period.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In arriving at our opinion and recommendation with regard to the Offer, we have taken into account the principal factors and reasons set out below:

1. Background of the Offer

After trading hours of the Stock Exchange on 27 April 2023, the Offeror informed the Board that Yu Ming will, on behalf of the Offeror, make a voluntary conditional cash offer to acquire all the Shares (other than those already owned and/or agreed to be acquired by the Offeror and Offeror Concert Parties).

2. Principal terms of the Offer

a. The Offer

Pursuant to the Composite Document, the Offer is being made by Yu Ming, for and on behalf of the Offeror, in compliance with the Takeovers Code on the following basis:

For each Offer Share .... **HK$3.36 in cash**

As at the Latest Practicable Date, the Company has 300,000,000 Shares in issue. There were no outstanding options, warrants, derivatives, convertible securities or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company.

The Offer will be extended to all Shares in issue on the date on which the Offer is made, being the date of despatch of the Composite Document, and to any further Shares which are unconditionally allotted or issued after the date on which the Offer is made and before the date on which the Offer closes, other than those held by the Offeror or Offeror Concert Parties. The Shares to be acquired under the Offer shall be acquired fully-paid and free from all Encumbrances and together with all rights and benefit attaching or accruing to them, including the rights to receive in full all dividends and other distributions, if any, declared, made or paid by reference to a record date on or after the date on which the Offer is made, that is, the date of the posting of the Composite Document. As at the Latest Practicable Date, the Company confirmed that it has not declared any dividend and the Company does not intend to declare, make or pay any dividend or other distributions prior to the Closing Date.

Further terms of the Offer and the procedures for acceptance are set out in Appendix I to the Composite Document and the accompanying Form of Acceptance.

b. Condition to the Offer

The Offer to be made by the Offeror is subject to the only Condition that valid acceptances of the Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date in respect of such number of Offer Shares which would result in the Offeror holding at least 90% of the Offer Shares with the further proviso that, within that holding, the Offeror would also hold at least 90% of the Disinterested Shares.

As at the Latest Practicable Date, the Offer Shares and the Disinterested Shares comprise 75,000,000 Shares in issue.

The Condition is not waivable. If the Condition cannot be fulfilled by the Closing Date, the Offer will lapse.

As at the Latest Practicable Date, the Condition has not been satisfied.

The Offeror will issue an announcement in relation to the revision, extension or lapse of the Offer or the fulfilment of the Condition in accordance with the Takeovers Code and the Listing Rules.

Offer consideration

As at the Latest Practicable Date, the Company has 300,000,000 Shares in issue. Assuming that there is no change in the issued share capital of the Company and on the basis of the Offer Price of HK$3.36 per Share, the entire issued share capital of the Company is valued at HK$1,008,000,000.

As at the Latest Practicable Date, the Offeror and Offeror Concert Parties are interested in 225,000,000 Shares, representing 75% of the total issued Shares. As a result, the total number of the Offer Shares will be 75,000,000 Shares. The total consideration payable by the Offeror under the Offer will be HK$252,000,000.

Confirmation of financial resources

The Offeror intends to finance the Offer by way of internal resources. Yu Ming has been appointed as the financial adviser to the Offeror in respect of the Offer and is satisfied that sufficient financial resources are available to the Offeror to satisfy full acceptance of the Offer.

For details on the terms of the Offer, please refer to the section headed "The Offer" in the Composite Document.

3. Information on the Group

The Company is incorporated in the Cayman Islands with limited liability, the Shares of which have been listed on the Stock Exchange since 15 July 2016. The Group is principally engaged in development and sales of properties as well as development and lease of properties in the PRC.

a. Financial performance

Set out below is a summary of the financial information of the Group for the two financial years ended 31 December 2021 and 2022 as extracted from the 2022 Annual Report.

Table 1: Summarised financial results of the Group

	As at 31 December 2021 (Audited) *RMB'000*	**As at 31 December 2022** (Audited) *RMB'000*
Revenue		
— Sales of properties	552,928	1,386,961
— Rental income from investment properties	4,643	4,749
Total Revenue	**557,571**	**1,391,710**
Gross profit	**299,694**	**436,711**
Loss for the year	**41,720**	**627,853**
Earnings/(Loss) per share attributable to owners of the Company *(RMB per share)*	0.05	(2.11)

According to the 2022 Annual Report, the Group recorded a total revenue of approximately RMB1,391.7 million for the year ended 31 December 2022 as compared to approximately RMB557.6 million for the year ended 31 December 2021, representing an increase of approximately 149.6%. Such increase in revenue was mainly attributable to the increase in sales of properties of approximately RMB1,387.0 million for the year ended 31 December 2022 as compared to approximately RMB552.9 million for the year ended 31 December 2021. The sales of properties accounted for approximately 99.7% of total revenue for the year ended 31 December 2022, which is the main source of revenue and growth momentum for the Group.

We noted from the 2022 Annual Report that the increase in the revenue from the sales of properties was primarily a result of the increase in the gross floor area ("**GFA**") sold of delivered properties, which are completed real estate projects handed over to their respective buyers. Revenue is recognized and reported at the point when these properties are delivered. The GFA sold increased from 13,973.9 sq.m. in 2021 to 114,657.3 sq.m. in 2022, representing an increase of approximately 7.2 times. The significant growth can be primarily attributed to properties being delivered by projects located in the cities of Sanya, Zhanjiang, Foshan, and Nanjing in the PRC, as well as San Jose in the United States in 2022, whereas the properties being delivered in 2021 were only located in Sanya and Haikou. However, it is also noted that the average selling price of properties delivered experienced a decline. From our discussion with the Company, the average unit selling price of properties delivered in Zhanjiang, Foshan, and Nanjing, which contributed to more than 50% of the total sales of properties in 2022, were in the range of approximately RMB6,300 per sq.m. to RMB11,600 per sq.m.. The properties delivered in Sanya contributed approximately 33% of the total sales of properties in 2022 with average unit selling price ranging from approximately RMB21,700 per sq.m. to RMB37,500 per sq.m.. The properties delivered in San Jose in the United States, accounted for approximately 14% of total sales of properties in 2022 with an average unit selling price of approximately RMB86,000 per sq.m.. In comparison, the average unit selling price for properties delivered in Sanya and Haikou in 2021 were in the range of approximately RMB18,300 per sq.m. to RMB45,600 per sq.m. The decline in the overall average selling price of properties delivered in 2022 was mainly attributed to the higher sales contribution from locations with lower prices. This change in sales mix resulted in a lower average unit selling price for properties in 2022.

In addition, the Group recorded a loss of approximately RMB627.9 million for the year ended 31 December 2022, representing a significant increase of approximately RMB586.1 million from the loss of approximately RMB41.7 million for the year ended 31 December 2021. Such increase in loss was mainly attributable to certain projects under development in the Danzhou and Haikou regions in the Hainan Province of the PRC with carrying amounts of RMB2,035.7 million were written down by RMB693.0 million to their net realizable values in view of the expected decline in the unit selling price, which was based on the Company's yearly assessment of the net realizable value of the properties under development, and for the regions with material impairments in value identified (i.e. the Danzhou and Haikou region), with reference to the independent valuation report prepared by external valuer, Cushman & Wakefield Limited, during the preparation of the 2022 Annual Report. From our discussion with the Company, while the assessment of the net realisable value of properties under development has been performed yearly for the purposes of preparing the annual reports, there were no material impairments identified in the past and hence no write down was made previously in this respect. The write down of the properties under development to net realisable value for the year ended 31 December 2022 was caused by a noticeable decline in the market price within those two regions at the end of 2022, leading to an independent valuation by an external valuer and hence the write down adjustments during the preparation of 2022 Annual Report. However, the Company has not identified any material difference between the expected unit selling price and the market price in other cities where the company has property projects during the aforementioned assessment, as such, no adjustments have been made for these other property projects.

Meanwhile, the consolidated assets and liabilities of the Group as at 31 December 2021 and 31 December 2022 as extracted from the 2022 Annual Report are summarized as follows:

b. Financial position

Table 2: Financial position of the Group

	As at 31 December 2021 (Audited) *RMB'000*	**As at 31 December 2022** (Audited) *RMB'000*
Total assets		
— non-current assets	166,234	814,561
— current assets	8,759,479	7,883,981
	8,925,713	**8,698,542**
Total liabilities		
— non-current liabilities	1,660,306	1,852,060
— current liabilities	5,608,882	5,809,914
	7,269,188	**7,661,974**
Net current assets	**3,150,597**	**2,074,067**
Net assets attributable to owners of the Company (the "NAV")	**1,469,614**	**921,199**

According to the 2022 Annual Report, the Group recorded total assets of approximately RMB8,698.5 million as at 31 December 2022, represented by non-current assets of RMB814.6 million and current assets of RMB7,884.0 million respectively.

The non-current assets of the Group mainly comprised of (i) property, plant and equipment of approximately RMB208.7 million; (ii) investment properties of approximately RMB505.2 million; and (iii) trade and other receivables of approximately RMB37.7 million. The non-current assets of the Group increased from approximately RMB166.2 million to approximately RMB814.6 million, which was mainly due to (i) the leasing out of properties in the US under tenancy agreements upon completion, hence an amount of approximately RMB447.6 million was transferred from current asset as an inventory to non-current assets as an investment properties; and (ii) the transfer of approximately RMB177.0 million from current asset as properties under development to non-current assets as property, plant and equipment, and included in construction in progress because certain properties under development changed their purpose from being developed for sale to being developed as hotel in December 2022.

Meanwhile, the Group's current assets as at 31 December 2022 were mainly consisted of (i) properties under development of approximately RMB4,393.6 million; (ii) completed properties held for sale of approximately RMB1,914.6 million; (iii) cash and cash equivalents of approximately RMB1,078.1 million (including restricted cash of RMB483.5 million); and (iv) trade and other receivables of approximately RMB302.9 million. The current assets of the Group decreased from approximately RMB8,759.5 million to approximately RMB7,884.0 million was attributable to the abovementioned transfer of current assets to non-current assets and the write down of approximately RMB693.0 million in the value of properties under development.

On the other hand, the Group recorded total liabilities of approximately RMB7,662.0 million as at 31 December 2022, which mainly consisted of (i) contract liabilities of approximately RMB3,248.6 million; (ii) trade and other payables of approximately RMB1,863.1 million; and (iii) bank and other borrowings of approximately RMB1,815.9 million.

As such, the consolidated net current assets and net assets of the Group attributable to owners of the Company amounted to approximately RMB2,074.1 million and RMB921.2 million respectively, representing a decrease of approximately 34.2% and 37.3% from last year. The Group's current ratio, which was calculated by dividing its current assets by its current liabilities, was approximately 1.4 as at 31 December 2022 as compared with approximately 1.6 as at 31 December 2021, indicating the Company's decreased ability in meeting its short-term obligations during the period of time. As at 31 December 2022, the gearing ratio which was calculated by dividing total debt (including interest-bearing bank and other borrowings) by total equity was 175.2% as compared with approximately 99.3% as at 30 December 2021. The increase in the gearing ratio of the Group was mainly resulted from an increase of approximately RMB175.0 million in total debt and a decrease of approximately RMB620.0 million in equity due to the increase in losses for the year. Although the gearing ratio has increased, it is observed that this ratio of approximately 175.2% is in line with the average gearing ratio for property development companies listed in Hong Kong, as per their latest interim or annual reports, of approximately 178.2%.

c. Industry overview and outlook

As discussed in the section headed "Information on the Group" above, the Group is principally engaged in the development and sales of properties as well as development and lease of properties in the PRC. Considered that the Group generated more than 99% of its revenue in 2022 from the sales of property, we have conducted independent research with a primary focus on the property development market in the PRC, in order to further understand the market and prospects of the Group.

Property development in the PRC

Upon our review of research articles published by CRIC Research Center ("**CRIC**")[1], which is a specialized research division of E-House (China) Enterprise Holdings Limited (2048.HK) and a research organization in the field of research within the PRC property industry, in February[2] and April[3] 2023, economic performance of the PRC during the first quarter of 2023 exhibits signs of stabilization and gradual recovery. This improvement is attributed to various policies and measures aimed at stimulating the economy, which has gradually restored confidence in the property development market in the PRC. As a result, the property industry is expected to recover from the downturn in 2022 and maintain a modest upward trend overall as a whole. However, according to the data published by the National Bureau of Statistics[4] and the articles published by CRIC[5], some second-tier and third-tier cities, including Haikou, Sanya and Danzhou, where approximately 90.5% of the properties of the Group in the PRC, in terms of market value as shown in the Valuation Report in Appendix III, are located, experienced a decline in both property sales revenue and GFA in April 2023 compared to that in March 2023. Furthermore, according to another article published by CRIC dated 1 June 2023[6] on the official website of China Real Estate Association, an association authorized by the Ministry of Construction of China, although there is an upward trend of property sales revenue from January 2023 to March 2023, the property sales revenue continuing the downward trend from April 2023, and showing a decline of 8% in May 2023. As such, the recovery in new home sales volume and growth rate in these second-tier and third-tier cities remains unstable and uncertain.

Based on the article published by CRIC in February 2023 as aforementioned (Please refer to note 2), while there are signs of market recovery in 2023, the properties delivery by property development companies is expected to remain slow in 2023 due to the financial liquidity and restructuring faced by many property development companies in the PRC and the lack of confidence among potential homebuyers in the market.

1 CRIC Research Center is a research center recognised by the China Real Estate Association, an association authorised by the Ministry of Construction of China.
2 Please refer to the research article published by CRIC, in February 2023 at http://res1.xzlres.com/cricbiz/92/92/83/dc-5ad1-4502-8868-f14b7b2327c6.pdf.
3 Please refer to the research article published by CRIC in April 2023 at http://res1.xzlres.com/cricbiz/f5/c4/66/ba-fcd0-4fee-8b4d-d896790a8419.pdf.
4 Please refer to the article published by the National Bureau of Statistics dated 17 May 2023 at http://www.stats.gov.cn/sj/sjjd/202305/t20230517_1939607.html and https://data.stats.gov.cn/easyquery.htm?cn=A01.
5 Please refer to the article published by CRIC dated 17 May 2023 at http://www.cricchina.com/research/Details/710279.
6 Please refer to the article published by CRIC dated 1 June 2023 on the official website of China Real Estate Association, an association authorized by the Ministry of Construction of China at http://www.fangchan.com/data/14/2023-06-01/7069843615656514293.html.

In summary, the economic development in China shows signs of stabilization and recovery, with the property development market gradually regaining confidence. However, based on the above, the recovery, particularly in the second-tier and third-tier cities, including cities such as Sanya, Haikou, Zhanjiang, and Danzhou where the Group operates, remains uncertain. Property development companies are still likely to face challenges in 2023 in improving their business performance.

In respect of the long-term development of the property development market in the PRC and the business development of the Group, we have considered the following macroeconomic and socio factors. Firstly, the long-term development of the property development market in the PRC is primarily driven by the growth of the population. The population growth rate in the PRC has recorded a downward trend from 5.58 per thousand in 2017 to 0.34 per thousand in 2021 and recorded negative 0.60 per thousand in 2022, it is expected that the population would start to shrink ahead of 2025, according to the National Health Commission of the PRC. On the other hand, the PRC government has reduced the strict policy on obtaining financing for the property developers,[7] given the PRC government's dedication to stabilising the PRC real estate market under the principle of "houses are for inhabitation, not for speculation".[8] Considering the above, we consider the outlook of the PRC real estate market in general to be cautiously positive in the long run.

Business outlook of the Group

According to the 2022 Annual Report, the business of the Group was impacted by the COVID-19 pandemic, hindering the recovery of sales of properties to a certain extent. In 2022, the global economy faced various challenges, including a pandemic, shrinking demand, and supply shocks, which intensified the downward pressure on the PRC economy. Additionally, the property industry experienced a decline in profits and sluggish performance with plummeting land and sales markets, together with the high leverage ratios and looming debt maturities of the property companies, this situation adversely affected the capital flow for operations for most property companies.

According to CRIC monitoring data[9], the overall supply of new properties in the property market in PRC from January to February 2023 showed a cumulative year-on-year decline of 14%, indicating a relatively low level of market recovery that remains uneven across different cities. While first-tier cities such as Guangzhou and Shenzhen have experienced an increase in transaction volumes, other second-tier and third-tier cities like Changzhou and Haikou experienced a slight decline in their year-on-year and month-on-month transaction volumes. The overall market environment remains uncertain, and the sustainability of any rebound is still in question. As stated in the 2022 Annual Report, the Group's main completed projects, accounted for approximately 56.7% of the saleable GFA that are not yet sold, are

[7] Please refer to the article dated 9 March 2023on the official website of China Real Estate Association, an association authorized by the Ministry of Construction of China at http://m.fangchan.com/data/133/2023-03-09/7039417091564572814.html

[8] Please refer to the article dated 28 April 2023 on the official website of the PRC government at https://www.gov.cn/yaowen/2023-04/28/content_5753652.htm

[9] Please refer to the research report published by CRIC dated 30 March 2023 at https://mp.weixin.qq.com/s/6lTFexOjDo_Th94oXaB_UA

located in second-tier and third-tier cities in the Hainan Province (including cities like Sanya, Haikou and Danzhou), which may face challenges in attracting buyers and generating revenue in 2023.

From our discussion with the management of the Group, we noted that while they share our cautious optimism about the overall property development market in the PRC in the long run, they also understand, and we concur, that there is a certain degree of uncertainty in second-tier and third-tier cities where the Group operates and will need to navigate challenges in the PRC property market and manage its projects under development carefully. We are aware that the property development market outlook is not the only factor in determining the fairness and reasonableness of the terms of the Offer, as additional factors such as the financial performance of the Company, the trading price and volume of the Shares are also key parts of the consideration. Hence, due to the challenges involved in selling properties in second-tier and third-tier cities in the PRC as discussed above, in making our recommendation regarding the Offer, we have placed greater emphasis on evaluating the terms of the Offer, namely the Offer Price, as discussed in the sections below.

4. Reasons for and benefits of the Offer

As set out in the section headed "Reasons and benefits of the Offer" in the Composite Document, the reasons for and the benefits of the Offer are as follows:

For the Independent Shareholders

The Offer gives the Independent Shareholders an opportunity to receive the Offer Price for their Offer Shares at a premium to the prevailing market price of the Shares. As discussed in the sub-section headed "Historical Share price analysis" under the section headed "Evaluation of the Offer Price" in this letter below, the Offer Price of HK$3.36 is approximately 49.33% higher than the lowest closing price of HK$2.25 per Share in the Relevant Period; and (ii) approximately 5.00% higher than the highest closing price of $3.20 per Shares during the Relevant Period. While the Offer Price of HK$3.36 is at a discount of about 7.69% and 30.58% over the average and highest closing prices of the Shares of HK$3.64 and HK$4.84 during our Review Period respectively, which may initially appear less appealing, it is noted that the Offer Price remains higher than the closing prices of the Shares since 26 October 2022 up to and including the Latest Practicable Date.

Considering the Shares' limited trading volume, as analyzed in the section headed "Evaluation of the Offer Price" in this letter, the Offer would allow the Independent Shareholders to realise their investment in the Company for cash at a premium without any downward pressure on the Share price and to switch their investments from Shares to securities of other companies with higher share trading volume, which might not be otherwise possible because of the thin trading volume of the Shares. For some Independent Shareholders, given the fluctuations in the stock market and the uncertainty on the timing of economic recovery to pre-covid level in Hong Kong and the PRC, they may find the Offer particularly timely and convenient.

For the Group

As explained in the Composite Document, the trading volume of the Shares has been at a low level, where the average daily trading volume of the Shares per month/period over the total number of issued Shares was on average close to nil during the Review Period, as discussed in the section headed "Evaluation of the Offer Price" of this letter. The thin trading volume indicates low liquidity, which has limited the Company's ability to raise capital through the issuance of new shares, prompting the Group to consider alternative strategies to support its growth and maintain its competitive position in the market.

As such, the lack of access to capital has constrained the Company's ability to invest in new projects, pursue strategic acquisitions and expand its operations, of which the current listing status of the Company on the Stock Exchange no longer serves as a sufficient source of funding for the Company's business and growth. At the same time, the cost of maintaining the Company's listing status (including those associated with regulatory compliance, disclosure and publication of financial statements) had been on the rise, defeating the original purpose for listing.

5. Valuation of the Property Interests and the Adjusted NAV of the Group

(a) Valuation of the Property Interests

The valuation of the property interests of the Group, comprising (i) properties held for sale in the PRC; (ii) properties held for investment in the PRC; (iii) properties held under development in the PRC; (iv) properties held for future development in the PRC; and (v) properties held for investment in the US (collectively, the "**Properties**"), as at 31 March 2023 was conducted by Cushman & Wakefield, an independent valuer (the "**Valuer**").

We have discussed with the Valuer to enquire about its experience in valuing similar property interests in the PRC and the US and its independence. We have also reviewed the terms of engagement of the Valuer, in particular its scope of work. We noted that its scope of work is appropriate to form the opinion required to be given and there are no limitations on the scope of work which might adversely affect the degree of assurance given by the Valuer in the Valuation Report set out in Appendix III to the Composite Document (the "**Valuation Report**").

The Valuer confirmed that it has performed site visits to each of the properties set out in the Valuation Report. We have discussed with the management of the Group to understand the latest status and/or the development plans of the Property Interests.

As set out in the Valuation Report, the total market value of the Properties in the PRC and in the US in the existing state attributable to the Group as at 31 March 2023 was approximately RMB7,200.0 million and USD42.6 million respectively, which are set out below:

Table 3: Market value of the Property Interests attributable to the Group

	Market value of the Properties in existing state attributable to the Group
Properties in the PRC *(RMB)*	
Group I — Properties held for sale	1,447,163,400
Group II — Properties held for investment	42,290,100
Group III — Properties held under development	2,615,027,600
Group IV — Properties held for future development	3,095,516,608
Sub-total	**7,199,997,708**
Properties in the US *(USD)*	
Group V — Properties held for investment	42,600,000

As stated in the Valuation Report, the valuation is conducted in compliance with the standards and guidelines set out in the HKIS Valuation Standards 2020 published by the Hong Kong Institute of Surveyors, Rule 11 of the Takeovers Code and Chapter 5 and Practice Note 12 of the Listing Rules. We have reviewed and discussed the property valuation with the Valuer regarding the methodology, basis and assumptions adopted in arriving at the values of the Properties. In particular, we have discussed with the Valuer to assess whether the approaches, being the market comparison method and the income capitalization method, are appropriate for each type of properties stated above. We have also reviewed the valuation methodologies adopted for different types of properties of certain property companies and noted that the methodologies adopted in the Valuation Report are usual.

We noted that the Valuer has relied on the Company's PRC legal adviser regarding the titles to the Properties and the interests of the Company in the Properties in the PRC. With reference to the legal opinion provided for the Properties in the PRC, the Valuer has valued the Properties on the basis that the Company has an enforceable title to each of the Properties, and has free and uninterrupted rights to use, occupy or assign the Properties for the whole of the respective unexpired land use term as granted and that any premium payable has already been fully paid. Also, according to the Valuation Report, in the course of its valuation of the Property in the US, it has relied on the information and advice given by the Company regarding the title and the interest of the Company in the Property in the US.

We note that the Valuer has adopted the market comparison method in valuing Property Interests in Group I by way of assuming sale of each of these properties in its existing state by making reference to comparable sales transactions as available in the relevant market. We noted that such properties have been completed and are held by the Group for sale in the PRC. We understand the use of market comparison method is considered to be in line with market practice and is appropriate in this case mainly because the Properties are mostly residential units, commercial units and car parking spaces, and there are publicly available and comparable sales transactions and information.

In valuing Properties in Group II and Group V, which are completed properties held by the Group for investment purposes in the PRC and in the US, the Valuer has adopted income capitalization method on the basis of capitalization of rental incomes derived from the existing tenancies with due allowance for reversionary potential of the properties at appropriate capitalization rates; or where appropriate, market comparison method by making reference to comparable sale evidence as available in the relevant market. We have discussed and understand from the Valuer that when using income capitalization method, the Valuer has mainly made reference to lettings within the subject property as well as other relevant comparable rental evidence of properties of similar use type subject to appropriate adjustments including but not limited to location, accessibility, age, quality, size, time and other relevant factors. We understand these consideration factors are commonly used in the industry and would consider it reasonable.

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

In respect of the Properties in Groups III and IV, which are properties held by the Group under development and held for future development in the PRC respectively, we note that the Valuer has valued them on the basis that each of these properties will be developed and completed in accordance with the latest development scheme of the Group provided. In ascertaining a valuation for the Properties under these groups, the Valuer has assumed all consents, approvals and licences from the relevant government authorities for the development scheme have been obtained without onerous conditions or delays and that the design and construction of the development are in compliance with the local planning regulations and have been approved by the relevant authorities. We have discussed and understand that the Valuer has adopted the income capitalization method or market comparison method to assess the development value of the Properties in this group as if completed, where appropriate, and have also taken into account the incurred construction costs and the costs that will be incurred to complete the development to reflect the quality of the completed development. We understand that the use of income capitalization method or market comparison method is in line with market practice for properties of this type and is therefore appropriate.

Taking into account the nature of the properties and that the valuation is conducted in accordance with the aforesaid requirements, we consider that the methodologies and basis adopted by the Valuer for determining the values of the Properties are appropriate, and can be relied upon in the evaluation of the Offer Price and the adjusted unaudited consolidated NAV discussed below in this letter.

(b) Adjusted NAV

In evaluating the Offer, we have taken into account the adjusted unaudited consolidated NAV attributable to the Shareholders (the "**Adjusted NAV**"), which is calculated based on the audited consolidated NAV as at 31 December 2022, adjusted with reference to the increase in the valuation, based on the amount reported in the Valuation Report as at 31 March 2023, net of deferred tax effect. The Adjusted NAV per share was approximately HK$8.44 per Share after taking into account the property valuation as set out in Appendix III to this Composite Document, representing a discount of approximately 60.19% compared to the Offer Price of HK$3.36 per Share. Further analysis of this is set out in the section headed "Evaluation of the Offer Price" below.

6. Information on the Offeror

The Offeror is a company incorporated in the BVI with limited liability, its principal business is investment holding. The Offeror is wholly-owned by Mr. Yeung Man. Mr. Yeung Man is a controlling Shareholder and the founder of the Group. Mr. Yeung graduated from the Correspondence College of the Central School of the Communist Party of China (中國中共中央黨校), majoring in economics and management in December 1998. Mr. Yeung has over 20 years of experience in construction and real property management in the PRC. Mr. Yeung played a key management role in property construction projects who oversees property projects throughout the entire process, including land acquisition, construction planning and implementation, and sales after completion.

7. Intention of the Offeror in relation to the Group

According to the Board Letter, it is the intention of the Offeror for the Group to maintain its existing principal businesses. As at the Latest Practicable Date, the Offeror has no intention to introduce major changes to the Group's existing business or redeploy any of its fixed assets or discontinue the employment of any employees of the Group. The Offeror will continue to consider how to develop the Group in a manner which best enhances efficiency and shareholder value and, in that regard, will consider reviewing and optimising its assets structure which will be dependent on a number of factors including market conditions, legal and regulatory requirements and its business needs. The Offeror does not intend to relist the Company on any other overseas stock exchanges.

8. Possible compulsory acquisition and withdrawal of listing of Shares

Subject to compliance with the relevant requirements under Section 88 of the Cayman Companies Act, if the Offeror, within four months of the posting of the Composite Document, has received valid acceptances in respect of not less than 90% of the Offer Shares, the Offeror will have the right under Section 88 of the Cayman Companies Act to compulsorily acquire those Offer Shares not already owned or acquired by the Offeror under the Offer on the same terms as the Offer.

Pursuant to Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where the Offeror seeks to acquire or privatise the Company by means of the Offer and the use of the compulsory acquisition right under the Cayman Companies Act, such right may only be exercised if, in addition to satisfying the aforementioned requirements imposed by the Cayman Companies Act, acceptances of the Offer in respect of the Disinterested Shares and purchases of the Disinterested Shares made by the Offeror pursuant to the Offer during the period of four months after the posting of the Composite Document amount to not less than 90% of the Disinterested Shares.

Subject to satisfaction of requirements under Section 88 of the Cayman Companies Act and Rule 2.11 of the Takeovers Code, the Offeror intends to privatise the Company by exercising its right to compulsorily acquire those Offer Shares not already owned or acquired by the Offeror under the Offer. If the Offeror decides to exercise such right and completes the compulsory acquisition, the Company will become a direct wholly-owned subsidiary of the Offeror and an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15(1) of the Listing Rules.

If the level of acceptances of the Offer reaches the prescribed level under the Cayman Companies Act required for compulsory acquisition and the requirements of Rule 2.11 of the Takeovers Code are satisfied, dealings in the Shares may be suspended from the Closing Date up to the withdrawal of listing of the Shares from the Stock Exchange pursuant to Rule 6.15(1) of the Listing Rules.

9. Evaluation of the Offer Price

In considering the fairness and reasonableness of the Offer Price, we have taken into account the following factors:

a. Comparison of value

The Offer Price of HK$3.36 per Share represents:

(i) a premium of approximately 5.00% over the closing price of HK$3.20 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 5.00% over the average closing price of HK$3.20 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a premium of approximately 5.00% over the average closing price of approximately HK$3.20 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

(iv) a premium of approximately 5.00% over the average closing price of approximately HK$3.20 per Share as quoted on the Stock Exchange for the last thirty consecutive trading days up to and including the Last Trading Day;

(v) a premium of approximately 6.33% over the closing price of HK$3.16 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(vi) a discount of approximately 60.19% to the Adjusted NAV of approximately HK$8.44 per Share after taking into account of the property valuation as set out in Appendix III to this Composite Document; and

(vii) a discount of approximately 3.17% over the audited consolidated net asset value attributable to owners of the Company of approximately HK$3.47 per Share as at 31 December 2022 calculated based on the information as set out in the Company's financial report for the year ended 31 December 2022.

As illustrated above, the Offer Price represents a premium over the recent closing prices of the Shares on the Stock Exchange, but a discount of approximately 3.17% to the NAV per Share as at 31 December 2022 and a discount of approximately 60.19% to the Adjusted NAV per Share.

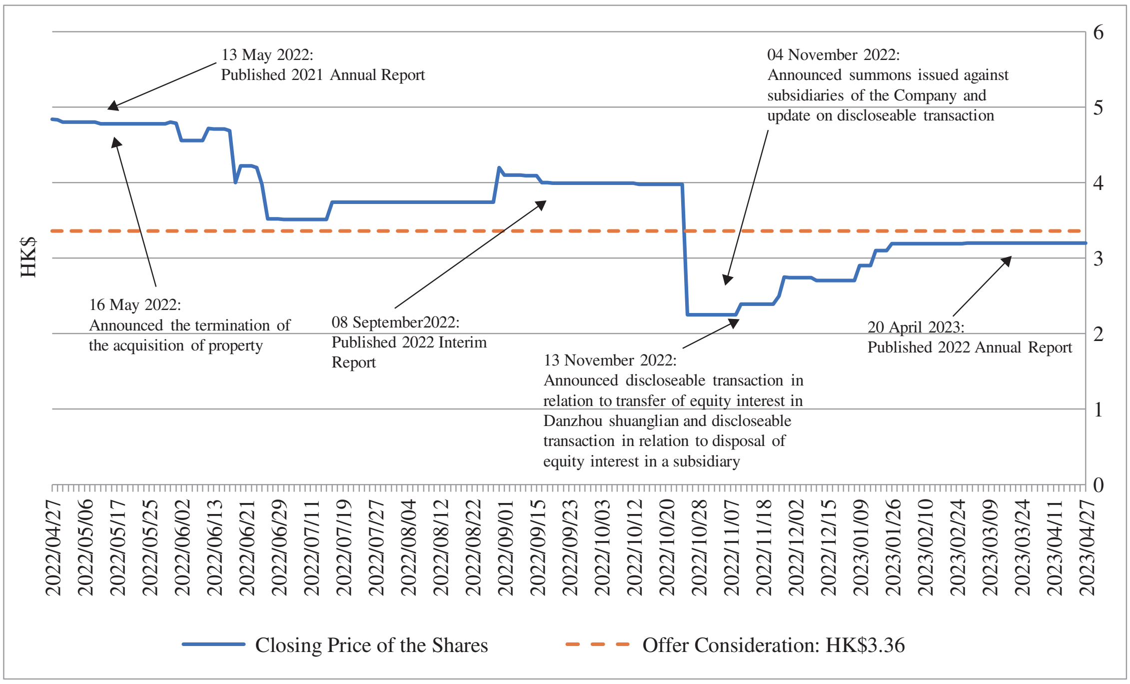
However, while the Offer Price is at a discount to the NAV per Share and the Adjusted NAV per Share, it is important to note that the assets of the Group are mostly illiquid, consisting primarily of properties held for sales, properties held for investments, properties under development and properties held for future development. As such, the relevance of comparing the Offer Price to the NAV per Share and Adjusted NAV per Share is limited due to the difficulty in realizing the value of these illiquid assets. Instead, we believe the Offer Price should be evaluated with reference to the current market condition, specifically the prevailing market price of the Shares.

b. Historical Share price analysis

As set out in the Composite Document, the lowest and highest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period, which is the six-month period immediately preceding the commencement of the Offer Period, was HK$2.25 per Share from 8 November 2022 to 11 November 2022 and HK$3.25 per Share on 6 June 2023, respectively. As such, the Offer Price of HK$3.36 per Share is (i) approximately 49.33% higher than the lowest closing price of HK$2.25 per Share in the Relevant Period; and (ii) approximately 3.4% higher than the highest closing price of $3.20 per Shares during the Relevant Period.

In analysing the Offer Price and comparing it against the historical daily closing prices of the Shares as quoted on the Stock Exchange, we have adopted a longer sampling period, namely the period from 27 April 2022 up to and including the Last Trading Day (the "**Review Period**"). We consider such review period of approximately 12 months to the Latest Trading Date adequate as it represents a reasonable period to provide a general overview of the recent price performance of the Shares. The following chart sets out the daily closing prices of the Shares on the Stock Exchange during the Review Period:

Chart 1: Historical daily closing prices of Shares during the Review Period



Source: the website of the Stock Exchange

As shown in the above chart, during the Review Period, the closing prices of the Shares ranged from HK$2.25 to HK$4.84, at an average of approximately HK$3.64. The Offer Price of HK$3.36 is therefore at a discount of about 7.69% and 30.58% over the average and highest closing prices of the Shares during such period, respectively.

We noted that the closing Share prices generally fluctuated within the region of HK$3.98 to HK$4.84 from 27 April 2022 to 25 October 2022, then it had experienced a sharp decline from HK$3.98 on 25 October 2022 to its lowest point of HK$2.25 per Share on the next day, which persisted until 11 November 2022. Having discussed it with the Company, it was suggested that this significant drop in the Share prices may have been attributed to a legal dispute involving the subsidiary companies, Jiangxi Hailan and Hainan Shiye Guangzhou Co., Limited, which has not been resolved as of the Latest Practicable Date. However, the Group is of the view that the litigation, although not resolved, is not material to the Group. Subsequently, the Share price exhibited an upward trend from mid-November onwards and remained at HK$3.20 since January 2023.

Historical discounts of the Share prices to the NAV per Share

As illustrated in the above sub-section headed "Comparison of value", the Offer Price of HK$3.36 per Offer Share represents a discount to both the NAV per Share as at 31 December 2022 and Adjusted NAV per Share. In further assessing the fairness and reasonableness of the Offer Price, we have also reviewed, as set out in Table 5 below, the monthly/periodic average closing prices of the Shares and the discounts represented by them to the then latest NAV per Share for the period, during the Review Period.

Table 5: Historical discounts of the Share prices to the then NAV per Share

Period	**Monthly/ periodic average closing price of the Shares**	**Published NAV per Share** *(Note 1)*	**(Discount) of the monthly average closing price of the Shares to the then NAV per Share**
	HK$	*HK$ equivalent*	*Approximately %*
2022			
April	4.97	5.54	(10.22%)
May	4.79	5.54	(13.47%)
June	4.29	5.54	(22.50%)
July	3.64	5.44	(33.10%)
August	3.76	5.44	(30.89%)
September	4.03	5.44	(25.93%)
October	3.64	5.44	(33.10%)
November	2.37	5.44	(56.44%)
December	2.72	5.44	(50.01%)
2023			
January	2.99	3.47	(13.83%)
February	3.19	3.47	(8.07%)
March	3.20	3.47	(7.78%)
April (up to and including the Last Trading Day)	3.20	3.47	(7.78%)
Minimum			(7.78%)
Average			(24.08%)
Maximum			(56.44%)

Source: the website of the Stock Exchange

Note 1: Based on the total equity attributable to the owners of the Company as extracted from the Company's respective latest published annual report or interim report prior to the respective month (assuming that the total equity attributable to the owners of the Company stays consistent for the respective periods), then divided by the total number of Shares in issue as at the respective year/period-end date.

As set out in Table 5 above, during the Review Period, the monthly/periodic average closing prices of the Shares had been trading to the then NAV per Share within a range of a discount of approximately 7.78% and 56.44%, with average discount of approximately 24.08%. The Offer Price of HK$3.36 per Share represents a discount of approximately 3.17% to the NAV per Share of approximately HK$3.47 as of 31 December 2022, which is lower than the aforementioned range, and the discount of approximately 60.19% represented by the Offer Price to the Adjusted NAV per Share is slightly higher than the high end of the range of 56.44% by approximately 3.75%.

c. Liquidity of the Shares

In addition to the above analysis, we have also reviewed the trading liquidity of the Shares during the Review Period. The table below sets out the trading volume of the Shares on the Stock Exchange during the Review Period.

Table 6: Historical monthly trading volume of the Shares during the Review Period

Months/Periods	**Number of trading days**	**Average daily trading volume** *(Note 1)*	**Approximate % of average daily trading volume to total issued shares** *(Note 2)*	**Approximate % of average daily trading volume to the public float of the Company** *(Note 3)*
2022				
April	15	200	0.000%	0.000%
May	20	450	0.000%	0.001%
June	21	2,238	0.001%	0.003%
July	19	526	0.000%	0.001%
August	21	952	0.000%	0.001%
September	18	0	0.000%	0.000%
October	20	1,650	0.001%	0.002%
November	15	733	0.000%	0.001%
December	10	2,000	0.001%	0.003%
2023				
January	13	2,385	0.001%	0.003%
February	11	818	0.000%	0.001%
March	14	0	0.000%	0.000%
April (up to and including the Last Trading Day)	10	0	0.000%	0.000%
Minimum			0.000%	0.000%
Average			0.000%	0.001%
Maximum			0.001%	0.003%

Source: the website of the Stock Exchange

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume of the Shares for the month/period by the number of trading days during the month/period.

2. The calculation is based on the average daily trading volumes of the Shares divided by the total number of issued Shares at the end of each month/period, as applicable.

3. The calculation is based on the average daily trading volumes of the Shares divided by the total number of issued Shares excluding those held by the Offeror and its concert parties at the end of each month/period, as applicable.

From the table above, which outlines the average daily trading volume of the Shares as a percentage to the total issued Shares and to the public float of the Company respectively, we note that the average daily trading volume of the Shares has been very thin. During the Review Period, the average daily trading volume of the Shares per month/period over the total number of issued Shares was between approximately nil and 0.001%, at an average close to nil. Similarly, the average daily trading volume of the Shares per month/period over the total number of issued Shares held by the Independent Shareholders was between approximately nil and 0.003%, at an average of approximately 0.001%, which we consider as very low.

Given the historical thin trading volume of the Shares, it is uncertain whether there would be sufficient liquidity in Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without causing an adverse impact on the market price of the Shares. The Offer, therefore, represents an opportunity for the Independent Shareholders, particularly for those who hold a large volume of Shares, to dispose of their entire holdings at the Offer Price if they so wish.

d. Share valuation analysis

In assessing the fairness and reasonableness of the Offer Price, we have identified an exhaustive list of companies listed on the Stock Exchange which (i) are principally engaged in property development and generated more than 50% of their revenue from the PRC in their respective latest financial year before the Last Trading Day; and (ii) have market capitalisation ranging from HK$800 million to HK$1.5 billion on the Last Trading Day, which are more comparable to the market capitalisation of the Company of HK$960 million on the Last Trading Day. Based on the aforesaid criteria, we have identified 13 companies (the "**Comparable Companies**").

We consider our selection criteria and the Comparable Companies as fair and reasonable, given that (i) they are all engaged in the property sector as the Group does; (ii) they generate more than 50% of their revenue from the PRC; and (iii) their sizes are generally comparable to that of the Group in terms of market capitalisation implied by the Offer Price of approximately HK$1,008.0 million (the "**Implied Market Capitalisation**").

We have not considered the price-to-earnings ratios ("**P/E Ratios**") of the Comparable Companies in conducting our analysis because the Group and more than half of the Comparable Companies were at a loss position during their latest financial year and did not have a P/E Ratio for comparison. Additionally, we have not considered the price-to-sales ratios ("**P/S Ratios**") of the Comparable Companies in our analysis. Due to the cyclical nature of the Company's revenue, the P/S Ratios become less meaningful for comparison. As such, we are of the view that the price-to-book ratios (the "**P/B Ratios**"), rather than the P/E Ratios or P/S Ratios, of the Comparable Companies are more suitable references for our analysis of the Offer Price.

While the P/B Ratios of the Comparable Companies are derived based on their closing share prices as at the Last Trading Day and their latest published annual reports, in determining the implied P/B Ratio under the Offer (the "**Implied P/B Ratio**"), we have taken into consideration the Implied Market Capitalisation, which is derived by multiplying the Offer Price of HK$3.36 per Share by the total number of issued Shares of 300,000,000 as at the Latest Practicable Date. We have then divided the Implied Market Capitalisation by the audited total equity attributable to the Shareholders of approximately RMB921.2 million (equivalent to approximately HK$1,041.0 million) as at 31 December 2022 and obtained the Implied P/B Ratio of approximately 0.97 times. We have also taken into consideration the Implied Market Capitalization of the Group using the Adjusted NAV of approximately RMB2,240.5 million (equivalent to approximately HK$2,531.8 million). This resulted in an Implied P/B ratio using the Adjusted NAV of approximately 0.40 times.

The following table sets out (i) the P/B Ratios of the Comparable Companies based on their closing share prices as at the Last Trading Day and their latest published annual reports; (ii) the Implied P/B Ratio of the Group based on the Offer Price and the 2022 Annual Report; and (iii) the Implied P/B Ratio of the Group based on Offer Price and the Adjusted NAV.

It should be noted that despite the Group and the Comparable Companies are all property development, their operations and prospects are not the same and we have not conducted any investigation into the businesses, operations and prospects of the Comparable Companies. Hence, our comparison below between the P/B Ratios of the Comparable Companies and those implied by the Offer Price serves as an additional reference for Independent Shareholders when considering the Offer and is for comparison purpose only.

Table 7: Analysis of the Group's and Comparable Companies' P/B Ratios

Company	Stock code	Market capitalisation *(Note 1)* *(HK$ million)*	P/B Ratios *(Notes 2, 3 and 4)* *(times)*	Premium/ (discount) over/(to) NAV per share *(Notes 4 and 5)* *(%)*
Guangdong Land Holdings Limited	124	1,335	0.17	(82.9%)
International Business Settlement Holdings Limited	147	1,260	1.87	87.1%
Hon Kwok Land Investment Company, Limited	160	1,454	0.12	(88.1%)
Zensun Enterprises Limited	185	1,339	0.22	(77.7%)
Peking University Resources (Holdings) Company Limited	618	1,461	N/A	N/A
Zhong An Group Limited	672	1,285	0.12	(88.0%)
China Sandi Holdings Limited	910	957	0.17	(82.7%)
Man Sang International Limited	938	1,178	6.16	515.7%
Times China Holdings Limited	1233	1,324	0.20	(79.6%)
Redsun Properties Group Limited	1996	1,035	0.08	(92.3%)
Top Spring International Holdings Limited	3688	1,328	0.14	(85.6%)
Zhenro Properties Group Limited	6158	843	0.16	(84.3%)
Differ Group Auto Limited	6878	1,111	0.39	(61.0%)
Maximum:		**1,461**	**1.87**	**87.1%**
Minimum:		**843**	**0.08**	**(92.3%)**
Median:		**1,285**	**0.17**	**(82.8%)**
Average:		**1,224**	**0.33**	**(18.3%)**
The Group (implied under the Offer)		***1,008.0***	***0.97***	***(3.17%)***
The Group (implied under the Offer with adjusted NAV)		***1,008.0***	***0.40***	***(60.19%)***

Source: the website of the Stock Exchange

Notes:

1. The market capitalisations of the Comparable Companies are derived by multiplying the total number of shares (as disclosed in the latest monthly return or relevant disclosures before the Last Trading Day) by the closing share price quoted on the Stock Exchange as at the Last Trading Day.

2. The P/B Ratio is derived by dividing the respective market capitalisation by the respective consolidated equity attributable to the owners of the company as extracted from the latest annual reports before the Last Trading Day.

3. The P/B Ratios and the premium over/discount to NAV per share of some companies are not applicable since they recorded net liabilities in their latest financial year.

4. The P/B Ratio and the premium over the NAV per share of Man Sang International Limited (Stock code: 938) of approximately 6.16 times and 515.7%, respectively, are considered as an outlier and are excluded from the calculation of the corresponding maximum, minimum, median and average comparison. This exclusion is due to the company's high level of debt, as indicated by a 1,471.8% gearing ratio, which is significantly higher than the industry average of 178.2%. This high debt level may result in a relatively lower level of net assets, which may distort the comparison and not providing a fair representation.

5. The premium over/discount to NAV per share of the Comparable Companies are based on their respective NAV per share as derived from their respective latest published annual reports before the Last Trading Day and the closing share prices of the Comparable Companies on the Last Trading Day.

As shown in the table above, the P/B Ratios of the Comparable Companies ranged from approximately 0.08 times to approximately 1.87 times, with a median and an average of approximately 0.17 times and approximately 0.33 times, respectively. Among the 12 Comparable Companies (excluding the outlier), 11 of them have a P/B Ratio less than the Implied P/B Ratio of the Group of approximately 0.97 times and the Implied P/B Ratio using Adjusted NAV of approximately 0.40 times. Hence, the Implied P/B Ratio of approximately 0.97 times and the Implied P/B Ratio using Adjusted NAV of 0.40 times are not only within the range of the P/B Ratios of the Comparable Companies, but also above the median and average thereof, indicating that the Offer Price reflects a more favourable price when compared to most of the Comparable Companies in this respect.

The Offer Price represents a discount of approximately 3.17% to the NAV per Share of HK$3.47 as at 31 December 2022, which is lower than the average and median of those of the Comparable Companies. It also represents a discount of approximately 60.19% to the Adjusted NAV of approximately HK$8.44 per Share after taking into account of the property valuation as set out in Appendix III to this Composite Document, which is higher than the average but below the median of those of the Comparable Companies.

In any event, while the Offer Price is at a discount to the NAV per Share and the Adjusted NAV per Share, it is important to note that the assets of the Group are mostly illiquid, consisting primarily of properties held for sales, properties held for investments, properties under development and properties held for future development. As such, the relevance of comparing the Offer Price to the NAV per Share and Adjusted NAV per Share is limited due to the difficulty in realizing the value of these illiquid assets.

e. ***Successful privatisation precedents***

We have also compared the Offer to privatisation proposals which (i) were announced by other companies whose shares are/were listed on the Main Board of the Stock Exchange, excluding prolong-suspended companies; (ii) were announced since 1 April 2021 and up to the Latest Practicable Date, excluding privatisation proposals which were not or have yet been approved or voted (or, where applicable, the required acceptance level was not or has yet been achieved); and (iii) involve a cash consideration (excluding combined consideration of cash and shares) (the "**Privatisation Precedent(s)**"). These selection criteria were chosen because (i) the Group is listed on the Main Board of the Stock Exchange; and (ii) selecting privatisation proposals which were approved during the Review Period would provide references of the terms of recent successful privatisation proposals. The Privatisation Precedents set out below represent an exhaustive list of privatisation proposals we have identified from the website of the Stock Exchange which satisfy the above selection criteria. We consider the analysis of the Privatisation Precedents announced since 1 April 2021 up to the Latest Practicable Date, covering more than two years, to be appropriate and sufficient to demonstrate the pricing of recent successful privatisations of Main Board listed companies in Hong Kong under recent market sentiment. As there are fewer instances within a single year, to provide a more comprehensive representation, we opted for a two-year period for examining privatization precedents.

In particular, the below table illustrates the premium or discount represented by the cancellation consideration/offer price over or to (i) the share price on the last trading day; (ii) the average share prices over the last 10, 30 and 60 trading days (up to and including the last trading days); and (iii) the latest NAV per share, in respect of each Privatisation Precedent. Independent Shareholders should note that the business nature, financial performance and position and scale of these subject companies in the Privatisation Precedents may be fundamentally different from those of the Group, and that the level of premium represented by the cancellation consideration/offer prices in these Privatisation Precedents might have been affected by the then market conditions. Hence, our comparison is for reference only and does not constitute a principal factor in assessing whether the terms of the Offer are fair and reasonable.

Despite the market environment in 2023 showing signs of improvement compared to 2022, which was heavily affected by the COVID-19 pandemic, but the post-COVID economic recovery remains slow and the market sentiment in the first four months of 2023 remains weak, with the Hang Seng Index hovered between 18,620 and 22,700 in the first four months of 2023. Hence, our below comparison demonstrates the pricing trend of the privatisation proposals of companies listed on the Main Board of the Stock Exchange since 1 April 2021 that are very much under weak market sentiments. We consider our analysis a relevant reference for assessing the range of reasonable cancellation prices/offer prices required for a successful privatisation proposal. As such, we have included the Privatisation Precedents as additional references for comparison purpose for Independent Shareholders to assess the fairness and reasonableness of the terms of the Offer.

Table 8: Privatisation Precedents during the Review Period

Date of initial announcement	Company	Premium/ (discount) over/(to) adjusted NAV per share	Premium/ (discount) over/(to) NAV per share *(Note 1&4)*	Premium of the cancellation consideration/offer price over the closing price or average closing price per share: on the last trading day	for the last 10 trading days up to and including the last trading day	for the last 30 trading days up to and including the last trading day	for the last 60 trading days up to and including the last trading day
16-Feb-23	Jiangnan Group Limited (1366)	N/A	(63.78)%	12.68%	89.93%	101.44%	99.55%
24-Oct-22	Kingston Financial Group Limited (1031)	(57.68)%	(74.80)%	47.80%	47.60%	39.40%	33.30%
8-Aug-22	EVOC Intelligent Technology Company Limited (2308)	(55.41)%	(40.90)%	15.10%	44.60%	44.60%	50.90%
7-Aug-22	Lifestyle International Holdings Limited (1212)	(52.83)%	182.90%	62.30%	81.90%	70.10%	58.70%
9-Jun-22	China VAST Industrial Urban Development Company Limited (6166)	(41.89)%	(45.20)%	30.40%	28.80%	31.40%	36.90%
2-Jun-22	Xiamen International Port Co., Limited (3378)	N/A	(14.80)%	55.20%	100.90%	134.20%	150.00%
24-Jan-22	Guodian Technology & Environmental Group Corporation Limited (1296)	N/A	(13.60)%	48.00%	103.80%	93.10%	107.70%
14-Jan-22	AKM Industrial Company Limited (1639)	N/A	70.90%	14.50%	31.40%	25.80%	29.00%
17-Dec-21	Lanzhou Zhuangyuan Pasture Co., Limited (1533)	12.50%	26.50%	25.20%	47.40%	43.50%	54.30%
1-Dec-21	Razer Inc. (1337)	N/A	487.50%	55.80%	61.40%	67.90%	59.30%
24-Nov-21	Shanghai Jin Jiang Capital Company Limited (2006)	N/A	8.80%	56.60%	67.60%	77.10%	85.60%
15-Oct-21	Yorkey Optical International (Cayman) Limited (2788)	N/A	20.70%	75.30%	101.00%	102.60%	101.00%
8-Oct-21	Dragon Crown Group Holdings Limited (935)	N/A	36.20%	8.50%	7.50%	9.40%	20.80%
30-Sep-21	C.P. Pokphand Co. Limited (43)	N/A	5.90%	19.80%	17.40%	27.80%	33.70%
6-Sep-21	Hop Hing Group Holdings Limited (47)	N/A	63.90%	73.90%	76.20%	70.90%	62.90%
25-Aug-21	Suchuang Gas Corporation Limited (1430)	N/A	30.20%	2.90%	23.20%	25.60%	26.30%
12-Aug-21	Good Friend International Holdings Inc. (2398)	N/A	15.40%	50.00%	73.80%	61.60%	49.00%
27-Jul-21	Nature Home Holding Company Limited (2083)	(23.10)%	(15.80)%	39.30%	38.00%	31.60%	30.90%
9-Jul-21	Beijing Capital Land Limited (2868)	(49.04)%	(38.40)%	62.80%	77.20%	127.40%	149.90%

Date of initial announcement	Company	Premium/ (discount) over/(to) adjusted NAV per share	Premium/ (discount) over/(to) NAV per share *(Note 1&4)*	Premium of the cancellation consideration/offer price over the closing price or average closing price per share: on the last trading day	for the last 10 trading days up to and including the last trading day	for the last 30 trading days up to and including the last trading day	for the last 60 trading days up to and including the last trading day
25-Jun-21	Bestway Global Holding Inc. (3358)	10.90%	16.50%	27.00%	32.70%	47.10%	62.80%
18-May-21	Chong Hing Bank Limited (1111)	N/A	(10.10)%	97.00%	102.50%	107.40%	109.90%
20-Apr-21	Inner Mongolia Energy Engineering Co. Limited (1649)	N/A	55.20%	51.30%	55.20%	41.00%	30.10%
	Maximum	**12.50%**	**182.90%**	**97.00%**	**103.80%**	**134.20%**	**150.00%**
	Minimum	**(57.68)%**	**(74.80)%**	**2.90%**	**7.50%**	**9.40%**	**20.80%**
	Median	**(45.47)%**	**8.80%**	**47.80%**	**58.30%**	**54.35%**	**56.48%**
	Average	**(32.07)%**	**10.31%**	**42.33%**	**59.55%**	**62.77%**	**65.57%**
	The Company	**(60.19)%** *(Note 2)*	**(3.17)%** *(Note 3)*	**5.00%**	**5.00%**	**5.00%**	**12.37%**

Source: the website of the Stock Exchange

Notes:

1. It represents the premium/(discount) of the cancellation consideration/offer price over or to the latest NAV per share as quoted in the respective privatisation document, without taking into account any adjustments arising from, amongst others, revaluation of assets/liabilities set out therein.

2. Calculated based on the Adjusted NAV per Share of HK$8.44 after taking into account of the property valuation as set out in Appendix III to this Composite Document.

3. Calculated based on the audited NAV per Share of HK$3.47 as at 31 December 2022.

4. Razer Inc. (1337) is identified as an outlier and is excluded from the calculation of the maximum, minimum, median and average premium over/discount to NAV per share. This is because Razer Inc exhibits an exceptionally high premium over its NAV per share, which may not provide a fair representation for other Privatisation Precedents. This high premium is likely be attributable to its position as a well-known brand in the gaming industry, having a loyal customer base and a strong brand recognition.

Premium over the prevailing share prices

As set out in the table above, the cancellation consideration/offer prices of all Privatisation Precedents are at a premium over their respective share price on the last trading date, as well as over their respective average closing share price for the last 10, 30 and 60 trading days up to and including the last trading date, ranging from a premium of approximately 2.90% to 97.00%, 7.50% to 103.80%, 9.40% to 134.20% and 20.80% to 150.00%, and at an average premium of approximately 42.33%, 59.55%, 62.77% and 65.57%, respectively.

In comparison, the Offer Price represents a premium of approximately 5.00% over the closing Share price on the Last Trading Date, which is the second lowest among the corresponding premium or discount represented by the Privatisation Precedents. Although the premium represented by the Offer Price over the average closing Share prices for the last 10, 30 and 60 trading days up to and including the Last Trading Date is lower than the range represented by the Privatisation Precedents respectively, we think the differences are relatively small, amounting to approximately 2.5, 4.4, and 8.4 percentage points, respectively, below the corresponding lower end of premiums of the Privatisation Precedents.

Premium/discount over/to the NAV per share and adjusted NAV per share

As shown in the above table, the range of difference between the cancellation consideration/offer prices of the Privatisation Precedents and their respective NAV per share is wide, ranging from a discount of approximately 74.80% to a premium of approximately 182.90%, with a median premium of approximately 8.80% and an average premium of approximately 10.31%. The Offer Price of HK$3.36 represented a 3.17% discount to the NAV per Share, although lower than the median and average premium of the Privatisation Precedents, it still falls within the corresponding range of the Privatisation Precedents.

On the other hand, out of the total 22 Privatisation Precedents, the cancellation consideration/offer prices of 10 of them represent a discount ranging from approximately 10.10% to 74.80% to the respective NAV per share, which is higher than the 3.17% discount represented by the Offer Price to the NAV per Share as at 31 December 2022. This shows that the Offer Price is comparatively more favourable to shareholders than almost half of the Privatisation Precedents, as it represents a smaller discount to the NAV per Share as at 31 December 2022.

Meanwhile, the cancellation consideration/offer prices of the Privatisation Precedents and their respective adjusted NAV per share ranged from a discount of approximately 57.68% to a premium of approximately 12.50%, with a median discount of approximately 45.47% and an average discount of approximately 32.07%. The Offer Price, when compared to the Adjusted NAV per Share, represents a discount of approximately 60.19%, which is slightly higher than the corresponding range of the Privatisation Precedents. Nonetheless, it is important to note that the assets of the Group are mostly illiquid, consisting primarily of properties held for sales, properties held for investments, properties under development and properties held for future development. As such, the relevance of comparing the Offer Price to the NAV per Share and Adjusted NAV per Share is limited due to the difficulty in realizing the value of these illiquid assets.

Our view on the Offer Price

Based on our analysis above, we are of the view that the Offer Price is fair and reasonable, taking into account that, (i) the Offer Price represents a premium of approximately 5.00% over the closing Share price on the Last Trading Date, and over the average closing prices of the Shares for the last 5, 10, 30 and 60 consecutive trading days up to and including the Last Trading Day; (ii) the Offer Price is above the closing prices of the Shares since 26 October 2022 up to and including the Latest Practicable Date; (iii) the Implied P/B Ratio and the Implied P/B Ratio using Adjusted NAV are higher than the average and median of the P/B Ratios of the Comparable Companies, and the discounts represented by the Offer Price to the NAV per Share and the Adjusted NAV per Share are lower than the average and median of the Comparable Companies; (iv) the discount of the Offer Price over the NAV per Share as at 31 December 2022 falls within the range of the corresponding premium or discount observed in the Privatisation Precedents, and that the Offer Price represents a smaller discount to the NAV per Share as at 31 December 2022 than almost half of the Privatisation Precedents; (v) although the premium of the Offer Price over the average closing Share prices for the last 10, 30 and 60 trading days up to and including the Last Trading Day falls outside the corresponding range observed in the Privatisation Precedents, it is only slightly lower than the corresponding lower end of premiums; (vi) although the Offer Price is at a discount to both the NAV per Share and the Adjusted NAV per Share, the comparison holds limited relevance due to the illiquidity of the Group's assets; and (vii) the low liquidity of the Shares during the Review Period, we believe the Offer Price offers Independent Shareholders a fair and reasonable exit opportunity.

RECOMMENDATION

Based on our analysis above, although the Offer Price of HK$3.36 per Share represents a discount to the NAV per Share as at 31 December 2022 and a discount to the Adjusted NAV per share, having considered the following that:

(i) the Offer Price represents a premium over the average and highest closing prices of the Shares during the Relevant Period, respectively, as well as a premium over the closing price of the Shares on the Last Trading Day and over the average closing prices of the Shares for the last 5, 10, 30 and 60 consecutive trading days up to and including the Last Trading Day;

(ii) the discount of the Offer Price over the NAV per Share as at 31 December 2022 is lower than the range represented by the historical Share prices to the then latest NAV per Share for each period;

(iii) the Independent Shareholders are likely to encounter difficulties in liquidating their Shares in the open market without exerting downward pressure on the Share prices and it represents an opportunity for Independent Shareholders to realise their investment at a premium over the recent market price since they may encounter difficulties in liquidating their Shares in the open market, especially when the trading of the Shares had not been active during the Review Period;

(iv) the Offer allows the Independent Shareholders to switch their investments from the Shares to securities of other companies with higher share trading volume; and

(v) As addition reference for comparison purposes,

(a) the Implied P/B Ratio and the Implied P/B Ratio using the Adjusted NAV are not only within the range of the P/B Ratios of the Comparable Companies, but also above the average and median thereof, indicating that the Offer Price reflects a more favourable price when compared to most of the Comparable Companies;

(b) the discount represented by the Offer Price to the NAV per Share is lower than the average and median of those of the Comparable Companies indicating that the Offer Price demonstrates a relatively smaller discount and thus a more favourable price when compared to most of the Comparable Companies;

(c) the discount of the Offer Price over the NAV per Share is in line with that of most of the Privatisation Precedents; and

(d) although the discount of the Offer Price over the Adjusted NAV per Share falls slightly outside the range, it is only marginally higher than the corresponding highest discount observed in the Privatisation Precedents. Considering that the Group's assets are mostly illiquid, the high discount in this respect is of limited relevance,

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

Nonetheless, we would like to remind the Independent Shareholders who would like to realise part or all of their investments in the Shares to closely monitor the market price and liquidity of the Shares during the acceptance period of the Offer and shall, having regard to their own circumstances and investment objectives, consider selling their Shares in the open market, instead of accepting the Offer, if the net proceeds from the sale of such Shares would be higher than that receivable under the Offer. They should also note that the Offer is conditional upon the Conditions being satisfied. Accordingly, the Offer may or may not become unconditional.

As each Independent Shareholders would have different investment objectives and/or circumstances, we advise the Independent Board Committee to also advise the Independent Shareholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Pelican Financial Limited

Charles Li*
Managing Director

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