

Ample Capital Limited
Unit A, 14th Floor
Two Chinachem Plaza
135 Des Voeux Road Central
Hong Kong

23 June 2023

To the Independent Board Committee and the Independent Shareholders

Dear Sir/Madam,

(1) ISSUE OF NEW SHARES UNDER SPECIFIC MANDATE; AND (2) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Specific Mandate and the Whitewash Waiver and whether the terms thereof are fair and reasonable and as to voting, details of which are set out in the LETTER FROM THE BOARD (the “Letter from the Board”) contained in the circular of Fullsun International Holdings Group Co., Limited (the “Circular”) to the Shareholders dated 23 June 2023, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Reference is made to the September Announcement and the Letter from the Board. On 11 July 2022 (after trading hours of the Stock Exchange), the Company and the Subscriber entered into the conditional Subscription Agreement, pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, 1,307,019,402 Subscription Shares at the Consideration of HK\$168,000,000, which represents a subscription price per Subscription Share of approximately HK\$0.1285. The Subscription Shares will be allotted and issued pursuant to the Specific Mandate to be obtained upon approval by the Independent Shareholders at the SGM.

With reference to the Letter from the Board, as at the Latest Practicable Date, the Subscriber, CIS SAM and parties acting in concert with any of them (including Grateful Heart, Mr. Kenichi Yanase, Dr. Hiroshi Kaneko, CIS Investments and CIS Group Limited) were not interested in any Shares. Immediately after the Capital Reorganisation becoming effective and upon Completion, the Subscriber will be interested in 1,307,019,402 New Shares, representing approximately 92% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares in full (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date and up to Completion other than as a result of the Capital Reorganisation and the Subscription) and CIS SAM will be in control of the voting rights attached to the Subscription Shares. As such, the Subscriber and CIS SAM would be required to make a mandatory general offer for all the issued Shares not already owned or agreed to be acquired by the Subscriber, CIS SAM and parties acting in concert with any of them (including Grateful Heart, Mr. Kenichi Yanase, Dr. Hiroshi Kaneko, CIS Investments and CIS Group Limited) under Rule 26.1 of the Takeovers Code, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code is granted by the Executive.

An application has been made by the Subscriber and CIS SAM to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll. Under the Takeovers Code, the resolution(s) in relation to the Whitewash Waiver shall be approved by at least 75% of the independent votes that are cast either in person or by proxy by the Independent Shareholders at the SGM by way of poll and the Restructuring Transactions would be subject to the approval by more than 50% of the Independent Shareholders at the SGM by way of poll. The Executive has indicated that it would, subject to approval by Independent Shareholders at the SGM by way of poll, grant the Whitewash Waiver. As it is a condition precedent to Completion in the Subscription Agreement that the Whitewash Waiver is granted by the Executive, the Subscription will not proceed if the Whitewash Waiver is not granted by the Executive and approved by the Independent Shareholders at the SGM.

An Independent Board Committee, comprising all non-executive Directors, namely Mr. Kong Tat Yee, Mr. Yau Pak Yue and Mr. Zheng Zhen, in compliance with Rule 2.8 of the Takeovers Code, has been formed to advise the Independent Shareholders as to whether the terms the Specific Mandate and the Whitewash Waiver are fair and reasonable and in the interests of the Independent Shareholders only and in the interests of the Company and the Independent Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the Independent Financial Adviser.

We, Ample Capital Limited, have been appointed with the approval of the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

OUR INDEPENDENCE

Aside from our engagement as the Independent Financial Adviser, we have not provided any other services to the Group or the Subscriber, CIS SAM and parties acting in concert with any of them in the last two years prior to the Latest Practicable Date. We are independent from, and are not associated with the Company, the Subscriber, CIS SAM, or any party acting, or presumed to be acting, in concert with any of the above, or any company controlled by any of them. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholder, no arrangement exists whereby we will receive any fees or benefits from the abovementioned parties or any party acting, or presumed to be acting, in concert with any of them, any of their respective associates, close associates or core connected persons or other parties that could be regarded as relevant to our independence. As such, we are considered eligible to give independent advice pursuant to Rule 2.6 of the Takeovers Code and Rule 13.84 of the Listing Rules.

BASIS OF ADVICE

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the Directors and the senior management of the Group.

Your attention is drawn to the responsibility statements as set out in the paragraph headed "1. Responsibility statement" under the section headed "Appendix VI General information" in this Circular. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

The Directors have declared in a responsibility statement set out in the Circular that they jointly and severally accept full responsibility for the accuracy of the information contained in the Circular (other than the information relating to the Subscriber, CIS SAM and parties acting in concert with any of them) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular (other than those expressed by the directors of CIS FUND OFC, the umbrella fund of the Subscriber, the directors of CIS SAM and the directors of CIS Group Limited, being the parent company of CIS SAM) have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

The directors of CIS FUND OFC, the umbrella fund of the Subscriber, the directors of CIS SAM and the directors of CIS Group Limited, being the parent company of CIS SAM, jointly and severally accept full responsibility for the accuracy of the information contained in the Circular (other than those relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in

the Circular (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We have also assumed that the information as contained or referred to in the Circular and the representations made by the Directors were true and accurate at the time they were made and continue to be so up to the date of the SGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the senior management of the Group. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company, the Subscriber, being the counterparty of the Subscription Agreement or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Specific Mandate and the Whitewash Waiver.

Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context. Shareholders will be notified of any material changes to such statements, information, opinions and/or representation as soon as possible in accordance with Rule 9.1 of the Takeovers Code if there arises any material changes of information previously provided to us by the Company in which event this letter shall be amended and updated.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

A. BACKGROUND INFORMATION

1. Information on the Group

The Company is an investment holding company and the Group is principally engaged in the development and sale of residential and commercial properties in the PRC including Hong Kong.

a) *Financial results of the Group*

Set out below are extracts of financial information of the Group for each of the years ended 31 December 2020 (“FY2020”), 31 December 2021 (“FY2021”) and 31 December 2022 (“FY2022”) as extracted from the annual report of the Company for the year ended 31 December 2021 (“2021 Annual Report”) and 31 December 2022 (“2022 Annual Report”) :

	FY2022	FY2021	FY2020
	RMB'000	RMB'000	RMB'000
	Audited	Audited	Audited
Revenue	1,793,763	2,200,196	1,164,653
Cost of sales	(2,093,759)	(1,955,155)	(1,375,595)
Gross profit/(loss)	(299,996)	245,041	(210,942)
Gross profit/(loss) margin	(16.7)%	11.1%	(18.1)%
Finance cost	(136,954)	(122,136)	(219,889)
Loss before tax and interest for the year	(542,487)	(248,059)	(1,170,636)
Loss before tax for the year	(679,441)	(370,195)	(1,390,525)
Loss for the year	(732,838)	(487,363)	(1,393,076)

	FY2022	FY2021	FY2020
	RMB'000	RMB'000	RMB'000
	Audited	Audited	Audited
Total asset	8,448,147	9,967,171	12,588,148
Total liability	8,220,813	9,018,825	11,135,002
Net asset	227,334	948,346	1,453,146
Current asset	7,616,001	9,086,867	11,502,663
Current liabilities	7,916,622	8,698,668	10,818,320
Net current asset/ (liabilities)	(300,621)	388,199	684,343

FY2021 vs FY2020

The Group's revenue increase from approximately RMB1,164.7 million for FY2020 to approximately RMB2,200.0 million for FY2021 was mainly due to the increase in revenue from sales of several properties delivered to customers during the year. The revenue from sales of properties for FY2021 was mainly contributed by projects of Qianlong International, Ningde Fullsun Country Garden • Tianjiao, Xingru Jincheng, Kela Meili Shanzhuang and Fuli Plaza in the Mainland China and La Salle Residence in Hong Kong.

The Group's gross margin increased from gross loss margin of 18.1% for FY2020 to gross profit margin of 11.1% for FY2021, mainly attributable to the increase in revenue from sales of properties with higher gross profit margin for FY2021. The Group recorded a net loss of approximately RMB487.4 million for FY2021 as compared to a net loss of approximately RMB1,393.1 million for FY2020 which was mainly attributable to the increase in revenue during the year.

The Group's financial position remained tight with net current asset and net asset decreased from approximately RMB684.3 million and approximately RMB1,453.1 million, respectively, as at 31 December 2020 to approximately RMB388.2 million and approximately RMB948.3 million, respectively, as at 31 December 2021. The decrease in net asset was mainly due to decrease in properties under development/ properties for sale and decrease in assets of disposal group classified as held for sale. As at 31 December 2021, the Group had total bank and other borrowings of approximately RMB3,017.4 million. As at 31 December 2021, the Group's total current assets amounted to approximately RMB9,086.9 million of which bank balances and cash amounted to approximately RMB277.2 million. Its net gearing ratio calculated as total borrowings including the debt component of the convertible bonds and less of amount of bank balances and cash and restricted bank deposits divided by total equity of the Group deteriorated from 215.0% as at 31 December 2020 to 268.1% as at 31 December 2021 and the Group recorded negative interest rate coverage ratio for FY2020 and FY2021.

As stated in the Letter from the Board, the Group has faced severe liquidity challenges and has been actively seeking to restructure its business and improve its financial position. According to the 2021 Annual Report, the Group was unable to repay borrowings and interest payables from several bank and financial institutions according to the repayment schedule with total principal amounts of RMB2,395 million and related interest payables of RMB307 million (“Default Events”). As a result, the entire outstanding principal and interest payables of these borrowings of RMB2,702 million, would be immediately repayable if requested by the bank and financial institutions. The Default Events triggered cross-defaults of other borrowings of the Group with aggregated principal amounts of HK\$357 million and related interest payables of HK\$38 million as at 31 December 2021.

FY2022 vs FY2021

The Group’s revenue decreased from approximately RMB2,200.2 million in FY2021 to approximately RMB1,793.8 million in FY2022 was mainly due to the weakened demand during FY2022. The overall gross profit margin decreased from 11.1% for FY2021 to gross loss margin of 16.7% for FY2022 which was mainly due to properties with lower margin and serious outbreak of the pandemic in the PRC delivered during the FY2022.

The Group recorded a net loss of approximately RMB732.8 million for FY2022 as compared to net loss of approximately RMB487.4 million for FY2021 which was mainly attributable to the gross loss of approximately RMB300.0 million recorded in FY2022 as compared to gross profit of approximately RMB245.0 million in FY2021 and net exchange loss of RMB83.2 million for FY2022.

The Group's financial position remained tight with net current asset and net asset decreased further from approximately RMB388.2 million and approximately RMB948.3 million, respectively, as at 31 December 2021 to net current liability of approximately RMB300.6 million and net asset of approximately RMB227.3 million, respectively, as at 31 December 2022. The decrease in net asset was mainly due to decrease in properties under development/ properties for sale from RMB7,054.4 million to RMB 5,901.3 million. As at 31 December 2022, the Group had total bank and other borrowings of approximately RMB2,704.1 million. As at 31 December 2022, the Group's total current assets amounted to RMB7,616.0 million of which bank balances and cash amounted to approximately RMB183.4 million. Its net gearing ratio deteriorated further from approximately 268.1% as at 31 December 2021 to 1,104.2% as at 31 December 2022 and the Group recorded negative interest rate coverage ratio for FY2021 and FY2022.

As at 31 December 2022, referring to the Defaulted Events, the Group was unable to repay borrowings and interest payables from several lenders according to the repayment schedule with total principal amounts of approximately RMB2,638 million and related interest payables of approximately RMB1,200 million (in aggregate "Defaulted Borrowings"). As a result, the entire outstanding principal and interest payables of the Defaulted Borrowings of approximately RMB3,838 million would be immediately repayable if requested by the respective lenders. Other than these Defaulted Borrowings, other borrowings with total principal amounts of approximately RMB57 million and related interest payables of approximately RMB12 million are also repayable within one year or on demand. Furthermore, the Group provided financial guarantee in respect of borrowings of a deconsolidated subsidiary, Vivalink for outstanding sum of principals and interest payables of approximately RMB203 million and approximately RMB27 million to lenders respectively.

Events After FY2022 Reporting Period

According to 2022 Annual Report and Company's announcement dated 12 February 2023, Hunan Xingrucheng Real Estate Development Co., Ltd.* (湖南興汝城房地產開發有限公司) ("Hunan Xingru"), a non-wholly owned indirect subsidiary of the Group, received a civil judgment letter issued by Changsha City Intermediate People's Court (the "Court"), whereby the Court accepted the application of several creditors (the "Hunan Xingru Creditors") for the winding-up of Hunan

Xingru on the ground that Hunan Xingru was unable to repay various debts owing from it to Hunan Xingru Creditors. The judgment took effect on 17 January 2023. As at 31 December 2022, the net assets value of Hunan Xingru was RMB406,322,000. Upon completion of the winding-up procedures, the Group will cease to recognise Hunan Xingru as its subsidiary.

Furthermore, according to the 2022 Annual Report and Company's announcement dated 23 March 2023, the Group received an order from the High Court on 23 March 2023, among others, that the Scheme Meeting of the Scheme Creditors be convened to be held on 19 May 2023 for the purpose of considering and, if thought fit, approving (with or without modification or condition approved and imposed by the High Court), the Scheme proposed to be made between the Company and the Scheme Creditors pursuant to Sections 670, 671, 673 and 674 of the Companies Ordinance (Chapter 622 of the Laws of the Hong Kong Special Administrative Region).

Disclaimer of Opinion for FY2022

According to Note 3 to Rule 2 of the Takeovers Code, we would like to draw your attention that the auditors has issued disclaimer of opinion ("**Disclaimer**") or conclusion on the consolidated financial statements of the Group for the year ended 31 December 2022. As stated in the 2022 Annual Report, such disclaimer of opinion or conclusion comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

For detailed information on the basis of disclaimer for FY2021 and FY2022, relevant financial year or period and action taken or to be taken, please refer to the paragraph headed “Disclaimer of Opinion” in Appendix I to the Circular.

With reference to the 2022 Annual Report, the Group’s consolidated financial statements were prepared on a going concern basis, the validity of which is dependent upon outcomes of a number of plans and measures to improve the Group’s liquidity and financial position and to restructure the existing borrowings, which are subject to multiple uncertainties. As a result of these multiple uncertainties, the potential interaction of these uncertainties and the possible cumulative effect thereof, the auditors of the Company disclaimed their opinion in respect of the material uncertainty relating to the going concern basis.

We have reviewed the principal terms of the Subscription and the Directors confirmed that the Subscription is not conditional on the auditor’s opinion on the Group’s financial statements. However, the Directors consider, and we concur, that the Disclaimer may affect the ability of the Group in raising capital from means other than Subscription. As such, we are of the view that the Disclaimer does not have implication on the Subscription and the Subscription being able to provide capital to the Company under the Disclaimer is in the interests of the Company and Independent Shareholders as a whole.

b) *Future prospects*

China’s property sector has slowed sharply in the past year as a result of a government clampdown on excessive borrowing by developers, and a COVID-19-induced economic slump. It also has been a challenging year for the PRC property sector in 2022 as it experienced consumer boycott of mortgage payments and a debt crisis induced by property developers’ defaults on bond payments. According to Bloomberg news¹, the PRC real estate industry has recorded decline in value of home sales and average price of new homes in 2022. With the aim to defuse the property crisis and boosting the real estate market, the PRC government has launched various initiatives including a 16-Point Plan, cutting interest rates, urging major banks to extend 1 trillion yuan (US\$140 billion) of financing in the final months of the year, and offering special loans through policy banks to ensure property projects are delivered. The PRC government’s measures indicated it has taken steps to reverse the decline and is expected to benefit the property sector.

¹ *Bloomberg News Link 1:*
<https://www.bloomberg.com/news/articles/2022-09-16/china-s-home-prices-fall-for-one-year-straight-as-crisis-deepens>
Bloomberg News Link 2:
<https://www.bloomberg.com/news/articles/2022-11-13/china-plans-property-rescue-as-xi-surprises-with-policy-shifts>

Having considered that, the PRC government's measures to improve the outlook of the property sector in the PRC, the PRC government policy adjustments, which aim at supporting the principle of "houses are for living in, not for speculation" and the goal of "stabilising land prices, housing prices, and expectations" will remain unchanged, and with the lift of China's COVID-19 restrictions, we are of the view that, China's property sector will have positive development as compared to the past 2 years under the COVID-19 pandemic. As noted from the management of the Group, the Group intended to continue to focus on developing its core business. It will continuously explore projects that hold the potential for business expansion in the industry. Accordingly, we are of the view that it is in the interest of the Company and the Independent Shareholders as a whole for the Company to continue its development in the PRC property sector.

2. Information on the Subscriber

As disclosed in the Letter from the Board, the Subscriber is a sub-fund of CIS FUND OFC, an open-ended fund company with variable share capital incorporated in Hong Kong with an investment fund mandate to invest in listed and/or unlisted equity and/or debts or real estates or foreign currencies or commodities or insurance policies or funds, futures, options, derivatives of any assets or digital assets or other interests or assets. As at the Latest Practicable Date, the Subscriber has a total of 5,000 issued shares. The Subscriber does not have a general partner or director. Upon Completion, CIS SAM, being the investment manager of the Subscriber, will be in control of the voting rights attached to the Subscription Shares.

As at the Latest Practicable Date, the investors of the Subscriber were (a) Grateful Heart Inc., who has invested the sum of HK\$20,000,000, in return for 4,000 shares of the Subscriber, representing 80% of the total number of issued shares of the Subscriber; and (b) CIS Investments Limited, who has acquired in aggregate 1,000 shares of the Subscriber, representing 20% of the total number of issued shares of the Subscriber, from Mr. Hong Kunsen, Mr. Lam Chi Kin Christopher and Mr. Huang Canjian, who were the investors of the Subscriber as at 13 September 2022, being the date of the announcement of the Company in relation to, among other things, the Restructuring Transactions and the Whitewash Waiver for an aggregate consideration of HK\$5,000,000. As such, Mr. Hong Kunsen, Mr. Lam Chi Kin Christopher and Mr. Huang Canjian no longer have any interest in the Subscriber. All such funds invested in the Subscriber by Grateful Heart and CIS Investments are in readily available funds, funded by the respective investor's own internal resources, and are not subject to any encumbrances.

Grateful Heart is an investment holding company incorporated in the BVI with limited liability and as at the Latest Practicable Date is held as to 70% by Mr. Kenichi Yanase and 30% by Dr. Hiroshi Kaneko.

Mr. Kenichi Yanase (“Mr. Yanase”), aged 57, has extensive experience in the field of banking, real estate and investment. Mr. Yanase is currently the chairman of Kyosei Bank Co., and is responsible for overseeing its daily operation and strategic planning. He has also been serving as its chief executive officer since January 2012.

Prior to joining Kyosei Bank Co., Mr. Yanase founded Toshisouken Invest-Bank Co.* (都市綜研インベストバンク株式会社) and has been serving as its chairman since October 2007, and is primarily responsible for new business development and operations, as well as overseeing the real estate business in general. Mr. Yanase also founded Toshisouken Invest-Fund Co.* (都市綜研インベストファンド株式会社) and has been serving as its chairman since April 2010, and is primarily responsible for the management and operation of the real estate fund. Mr. Yanase has been acting as the non-executive director of Hong Wei (Asia) Holdings Company Limited (stock code: 8191), the shares of which are listed on GEM of the Stock Exchange, since 20 November 2021.

Mr. Yanase graduated from Kobe City Suma High School in March 1984.

Dr. Hiroshi Kaneko (“Dr. Kaneko”), aged 58, has extensive research experience in the field of environment, development and economic science in Japan, China and Northern America. He has been engaged in comprehensive utilisation of environmental friendly materials and international trade. He is currently a vice president and chief financial officer of Kyosei-Bank Co* (共生バンク株式会社) and is mainly responsible for overseeing the financial aspects of new business development.

Dr. Kaneko has received a Master of Engineering from Dalian University of Technology in 1989 and a doctoral degree in Engineering from the Department of the Advanced Interdisciplinary Studies from University of Tokyo in 1997.

Dr. Kaneko has been acting as the executive director of Hong Wei (Asia) Holdings Company Limited (stock code: 8191), the shares of which are listed on GEM of the Stock Exchange, since 20 November 2021.

CIS Investments is an investment holding company incorporated in Hong Kong with limited liability and as at the Latest Practicable Date is a wholly owned subsidiary of CIS Group Limited. CIS Group Limited is an investment holding company with a number of Hong Kong incorporated subsidiaries (together with its subsidiaries, collectively referred to as the “CIS Group”), the first of which was incorporated in 2007, and which hold SFC, insurance authority and money lending licenses for the provision of funds, securities and insurance services in Hong Kong. The principal business of the CIS Group is the provision of wealth management services for mid to high-end clients and institutional clients in Hong Kong and the Asia-Pacific region and its core businesses are securities and asset management, equity and debt capital market, insurance and wealth management, capital and equity investment, money lending and immigration service. The ultimate controlling shareholder of CIS Investments is Ms. Kan King Yee Karen. The directors of CIS Investments are Mr. Chu Wai Leung and Mr. Chung Ho Wai Alan. CIS Investments and CIS SAM are both wholly owned subsidiaries of CIS Group Limited.

Grateful Heart and CIS Investments are interested in investing in the Company through the Subscriber because of their positive view regarding the Company’s business operations and the property development industry in the PRC.

CIS SAM is the investment manager of the Subscriber, who became interested in the subscription of the Shares because of its previous experiences investing in companies with similar business for other funds under its management. CIS SAM will be in control of the voting rights attached to the Subscription Shares upon Completion. Neither Grateful Heart nor CIS Investments have any influence over CIS SAM in the exercise of voting rights attached to the Subscription Shares. The principal businesses of CIS SAM are dealing in securities, futures contracts, advising on securities and provision of fund management services. Other funds managed by CIS SAM include CIS Global Opportunities Fund SPC – Rental Yield Growth Fund SP. CIS SAM is also the investment manager of CIS FUND OFC, the umbrella fund of the Subscriber. CIS SAM is a direct wholly owned subsidiary of CIS Group Limited.

Each of the Subscriber, CIS SAM and parties acting in concert with any of them (including Grateful Heart, Mr. Kenichi Yanase, Dr. Hiroshi Kaneko, CIS Investments and CIS Group Limited) is an Independent Third Party. Immediately prior to the entering into of the Subscription Agreement, none of the Subscriber, CIS SAM and parties acting in concert with any of them (including Grateful Heart, Mr. Kenichi Yanase, Dr. Hiroshi Kaneko, CIS Investments and CIS Group Limited) had any interests in the Shares.

In the event of any further proposed change in an investor of the Subscriber, and the new investor is a connected person of the Company, the Company will comply with the relevant requirements of Chapter 14A of the Listing Rules in relation to the Subscription.

a) Future intentions of the Subscriber and CIS SAM regarding the Group

As disclosed in the Letter from the Board, the Subscriber and CIS SAM intend to continue the existing principal business of the Group immediately following Completion. The Subscriber and CIS SAM also intend to focus on the existing principal business of the Group in the future and explore potential avenues and strategies to achieve growth and expansion in the business operations of the Group. The Subscriber and CIS SAM have no intention to introduce any major changes to the existing business and operation of the Group (including any redeployment of the fixed assets of the Group) nor terminate the continued employment of the employees of the Group, other than in the ordinary and usual course of business. Save as disclosed in the section headed “Proposed Change to the Board Composition of the Company” in the Letter from the Board, as at the Latest Practicable Date the Subscriber and CIS SAM have no intention to change the senior management of the Group following Completion in order to avoid causing any material disruption to the business operations of the Group.

b) Proposed change to the Board composition of the Company

As disclosed in the Letter from the Board, all existing Directors are expected to resign from their positions as Directors on a date no earlier than such date as permitted under the Takeovers Code. As at the Latest Practicable Date, the Subscriber intends to nominate five new Directors, i.e. (a) Dr. Hiroshi Kaneko as new executive Director; (b) Mr. Chung Ho Wai Alan (“**Mr. Chung**”) as new non-executive Director, and (c) Mr. Huang Zhongquan (“**Mr. Huang**”), Ms. Tang Ying Sum (“**Ms. Tang**”), Ms. Ha Sze Wan (“**Ms. Ha**”) as new independent non-executive Directors who are expected to be appointed to the Board with effect from a date which is no earlier than such date as permitted under the Takeovers Code. It is also the intention of the Subscriber and CIS SAM that Dr. Hiroshi Kaneko will be appointed as the chief executive officer of the Company upon his appointment as Director.

For the five new Directors’ biographical information, please refer to the paragraph headed “Letter from the Board – The Subscription – Information on the Subscriber” and “Letter from the Board – Proposed change to the Board composition of the Company” in the Circular.

The proposed executive Director Dr. Kaneko has extensive management and operation experience in listed companies in Hong Kong. Although Dr. Kaneko does not have previous experience in property development, his vast experience in management role has laid solid foundation for him to assess business risk and make informed and commercially rational decision in the property development industry.

The proposed non-executive Director, Mr. Chung, has over 15 years of solid experience in the area of wealth management, financial and securities advisory. We are of the view that Mr. Chung could provide appropriate oversight, knowledge, experience and insights to the Company especially in aspects of financial and investment consulting and management.

With reference to the Letter from the Board, Mr. Huang, Ms. Tang and Ms. Ha are intended to be nominated as the new independent non-executive Directors. Pursuant to Rule 3.12 of the Listing Rules, every independent non-executive director must have the character, integrity, independence and experience to fulfil his role effectively in addition to fulfilling the requirements and continuing obligations under the Listing Rules. We have reviewed their biographies and noted that they all have appropriate professional qualifications to fulfil their role as a director, and they have accounting or related financial management expertise in financial institutions or listed companies in Hong Kong. Therefore, we are of the view that their diverse experience allow them to discharge responsibility as independent non-executive Directors to the Company.

c) Our view

Taking into account that the Subscriber is a sub-fund of an open ended fund company, the background of the investors of the Subscriber, being Grateful Heart and CIS Investments, we consider the Subscriber's participation in the Subscription will expand and diversify the Company's shareholder base and will provide solid capital support to the Company. CIS SAM being an investment manager is experienced in, among others, seeking investment opportunities, providing financial advice and recommendations in order to manage risk, generate and maximise returns of shareholders. Such experience is beneficial to the Company and their financial advice may bring opportunities and return to the Company and the Independent Shareholders in the future. We are also of the view that having the Subscriber and CIS SAM as the new Shareholder could improve confidence of the Independent Shareholders and investors of the Company. Hence, the introduction of the Subscriber as new Shareholder is in the interest of the Company and the Independent Shareholders as a whole.

3. Reasons for and benefits of the Subscription and the use of proceeds

As stated in the Letter from the Board, the gross proceeds from the Subscription will be HK\$168,000,000, being a sum equal to the Consideration. The net proceeds are estimated to be approximately HK\$136,000,000 and will, as nominated by the Company, be paid to the Scheme as the Cash Consideration to settle the debts and liabilities to the Creditors under the Scheme.

References are made to announcements of the Company dated 21 March 2022, 24 March 2022, 24 April 2022, 3 May 2022, 17 May 2022, 19 June 2022, 17 August 2022, 18 December 2022 and 14 April 2023. On 19 March 2022, the Company received a winding-up petition filed by Harbor Sure with the Supreme Court against the Company which arose as a result of the Company's alleged failure as guarantor to pay the principal amount and default interest owed by a wholly-owned subsidiary of the Company to Harbor Sure pursuant to a facility agreement entered into between, among others, such wholly-owned subsidiary of the Company as borrower and Harbor Sure as lender.

Upon application by the Company for an adjournment of the winding-up hearing in respect of the Petition, after a number of hearings, the Supreme Court ordered at a hearing held on 14 April 2023 that the hearing of the Petition be adjourned to 9:30 a.m. on Friday, 14 July 2023 (Bermuda time). The Petition necessitated the Company to act quickly and decisively to demonstrate to the Supreme Court that it has a concrete rescue proposal, or otherwise the Company would likely face an order made by the Supreme Court for the winding up of the Company. Pursuant to the Scheme, the distribution to the Creditors with Admitted Claims will be made out of (i) first of all, the Cash Consideration, being a payment of cash in the amount equivalent to the net proceeds (after deducting the costs and expenses in connection with or incidental to the transactions contemplated under the Subscription Agreement (including the Restructuring Transactions)) from the Subscription, being not less than HK\$136,000,000; and (ii) in addition, the shares in and assets of the Scheme Subsidiaries (to the extent recoverable by and available to the Scheme Administrators), which will be transferred to the SchemeCo by way of the Group Reorganisation. Such distribution (including the distribution of any Residual Value that the SchemeCo may receive) will be made in accordance with the terms of the Scheme. Only unsecured Claims (or unsecured portion of Claims, such as the unsecured portions of the claims of Profound Success and Sure Valued) would be subject to the Scheme. Upon the Scheme having become effective, all Creditors (including those abstaining from voting and those voting against the Scheme) will be taken as accepting the terms of the Scheme and all Creditors and their respective claims against the Company and the Co-Obligors together with all guarantees given by the Company (to the extent of those given by the Company which are unsecured only) and the Co-Obligors and all security over any asset of any Co-Obligor as of the Effective Date will be discharged and released in full as against the Company and the Co-Obligors through the collaterals on the Effective Date and the Creditors with Admitted Claims shall discharge and waive all their claims against the Company and the Co-Obligors, notwithstanding the fact that the Claims will not be settled in full monetary amount. The Scheme is without prejudice to the rights and entitlements of the Creditors whose debts are secured upon any assets of the Company (the "Secured Creditors"). As such, the claims of the Secured Creditors in relation to such security and the secured portion of Claims will not be discharged as

at the Effective Date. Unless a Secured Creditor has agreed with the Scheme Administrators an appraised value for its security or has released such security, the claim of the Secured Creditor in relation to the security or the secured portion of Claims will be treated as a Claim which has not been admitted or rejected by the Scheme Administrators and appropriate reserves will be made by the Scheme Administrators out of the Scheme Assets, pending the Secured Creditor notifying the Scheme Administrators that it has realised its security and providing details of the amount of shortfall (if any) after applying the proceeds of the realisation of the security, or, if earlier, releasing or agreeing with the Scheme Administrators a value for such security. A Secured Creditor shall pay to the Scheme Administrators any amount received in excess of its Claim from the net proceeds of realisation of its security and distributions received by it under the Scheme.

As such, the net proceeds would allow the implementation of the Scheme and avoid the Company from being wound up and improve the financial position of the Group.

As discussed in the section headed "I. 1. Background information of the Group", the Group has faced severe liquidity challenges and has been actively seeking to restructure its business and improve its financial position. The Group has been recording losses for the three years ended 31 December 2022 under review. The Group's financial position remained tight with soaring net gearing ratio which increased from approximately 268.1% as at 31 December 2021 to 1,104.2% as at 31 December 2022, and it recorded negative interest rate coverage ratio since FY2020. As at 31 December 2022, the Group had total bank and other borrowings of approximately RMB2,704 million majority of which were collateralised by the Group's property, plant and equipment properties under development, properties for sale and investment properties recorded at a total carrying amount of RMB2,443 million, whereas the Group's bank balances and cash was only amounted to approximately RMB183 million which would not be sufficient to settle all the Claims of all Creditors.

Nonetheless, as described in note 2 to the consolidated financial statements as attached in Appendix I, the Group's financial conditions indicate the existence of material uncertainties which cast significant doubt regarding the Group's ability to continue as a going concern and the auditor of the Company had issued a disclaimer of opinion of the Group's financials for FY2022.

a) *Our view*

Taking into account (i) that the Group has recorded net losses since 2020; (ii) the Group's financial position; (iii) the Default Events; (iv) the Petition; (v) that the Subscription provides the necessary funding timely to facilitate the

debt restructuring; and (vi) that the implementation of the Scheme is essential for the revitalisation of the Company, failing which may result in the winding up of the Company, we are of the opinion that the use of proceeds will improve the Group's gearing ratio and hence strengthen its financial position alleviate the liquidity pressure and reduce the gearing level of the Group and is crucial to the implementation of the rescue plan of the Company.

4. Financing alternatives of the Group

As stated in the Letter from the Board, other than the Subscription, the Directors considered other ways to settle the Claims, including settlement using the cash balance of the Group, realising assets of the Group and other means of fund raising, such as debt financing from bank or money lenders and other forms of equity financing may not be feasible or practical.

a) Settlement using cash balance

As stated in the Letter from the Board, the Company had evaluated the use of cash balance of the Company to settle the Claims. As at 30 June 2022, the Harbor Sure Borrowing amounted to approximately HK\$71.5 million, which at first glance appears insignificant when compared with the Group's total assets of RMB9,744 million (equivalent to approximately HK\$11,918 million) and unrestricted cash balance of RMB147.7 million (equivalent to approximately HK\$180.6 million) as at 30 June 2022. However, the fact is that most of the unrestricted cash balance of the Company has already been earmarked for use to sustain the existing projects of the Group. The latest governmental regulation in the real estate industry in the PRC, has required the deposit of cash with accounts supervised by the relevant PRC authorities to ensure that such cash will first be used in connection with the real estate projects of the subsidiaries and would not be used for any other purposes before fully settling the construction cost of the real estate projects and the utilisation of the unrestricted cash balance would require the consent or approval from relevant governmental department, which, of the view of the Directors, and we concur, is considered to be highly unlikely given the current economic environment in the PRC. Moreover, as most of the subsidiaries' real estate projects are financed through project financing obtained from local financiers such as banks and trust companies, the use of cash by the subsidiaries is in general subject to the prior consent of the financiers to ensure repayment of the loans advanced to the subsidiaries and payment of interest accrued. For uses of cash not relating to the property development concerned or repayment of the financing, the Directors consider, and we concur, it is unlikely that the financiers will grant consent to such uses of the subsidiaries' cash.

Furthermore, as stated in the Letter from Board, for illustration purposes, the cash balance of the Group as at 30 June 2022 would only be able to settle approximately 6.49% of the total Claims (including those of Harbor Sure and Profound Success) if any part of the cash balance could be so applied. As such, using such method would not resolve the Claims of other Creditors who would otherwise be entitled to take action against the Company in place of Harbor Sure.

b) Settlement of claim by realising assets of the Group

As stated in the Letter from the Board, most of the real estate projects of the Group are situated in the PRC, in particular in or around Changsha City in Hunan Province. Due to the outbreak of the COVID-19 pandemic, the current economic conditions in the PRC and existing policies in relation to real estate adopted by local governments in the PRC, the Company expects that it would be extremely difficult (if not impossible) to liquidate the Group's real estate projects in the PRC within a short period of time, even if the real estate projects are attempted to be sold at a deep discount (which in fact is not possible because the selling price must be agreed by the project financiers who would normally not be willing to agree to sell at a deep discount). According to Bloomberg news², consumer confidence remained weak and potential home buyers delay purchase for a steeper drop in home price. It is due to the property market has become extremely saturated in Changsha, where, at present, there are over 100 private real estate developers competing with one another to realise their assets, some at steep discounts, demand for real estate from private real estate developers in Changsha City is weak due to a combination of existing policies in relation to real estate adopted by the local government, including but not limited to restriction of purchase of real estate by consumers unless the individual purchaser in question is a local registrant of the official household registration system of the PRC and raising the mortgage requirements for consumers when purchasing property, low consumer confidence in the economy and housing market, and consumers' preference to state owned developers over private developers given recent concerned about the increasing number of incidents where private real estate developers are unable to complete construction of real estate projects after payment of the purchase price.

² *Bloomberg News Link:*
<https://www.bloomberg.com/news/articles/2022-12-15/china-s-home-price-slump-persists-as-buyer-demand-remains-weak>

Nonetheless, even if the Group manages to realise its real estate projects, due to the restrictions placed on the cash balances of the PRC operating subsidiaries by, among others, the relevant governmental departments and financiers as mentioned in 4.a above, the proceeds from the sale of the real estate projects would still be restricted from being utilised for settling the offshore debts of the Group.

Given the above reasons and also the prospect of the PRC real estate industry, as stated in the Letter from the Board, the Company considers, and we concur, liquidating its assets for the purpose of settling its Claims within a short period of time to be unfeasible and impractical.

c) Other means of fund raising

During the years ended 31 December 2020, 2021 and 2022, the Group recorded finance costs of approximately HK\$219.9 million, HK\$122.1 million and HK\$137.0 million, respectively and loss of approximately HK\$1,393.1 million, HK\$487.4 million and HK\$732.8 million, respectively. Accordingly, the Company had a negative interest coverage for the FY2020, FY2021, FY2022. The gearing ratio of the Company was approximately 215.0%, 268.1% and 1,104.2% as at 31 December 2020, 31 December 2021 and 31 December 2022. For debt financing from banks or money lenders, the Directors considered, and we concur, that it will incur further interest expenses and leverage on the Group. Due to the loss-making performance of the Group, the negative interest coverage ratio of the Group and the high leverage status of the Group, it may not be feasible for the Group to obtain additional debt financing with terms acceptable to the Group. Debt financing from banks or money lenders may also be subject to lengthy due diligence and internal risk assessment by the institutions. Under the current circumstances of winding up petition against the Group as well as the reasons mentioned herein, we concur with the Directors' view that debt financing from banks or money lenders is not practical.

In light of the loss-making record of the Group for three consecutive years, lack of financial resources to meet debt obligations and the existence of the Petition, if the Company raises the necessary funds by way of placing, rights issue or open offer of new Shares, we concur with the Directors that the public may not be interested in a listed company with financial difficulties, pending winding up petition and going-concern issue. As such, the Directors considered, and we concur, that placing, rights issue or open offer of new Shares is not feasible to the Group.

d) Our view

Having considered that (i) the Group has recorded net losses since 2020; (ii) the Group lacks sufficient financial resources to meet its capital requirements and debt repayment obligations; (iii) it is impractical to utilise cash balance of the Company and realising assets of the Group for settlement; (iv) it is neither cost-effective nor feasible for the Group to obtain debt financing and/or carry out other forms of equity financing; (v) the Subscription provides the necessary funding timely to facilitate the debt restructuring and support the capital requirements of the Group's operation; and (vi) the implementation of the Scheme is essential for the revitalisation of the Company, failing which may result in the winding up of the Company, we are of the opinion that the Subscription is in the interest of the Company and the Independent Shareholders as a whole.

B. THE SUBSCRIPTION

1. Principal terms of the Subscription Agreement

Set out below are the summary of principal terms of the Subscription Agreement, details of which are set out in the section titled "The Subscription Agreement" in the Letter from the Board.

Date

11 July 2022

Parties

- (i) the Company (as issuer); and
- (ii) the Subscriber (as subscriber)

The Subscription Shares

The Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, 1,307,019,402 Subscription Shares at the Consideration of HK\$168,000,000, which represents a subscription price per Subscription Share of approximately HK\$0.1285.

After adjusting for the effects of the Capital Reorganisation, the Subscription Shares represent approximately 92% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares in full (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date and up to Completion other than as a result of the Capital Reorganisation and the Subscription).

2. Evaluation of the Subscription Price

The price per Subscription Share of approximately HK\$0.1285 represents:

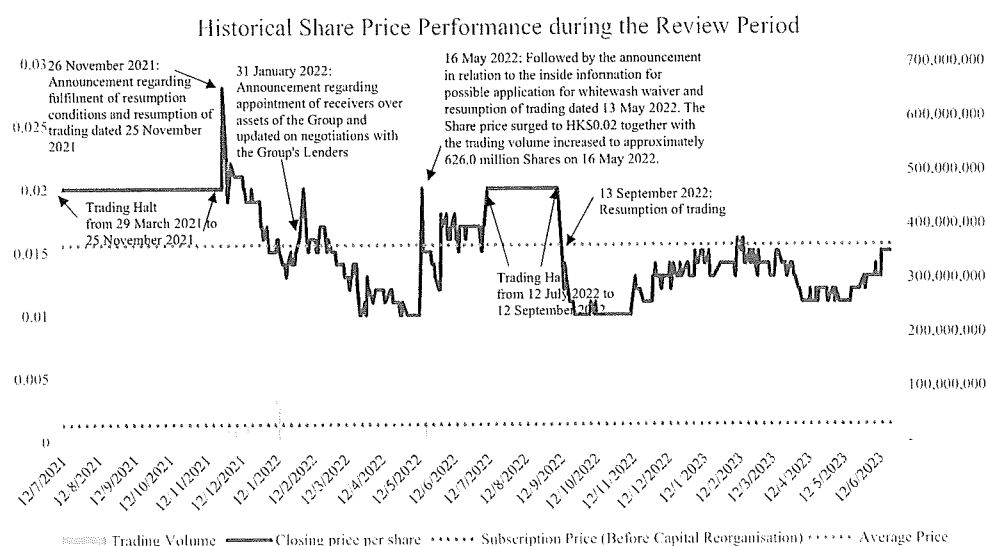
- (a) a discount of approximately 91.4% to the closing price of HK\$0.015 per Share (HK\$1.50 per New Share assuming the completion of the Capital Reorganisation) as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation;
- (b) a discount of approximately 87.2% to the closing price of HK\$0.01 per Share (HK\$1.00 per New Share assuming the completion of the Capital Reorganisation) as quoted on the Stock Exchange on 11 May 2022, being the last day on which the Shares were traded on the Stock Exchange prior to the release of the 13 May 2022 Announcement and adjusted for the effect of the Capital Reorganisation;
- (c) a discount of approximately 93.6% to the closing price of HK\$0.02 per Share (HK\$2.00 per New Share assuming the completion of the Capital Reorganisation) as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (d) a discount of approximately 92.4% to the average closing price of HK\$0.017 per Share (HK\$1.70 per New Share assuming the completion of the Capital Reorganisation) as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation;
- (e) a discount of approximately 92.4% to the average closing price of HK\$0.017 per Share (HK\$1.70 per New Share assuming the completion of the Capital Reorganisation) as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day and adjusted for the effect of the Capital Reorganisation; and

- (f) a discount of approximately 94.3% to the audited consolidated net asset value per Share as at 31 December 2022 of approximately HK\$0.0225 per Share (HK\$2.25 per New Share assuming the completion of the Capital Reorganisation) and adjusted for the effect of the Capital Reorganisation.

The net subscription price, after deduction of relevant expenses, of approximately HK\$136,000,000, is estimated to be approximately HK\$0.1041 per Subscription Share.

a) *Historical Share price performance*

We have reviewed the daily closing prices of the Shares for the period from 11 July 2021 (being the 12-month period prior to the Last Trading Day) and up to the Latest Practicable Date (the “Review Period”). We consider that the Review Period is adequate to illustrate the recent price movement of the Shares for conducting a reasonable comparison among the historical closing price prior to the Last Trading Day and such comparison is relevant for the assessment of the fairness and reasonableness of the Subscription Price, as the Share price before the Last Trading Day represents a fair market value of the Company which the Shareholders expected. The following chart sets out the daily closing prices of the Shares on the Stock Exchange during the Review Period:



As illustrated in the chart above, during the Review Period, the Share price closed at an average of HK\$0.016, with the highest and lowest prices of the Share, being HK\$0.028 recorded on 26 November 2021 to 10 December 2021 and HK\$0.01 recorded on 24 to 25 March 2022, 29 March 2022, 27 to 28 April 2022, 3 to 6 May 2022, 10 to 13 May 2022, 23 September 2022, 26 to 30 September 2022, 3 October 2022, 5 to 6 October 2022, 10 October 2022, 12 to 14 October 2022, 17 to 21 October 2022, 24 to 28 October 2022, 31 October 2022, 1 to 4 November 2022 and 7 to 10 November 2022, respectively. Taking into account the effect of the Capital Reorganisation, the Subscription Price would be HK\$0.001285 prior to the Capital Reorganisation, which is below and represents a discount of approximately 92.0% to the average price per Share of HK\$0.016 during the Review Period. We also noted that the closing price of the Shares had been staying above the Subscription Price during the Review Period.

As depicted from the above chart, the closing price of the Shares formed a flat trend from 12 July 2021 to 25 November 2021 since the beginning of the Review Period because of the suspension of trading due to the delay in publication of the 2020 Annual Results and pending to fulfill HKEx's resumption request. On 25 November 2021, the Company published an announcement regarding fulfilment of resumption conditions and resumption of trading. Subsequent to the announcement dated 25 November 2021, the Share price surged to HK\$0.028 on 26 November 2021.

After the resumption of trading announcement of the Company dated 25 November 2021, the closing price of the Shares formed a general sliding trend since 26 November 2021. On 31 January 2022, the Company published an announcement in relation to the appointment of receivers over assets of the Group and update on negotiations with the Group's lenders. Subsequent to the abovementioned announcement, on 4 February 2022, the Share prices fluctuated within the range of HK\$0.015 and HK\$0.033 between February 2022 to late March 2022. On 21 March 2022, the Company published the announcement in relation to the inside information of winding up petition against the Company and followed by such announcement, the Share price of the Company closed at HK\$0.01 on 24 March 2022. On 13 May 2022, the Company issued its announcement in relation to the inside information for possible application for whitewash waiver and resumption of trading. We note that, subsequent to the abovementioned announcement, the Share price surged to HK\$0.02 together with the trading volume increased to approximately 626.0 million Shares on 16 May 2022. On 19 June 2022, the Company published an announcement in respect of the update information of winding up petition against the Company, we noted that followed by such announcement of the Company dated on 19 June 2022, the share price of the Company fluctuated within the range of HK\$0.016 to HK\$0.025 together with the trading volume increased to approximately 228.5 million Shares on 20 June 2022.

Besides, trading in the shares of the Company has been halted with effect from 12 July 2022 to 12 September 2022 due to the Company and the Subscriber having entered into the conditional Subscription Agreement on 11 July 2022 and trading in the Shares of the Company has been resumed after the publication of the announcement dated 13 September 2022.

Lastly, on 12 September 2022, the Company issued an announcement in relation to the capital reorganisation; change in board lot size; issue of new shares under specific mandate; creditors' scheme; application for whitewash waiver and resumption of trading. We note that in the next trading day after the publication of such announcement, the share price dropped by 30% from HK\$0.02 to HK\$0.014.

Based on the above, we noted that (i) the closing prices of the Shares had been staying well above the Subscription Price throughout the Review Period; and (ii) the Subscription Price represented a significant discount to the average closing prices of the Shares of approximately 92.0% during the Review Period. However, given (i) the Group has been loss-making for the three consecutive years ended 31 December 2022 and the Group's financial position remained tight with soaring net gearing ratio which increased from approximately 268.1% as at 31 December 2021 to 1,104.2% as at 31 December 2022; (ii) the Group lacks sufficient financial resources to meet its capital requirements and debt repayment obligations; (iii) as disclosed in the section headed "Alternative fund raising methods considered by the Company" in the Letter from the Board, the Company is facing practical difficulties in raising funds from alternative fund raising methods due to the adverse financial position of the Group, the Petition and difficulties in obtaining other means of financing; and (iv) as disclosed in the section headed "Reason For the Subscription and Use of Proceeds" in the Letter from the Board, the Subscription is essential to the Company, failure of which will lead to winding up of the Company and contrary to the interest of existing Shareholders, the Existing Shares may lose liquidity and substantially reduce in value. We are of the view that the Subscription Price is fair and reasonable and in the interest of the Company and Independent Shareholders as a whole.

b) *Historical Share liquidity*

The following table sets out the total trading volume per month and the average daily trading volume per month of the Share during the Review Period:

	Total trading volume of Share for the month/period	Number of trading days	Average daily trading volume	Total number of issued Shares at the end of the month/period	% of average daily trading volume to total number of Shares as at the Latest Practicable Date
2021					
November (26th to 30th)	269,612,320	3	89,870,773	3,284,000,000	2.74%
December	841,918,600	22	38,269,027	3,284,000,000	1.17%
2022					
January	1,264,652,720	21	60,221,558	3,284,000,000	1.83%
February	177,479,560	17	10,439,974	3,284,000,000	0.32%
March	161,390,920	23	7,016,997	3,284,000,000	0.21%
April	149,635,100	18	8,313,061	3,284,000,000	0.25%
May	1,130,977,332	20	56,548,867	3,284,000,000	1.72%
June	605,518,760	21	28,834,227	3,284,000,000	0.88%
July	114,794,120	20	5,739,706	3,284,000,000	0.17%
August ^(Note)	–	23	–	3,284,000,000	0.00%
September	208,377,020	21	9,922,715	3,284,000,000	0.30%
October	14,590,750	20	729,538	3,284,000,000	0.02%
November	127,129,050	22	5,778,593	3,284,000,000	0.18%
December	52,651,200	20	2,632,560	3,284,000,000	0.08%
2023					
January	78,966,400	18	4,387,022	3,284,000,000	0.13%
February	54,141,500	20	2,707,075	3,284,000,000	0.08%
March	20,082,520	23	873,153	3,284,000,000	0.03%
April	46,577,410	17	2,739,848	3,284,000,000	0.08%
May	13,048,920	21	621,377	3,284,000,000	0.02%
June (1st to 20th)	19,569,000	14	1,397,786	3,284,000,000	0.04%
Minimum					0.02%
Maximum					2.74%
Average					0.51%

Source: The Stock Exchange

Note: In August 2022, nil trading volume was recorded due to the Company suspended its trading between 12 July 2022 to 12 September 2022.

We noted from the above table that the trading volume of the Share is generally thin during the Review Period. The percentages of average daily trading volume of the Share to the total issued Shares during the Review Period are approximately 0.51%.

c) Comparable transactions analysis

In assessing the fairness and reasonableness of the Subscription Price, we identified subscription of new shares under specific mandate relating to creditors scheme or debt restructuring and involving whitewash waiver application (the “**Comparable Transactions**”) which were either published by way of announcement or circular by listed companies in Hong Kong during the period from 1 January 2020 to the Latest Practicable Date. Based on these criteria, we identified five Comparable Transactions as below and they are exhaustive. Shareholders should note that the market capitalisations, businesses, operations and prospects of the Company are not the same as the subject companies of the Comparable Transactions and the subscriber(s) under the Comparable Transactions may or may not be connected person(s) of the subject company. Nevertheless, these factors would not affect the comparability of the Comparable Transactions as they serve for comparison among practices of listed companies in Hong Kong under creditors scheme or debt restructuring.

Date of announcement	Company name (Stock code)	Principal business as at the date of its respective announcement	Discount of the issue price to closing price per share on the last trading day approximate %	Discount of the issue price to closing price per share for the last five trading days up to and including the last trading day approximate %	Dilution effect of subscription on existing public shareholding approximate %
17/11/2020	Freeman Fintech Corporation Limited (279)	Principally engaged in the financial services sector, including (a) the provision of securities and futures brokerage services, placing, underwriting and margin financing services; (b) the provision of insurance brokerage and financial planning services; (c) the provision of asset management and advisory services; and (d) the provision of corporate finance advisory services.	(81.50) to (82.10)	(82.70) to (83.20)	88.89
15/3/2021	China Oil Gangran Energy Group Holdings Limited (8132)	Primarily engaged in the following businesses: (i) manufacture and sales of power and data cords business; (ii) trading of refined oil and chemicals business; and (iii) trading of commodities.	(87.55)	(89.89)	83.33
24/6/2021	National United Resources Holdings Limited (254)	Engaged in bus transportation services, passenger operation and car rental services.	(92.30)	(92.80)	71.24
22/11/2021	Samson Paper Holdings Limited (731)	Principally engaged in (i) paper manufacturing business; (ii) paper trading business including sale of paper and cardboard, office supplies and consumables and supplies for paper manufacturing; (iii) Fast moving consumer goods business; (iv) PFD business; and (v) other businesses including trading of consumable aeronautic parts and the provision of related services, and provision of logistic services and marine services.	(96.70)	(96.60)	89.67
10/3/2022	China Wood International Holding Co., Limited (1822)	Principally engaged in (i) sale and distribution of furniture wood, manufacturing and sales of antique style wood furniture and imported timber flooring processing businesses; and (ii) car rental business in the PRC.	(32.30)	(29.50)	86.84
Maximum			(96.70)	(96.60)	89.67
Minimum			(32.30)	(29.50)	71.24
The Company			(93.60)	(92.40)	92.08
			(Note)	(Note)	

Note: The effect of the Capital Reorganisation was taken into account.

We noted from the above table that the subscription prices of the Comparable Transactions represented discounts (i) ranged from approximately 32.30% to 96.70% to the respective closing prices of their shares on the last trading day; and (ii) ranged from approximately 29.50% to 96.60% to the respective average closing prices of their shares for the last five trading days. The Subscription Price, which represented a discount of approximately 93.60% to the closing price of the Shares on the Last Trading Day and a discount of approximately 92.40% to the closing price of the Shares on the last five trading days, are within the abovementioned Comparable Transactions range.

Even though the Subscription Price's discount to the closing price of the Shares on the Last Trading Day and the discount to the last five trading days is close to the maximum discount range among those Comparable Transactions, having considered (i) the Group has been loss-making continuously for the three years ended 31 December 2022 and the Group's financial position remained tight with soaring net gearing ratio; (ii) the Group lacks sufficient financial resources to meet its capital requirements and debt repayment obligations; (iii) the Company is facing practical difficulties in raising funds without a substantial discount and dilution to the public Shareholders due to the adverse financial position of the Group, the Petition and difficulties in obtaining other means of financing; and (iv) as disclosed in the section headed "Reason For the Subscription and Use of Proceeds" in the Letter from the Board, the Subscription is essential to the Company, failure of which will lead to winding up of the Company and contrary to the interest of existing Shareholders, the Existing Shares may lose liquidity and substantially reduce in value, we are of the view the Subscription Price's discount to the closing price of the Shares on the Last Trading Day and the discount to the last five trading days is close to the maximum discount range among those Comparable Transactions is justifiable and the Subscription is in the interest of the Company and the Independent Shareholders as a whole.

d) *Comparable companies analysis*

To further assess the fairness and reasonableness of the Subscription, we have also selected and identified a list of six industry comparable companies (the “**Industry Comparables**”). The selection criteria include the followings:

- i. are listed on the Main Board of the Stock Exchange;
- ii. are principally engaged in the business of property development in the PRC;
- iii. market capitalisation below HK\$500 million as at the Latest Practicable Date; and
- iv. a winding-up petition was served and filed with High Court/ Supreme Court in the last 12 months prior to the Last Trading Day and up to the Latest Practicable Date.

In order to (i) identify comparable companies that are facing financial difficulties or potential insolvency risks which are in similar situation like the Company; (ii) provide a more accurate comparison with the Group's financial position; and (iii) provide a more realistic representation of the market and the challenges that similar companies may be facing, we included the criteria of having a winding-up petition served and filed in the selection of industry comparables.

The Industry Comparables have been selected exhaustively based on the criteria set out above which have been identified, to the best of our efforts, in our research through public sources and hence are fair and representative.

The trading multiples analysis, including the price-to-earnings ratio, (“**P/E Ratio**”), price-to-sales ratio (“**P/S Ratio**”) and price-to-book ratio (“**P/B Ratio**”), is a commonly adopted valuation method in the market. Given that the Group was loss-making for the year ended 31 December 2022, the P/E Ratio analysis is therefore not applicable.

The following tables set out (i) the P/S Ratio, P/B Ratio and gearing ratio of the Industry Comparables based on their closing share price as at the Latest Practicable Date and their latest published financial information; and (ii) the implied P/S Ratio, P/B Ratio and gearing ratio of the Company based on the Subscription Price and its latest published financial information:

Company name (Stock code)	Market capitalisation (as at the Latest Practicable Date (Note 1) HK\$	Net profit/(loss) from their respective latest annual report HK\$	Closing price on the Latest Practicable Date HK\$	P/S Ratio times	P/B Ratio times	Gearing ratio (Note 2)
Leading Holdings Group Limited (6999.HK)	246.5 million	(6,235.2) million	0.27	0.02	0.04	652.8%
Skyfame Realty (Holdings) Limited (59.HK)	185.8 million	(4,396.6) million	0.019	0.06	0.08	926.2%
DaFa Properties Group Limited (6111.HK)	76.6 million	(524.4) million	0.093	0.01	0.01	287.4%
Sanxun Holdings Group Limited (6611.HK)	104.8 million	132.9 million	0.150	0.02	0.03	345.5%
China Sinostar Group Company Limited(485.HK)	40.5 million	(17.6) million	0.13	0.71	0.09	19.9%
Xinming China Holdings Limited(2699.HK)	22.5 million	(1,016.5) million	0.012	0.18	0.80	9,853.7%
Maximum				0.71	0.80	9,853.7%
Minimum				0.01	0.01	19.9%
Average				0.17	0.17	2,014.3%
The Company	14.6 million (Note 4)	(896.3) million	0.001285	0.01 (Note 3)	0.05 (Note 3)	1,947.1%

Notes:

1. The market capitalisations of the Comparable Companies are calculated by multiplying the share price and the number of issued shares of the respective companies as at the last trading day.
2. Gearing ratio calculated based on the total debt (including all bank borrowings and lease liabilities) divided by the total equity as at the respective period end and multiplied by 100%.
3. The implied P/B Ratio and P/S Ratio are calculated based on the theoretical market capitalisation of the Company derived from the Subscription Price.
4. The implied market capitalisation of the Company is calculated by multiplying the Subscription Price with the number of issued shares and immediately upon the Capital Reorganisation having become effective.
5. The closing price of the Company is the Subscription Price and adjusted for the effect of the Capital Reorganisation

As illustrated in the table set out above, the P/B Ratios of the Industry Comparables ranged from approximately 0.01 times to approximately 0.80 times, with an average of approximately 0.17 times. Such ratios demonstrate that the share price of the Industry Comparables in the similar situation and same industry as the Company are at significant discount to their respective net present value. The implied P/B Ratio of the Company based on the Subscription Price is approximately 0.05 times which is within the range and near to the lowest of the P/B Ratios of the Industry Comparables.

The P/S Ratio of the Industry Comparables ranged from approximately 0.01 times to approximately 0.71 times, with an average of approximately 0.17 times. The implied P/S Ratio based on the Subscription Price is approximately 0.01 times which falls within the range and at the lowest of the P/S Ratio of the Industry Comparables.

We noted that save for one Industry Comparable, all Industry Comparables which were served with the winding-up petition filed with High Court/ Supreme Court recorded net loss according to their respective latest annual report. Meanwhile, the gearing ratio of the Industry Comparables ranged from approximately 19.9% to 9,853.7% and among all the Industry Comparables, the Company recorded the second highest gearing ratio of approximately 1,947.1% as at 31 December 2022.

Despite the implied P/B Ratio and P/S Ratio are near to the lowest of the Industry Comparables, having considered that the Company recorded the second highest gearing ratio among those Industry Comparables, showing that the Company is in imminent need of funding and the Subscription could provide the necessary funding timely to facilitate the debt restructuring and support the capital requirements of the Group. As such, we are of the view that the Subscription Price is justifiable and the Subscription is in the interest of the Company and the Independent Shareholders as a whole.

e) Potential dilution effect of the Subscription

As at the Latest Practicable Date, the Company has 11,365,386,067 Existing Shares in issue. As illustrated in the table in the section headed "Effects on the Shareholding Structure of the Company" in the Letter from the Board, the shareholding in the Company held by existing public Shareholders would be reduced from approximately 43.55% as at the Latest Practicable Date to approximately 3.48% immediately after the Subscription, which represented a dilution effect of approximately 92.0% to the public Shareholders. Moreover, the Subscription will enable the Subscriber to acquire a controlling stake in the Company immediately upon Completion.

Based on our analysis of the Comparable Transactions, we noted that the Comparable Transactions recorded a dilution effect of subscription on existing public shareholding in the range from approximately 71.24% to 89.67%. Three out of the five Comparable Transactions recorded a dilution effect of subscription on existing public shareholding over 85%, and the dilution effect of Subscription on existing public shareholding of approximately 92.08% is slightly above the range of the Comparable Transactions.

Based on our analysis of the Industry Comparables, we noted that the Company recorded the highest gearing ratio and the Company is in imminent need of funding to facilitate the debt restructuring and support the capital requirements of the Group. Having considered the exceptional circumstances as defined under Rule 7.27B of the Listing Rules, we are of the view that the benefits of the Subscription outweigh the deep dilution effect of the Subscription and is acceptable.

f) *Our view*

Having considered the following factors:

- (i) the Group has been loss-making for the two years ended 31 December 2022 and the Group's financial position remained tight with soaring net gearing ratio which increased from approximately 268.1% as at 31 December 2021 to 1,104.2% as at 31 December 2022;
- (ii) the Group lacks sufficient financial resources to meet its capital requirements and debt repayment obligations;
- (iii) as disclosed in the section headed "Alternative fund raising methods considered by the Company" in the Letter from the Board, the Company is facing practical difficulties in raising funds from alternative fund raising methods due to the adverse financial position of the Group, the Petition and difficulties in obtaining other means of financing;
- (iv) as disclosed in the section headed "Reasons for the Subscription and Use of Proceeds" in the Letter from the Board, the Subscription is essential to the Company, failure of which will lead to winding up of the Company and contrary to the interest of existing Shareholders, the Existing Shares may lose liquidity and substantially reduce in value;
- (v) the discount of the Subscription Price of HK\$0.1285 is within the range of the Comparable Transactions;
- (vi) three out of the five Comparable Transactions recorded a dilution effect of subscription on existing public shareholding over 85%, and the dilution effect of Subscription on existing public shareholding of approximately 92.08% is slightly above the range of the Comparable Transactions;
- (vii) including the Company, all the Industry Comparables recorded a substantial increase in their net loss or decrease in their net profit; and the Company recorded the second highest gearing ratio among those Industry Comparables, showing that the Company is in imminent need of funding and the Subscription could provide the necessary funding timely to facilitate the debt restructuring and support the capital requirements of the Group; and

(viii) four out of the five Comparable Transactions recorded dilution of subscription of over 80% for companies that undergo creditors' scheme or debt restructuring,

we are of the view that (1) the terms of the Subscription are fair and reasonable and in the interest of the Company and Independent Shareholders as a whole; and (2) the abovementioned benefits of the Subscription outweigh the deep discount of the Subscription Price and dilution impact to the public Shareholders, and hence the Subscription Price and dilution effect to the shareholding interests of the public Shareholders as a result of the Subscription are acceptable.

C. WHITEWASH WAIVER

With reference to the table in the section headed "Effects on the Shareholding Structure of the Company" in the Letter from the Board, as at the Latest Practicable Date, neither the Subscriber, CIS SAM nor its parties acting in concert held any Existing Shares. Upon Completion, the shareholding of the Subscriber will increase to approximately 92.0% of the then issued share capital of the Company as enlarged by the Subscription, thereby triggering a general offer obligation under the Takeovers Code. As such, an application has been made by the Subscriber and CIS SAM to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 to the Notes on Dispensations from Rule 26 of the Takeovers Code.

The Whitewash Waiver, if granted by the Executive, will be subject to the respective approval of the Independent Shareholders on the Subscription and the Whitewash Waiver taken on a poll at the SGM. As the Whitewash Waiver is one of the non-waivable conditions precedent to the Subscription Agreement, the Subscription will not proceed if the Whitewash Waiver is not granted by the Executive, or is not approved by the Independent Shareholders. The Specific Mandate and the Whitewash Waiver are required to be approved by ordinary resolution(s) and special resolution(s), respectively, by the Independent Shareholders at the SGM.

The Executive has indicated that it will grant the Whitewash Waiver, subject to, among other things, approval by the Independent Shareholders at the SGM by way of poll. The Subscriber and CIS SAM and each of their associates, any parties acting in concert with the Subscriber and CIS SAM (including Grateful Heart, Mr. Kenichi Yanase and Dr. Hiroshi Kaneko, CIS Investments and CIS Group Limited) and any Shareholders who are interested in or are involved in the Restructuring Transactions and/or the Whitewash Waiver (including Tongda Enterprises Limited and its ultimate beneficial owner, Mr. Pan) shall abstain from voting on the resolutions approving the Restructuring Transactions and the Whitewash Waiver at the SGM.

In view of that (i) the Subscription and the use of proceeds therefrom are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, due to the reasons set out in the section headed "3. Reasons for and benefits of the Subscription and the use of proceeds" in this letter; (ii) the Subscription is currently the most appropriate and viable fund raising method available to the Company as discussed in the section headed "4. Financing Alternatives of the Group" in this letter; and (iii) the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Subscription, is in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned for the purpose of proceeding with the Subscription.

D. RECOMMENDATION

Having taken into consideration the factors and reasons as stated above and as summarised below,

- (i) the Subscription will introduce the Subscriber as a new Shareholder and will expand and diversify the Company's shareholder base and will provide solid capital support to the Company;
- (ii) the implementation of the Subscription Agreement is crucial for the Company and the Shareholders as a whole as the Subscription provides an opportunity to raise new funds to facilitate the debt restructuring and implementation of the Scheme, thereby strengthening the Group's financial position, alleviate the liquidity pressure and reduce the gearing level of the Group, which is essential for the revitalisation of the Company;
- (iii) the Subscription Price of HK\$0.1285 representing a discount of approximately 93.6% to the closing price on the Last Trading Day and 92.4% to the average closing price of the Shares on the last five trading days as quoted on the Stock Exchange and adjusted for the effect of the Capital Reorganisation are both within the range of the Comparable Transactions, and hence fair and reasonable;
- (iv) the Subscription is the most viable and available fund-raising method for the Company amongst other fund raising methods;
- (v) the level of dilution to the shareholding interests of the public Shareholders as a result of Subscription is only slightly above the range of Comparable Transactions and is acceptable; and
- (vi) the Subscription is conditional upon, amongst others, the Whitewash Waiver having been granted by the Executive and all conditions (if any) attached to the Whitewash Waiver having been satisfied,

we are of the opinion that, despite the entering into of the Subscription Agreement not being in the ordinary and usual course of business of the Group, (i) the terms of the Subscription Agreement are on normal commercial terms and (ii) the Subscription and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the SGM to approve the Specific Mandate and the Whitewash Waiver and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
for and on behalf of
Ample Capital Limited



T.Y. Yeung
President



Jenny Law
Vice President

Mr. T.Y. Yeung is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Ample Capital Limited, which is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity. Mr. T.Y. Yeung has over 13 years' experience in the corporate finance industry.

Ms. Jenny Law is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Ample Capital Limited, which is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activity. Ms. Jenny Law has over 10 years' experience in the corporate finance industry.