Lego Corporate
Finance Limited
力高企業融資有限公司

29 February 2024

To: *The Independent Board Committee and*
the Independent Shareholders
of Qingdao Holdings International Limited

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO THE TRANSFER OF THE LOAN

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 terms of the Transfer of Loan Agreement and the transactions contemplated thereunder, details of which are set out in the "Letter from the Board" (the "**Letter from the Board**") contained in the circular issued by the Company to the Shareholders dated 29 February 2024 (the "**Circular**"), of which this letter forms apart. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

References are made to (i) the May 2020 Announcement and the 2020 Circular in relation to the Entrusted Loan Arrangement; and (ii) the announcements of the Company dated 30 December 2022 and 3 January 2023 in relation to the default of repayment of the Loan under the Entrusted Loan Arrangement.

Reference is also made to the announcement of the Company dated 22 December 2023 (the "**Announcement**"). On 22 December 2023 (after trading hours), the Transferor and the Transferee entered into the Transfer of Loan Agreement, pursuant to which the Group has conditionally agreed to transfer the Loan to the Transferee at the Consideration of RMB155,000,000.

As at the Latest Practicable Date, the Transferee was 50% owned by QCFHGC, a wholly-owned subsidiary of QCCIG, which was the ultimate controlling shareholder of the Company. Therefore, the Transferee is a connected person of the Company and the transaction under the Transfer of Loan Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Further, as one of the applicable percentage ratios (as defined under the Listing Rules) set out in Rule 14.07 of the Listing Rules in respect of the Transfer of Loan exceed 75%, the Transfer of the Loan constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules. The transaction contemplated under the Transfer of Loan Agreement is subject to the reporting, announcement, annual review, circular and Independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The SGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Transfer of the Loan and the transaction contemplated thereunder. According to the Letter from the Board, as QCCIG has a material interest in the Transfer of Loan Agreement and the transaction contemplated thereunder, QCCIG and its associates are required under the Listing Rules to abstain from voting on the relevant resolution(s) at the SGM in respect of the Transfer of Loan Agreement.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Yin Tek Shing, Paul, Mr. Wong Tin Kit, Ms. Zhao Meiran and Mr. Li Xue, has been established to advise the Independent Shareholders in connection with the Transfer of Loan Agreement and the transactions contemplated thereunder.

We, Lego Corporate Finance Limited, have been appointed by the Company as the Independent Financial Adviser in accordance with the Listing Rules to advise the Independent Board Committee and the Independent Shareholders in relation to the Transfer of Loan Agreement and the transactions contemplated thereunder and to make recommendations as to, among others, whether the terms of the Transfer of Loan Agreement and the transactions contemplated thereunder are fair and reasonable, normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole, and as to voting in respect of the relevant resolution(s) at the SGM. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee.

During the past two years, save for the engagement in connection with the Transfer of Loan Agreement and the transactions contemplated thereunder, we had not been engaged by the Company for the provision of other services. As at the Latest Practicable Date, save for the normal professional fees for our services provided to the Company in relation to the engagement described above, there was no other arrangement whereby we would receive any fees and/or benefits from the Group. We are not aware of any relationships or interests between us and the Group, the Transferee or any of their respective substantial shareholders, directors, or chief executives, or any of their respective associates. We are independent pursuant to Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Transfer of Loan Agreement and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have reviewed, among others, the Transfer of Loan Agreement, the Announcement, the interim report of the Company for the six months ended 30 June 2023 (the "**Interim Report 2023**"), the annual reports of the Company for the year ended 31 December 2021 (the "**Annual Report 2021**") and the year ended 31 December 2022 (the "**Annual Report 2022**"), the valuation reports as prepared by BonVision International Appraisals Limited (the "**Valuer**") on the appraised values of the Loan as well as the Land and the construction-in-progress property projects on the Land (collectively, the "**Properties**") as at 30 November 2023 (the "**Valuation Date**"), respectively (respectively, the "**Loan Valuation Report**" and the "**Property Valuation Report**"), and certain information provided by the management of the Company (the "**Management**") relating to the operations, financial condition and prospects of the Group. We have also (i) considered such other information, analyses, market data which we deemed relevant; (ii) conducted verbal discussions with the Management regarding the terms of the Transfer of Loan Agreement, as well as the businesses and future outlook of the Group; and (iii) discussed with the Valuer the methodologies, bases and assumptions adopted in the Loan Valuation Report and the Property Valuation Report.

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Company in the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters not contained in the Circular, the omission of which would make any statement in the Circular misleading. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise made to us by the Directors and the management of the Company for which they are solely responsible, were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material respects as at the Latest Practicable Date and Shareholders will be notified by the Company of material changes (if any) of the information contained in the Circular. We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the Transfer of Loan Agreement to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or the Management, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the business, affairs, operations, financial position or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us as at the Latest Practicable Date.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Transfer of Loan Agreement. Except for its inclusion in the Circular, this letter shall not be quoted or referred to, in whole or in part, nor shall it be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the Transfer of Loan Agreement, we have considered the following principal factors and reasons.

1. Background and financial information on the Group

The Group is principally engaged in the business of leasing of investment properties, production and sale of the digital Chinese calligraphy education equipment and relevant learning, tutorial systems and the provision of loan financing, consulting services and property development.

Set out in the Table 1 below is certain financial information of the Group for each of the three years ended 31 December 2022 as extracted from the Annual Report 2021 and the Annual Report 2022, and for each of the six months ended 30 June 2022 and 30 June 2023 as extracted from the Interim Report 2023, respectively.

Table 1: Financial information of the Group

	For the year ended 31 December			For the six months ended 30 June	
	2022	**2021**	**2020**	**2023**	**2022**
	(audited)	*(audited)*	*(audited)*	*(unaudited)*	*(unaudited)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	56,601	69,260	66,650	10,475	20,387
(Loss)/Profit for the year/period attributable to owners of the Company	(63,531)	8,362	2,435	(37,775)	3,120

	As at 31 December			As at 30 June
	2022	**2021**	**2020**	**2023**
	(audited)	*(audited)*	*(audited)*	*(unaudited)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	529,115	559,018	658,397	507,175
Current assets	571,327	478,431	141,359	639,554
Current liabilities	(346,579)	(215,052)	(54,558)	(432,710)
Net current assets	224,748	263,379	86,801	206,844
Non-current liabilities	(355,468)	(372,064)	(456,663)	(351,678)
Net assets	398,395	450,333	288,535	362,341

For the year ended 31 December 2021

For the year ended 31 December 2021, total revenue of the Group was approximately RMB69.3 million, representing an increase of approximately 3.9% as compared to that of approximately RMB66.7 million for the year ended 31 December 2020. With reference to the 2021 Annual Report, such increase in revenue was mainly resulted from the year-on-year increase in revenue from the production and sale of education equipment during the year ended 31 December 2021.

For the year ended 31 December 2021, the Group recognised net profit for the year attributable to the owners of the Company of approximately RMB8.4 million, representing an increase of approximately 250.0% as compared to that of approximately RMB2.4 million for the year ended 31 December 2020. With reference to the 2021 Annual Report, such increase in net profit attributable to the owners of the Company was mainly resulted from (i) the aforementioned increase in revenue; (ii) the increase in fair value of investment properties and other income, which were partially offset by (i) the increase in interest expenses payable to the controlling shareholder of the Company; (ii) the increase in deferred tax; and (iii) the increase in legal and professional fees paid or payable during the year ended 31 December 2021.

As at 31 December 2021, the Group recorded net current assets and net assets of approximately RMB263.4 million and approximately RMB450.3 million, respectively.

For the year ended 31 December 2022

For the year ended 31 December 2022, total revenue of the Group was approximately RMB56.6 million, representing a decrease of approximately 18.3% as compared to that of approximately RMB69.3 million for the year ended 31 December 2021. With reference to the 2022 Annual Report, such decrease in revenue was primarily resulted from the year-on-year decreases in both the rental income from the leasing of investment properties located in Hong Kong and the PRC as well as the revenue generated from the production and sale of education equipment during the year ended 31 December 2022.

For the year ended 31 December 2022, the Group recognised net loss attributable to owners of the Company of approximately RMB63.5 million for the year ended 31 December 2022 as opposed to the net profit attributable to owners of the Company of approximately RMB8.4 million recognised for the previous year. With reference to the 2022 Annual Report, such declined performance was mainly due to (i) the aforesaid decrease in revenue; (ii) the substantial decrease in fair value of investment properties of the Group, in particular the properties located in the PRC, as a result of the unfavourable market conditions; (iii) the substantial increase in expected credit loss of amount due from a joint venture because of the breach of contract by Huizhou Jiuyu; and (iv) the impairment of goodwill due to the unfavourable business performance of the digital Chinese calligraphy education equipment segment during the year ended 31 December 2022.

As at 31 December 2022, the Group recorded net current assets and net assets of approximately RMB224.7 million and RMB398.4 million, respectively.

For the six months ended 30 June 2023

For the six months ended 30 June 2023, total revenue of the Group was approximately RMB10.5 million, representing a decrease of approximately 48.5% as compared to that of approximately RMB20.4 million for the six months ended 30 June 2022. With reference to the 2023 Interim Report, such decrease in revenue was due to the period-over-period decreases in revenue from the decreases in both the rental income from the leasing of investment properties as well as the revenue generated from the production and sale of education equipment during the six months ended 30 June 2023.

For the six months ended 30 June 2023, the Group recognised net loss attributable to owners of the Company of approximately RMB37.8 million as opposed to the net profit attributable to owners of the Company of approximately RMB3.1 million recognised for the previous year. With reference to the 2023 Interim Report, such declined performance was mainly resulted from (i) the decrease in fair value of investment properties of the Group, in particular the properties located in the PRC, as a result of the unfavourable market conditions; and (ii) nil recognition of interest income was made for the Loan because of the breach of the contract by Huizhou Jiuyu during the six months ended 30 June 2023.

As at 30 June 2023, the Group recorded net current assets and net assets of approximately RMB206.8 million and approximately RMB362.3 million, respectively.

2. Information of the Transferee, the Borrower and its shareholders

References are made to the sections headed "H. INFORMATION ON THE TRANSFEREE" and "I. INFORMATION ON THE BORROWER AND ITS SHAREHOLDERS", respectively, in the Letter from the Board.

The Transferee is a company established in the PRC with limited liability and 50% owned by QCFHGC, a connected person of the Company and 50% owned by QXJIC, an Independent Third Party and the ultimate beneficial owners of which is the Qingdao Municipal Government. The Transferee is principally engaged in the acquisition and disposal of non-performing assets, investment and asset management, provision of financial services (non-licensed business) and consulting services.

Huizhou Jiuyu is a company established in the PRC with limited liability and is principally engaged in real estate development, property sales and leasing of properties. Huizhou Jiuyu owns the land use rights of the Land. As at the Latest Practicable Date, Huizhou Jiuyu was wholly-owned by Huizhou Yanlong, which was 49% and 51% owned by the Joint Venture Company and Meile Land, respectively, and that the Joint Venture Company was 51%, 30% and 19% owned by Qingdao (HK), China Nuclear Industry and China Huadong, respectively. As at the Latest Practicable Date, both China Nuclear Industry and China Huadong were substantial shareholders of the Joint Venture Company, being an insignificant subsidiary of the Company, and accordingly each was not a connected person of the Company under Rules 14A.07 and 14A.09 of the Listing Rules. Save as the shareholding relationship disclosed in the 2020 Circular, Huizhou Jiuyu does not have any other shareholding relationship with the Group and is an Independent Third Party.

3. Reason for and benefits of entering into the Transfer of Loan Agreement and the transactions contemplated thereunder

According to the Letter from the Board and our discussions with the Management, it is expected that the net proceeds from the Transfer of the Loan will be fully utilised for partially repaying the shareholder's loan of the Group owed to QCCIG.

In assessing the reasonableness for and benefits of entering into the Transfer of Loan Agreement, we have primarily considered (i) the background information and general prospect of the Land; and (ii) the potential improvement in gearing position and financial flexibility of the Group.

3.1 Background information and general prospect of the Land

The Land is located in Huizhou City, Guangdong Province, the PRC. According to the 2020 Circular, the Land was planned to comprise both commercial and residential properties with total site area of approximately 17,448 square metres and planned gross floor area of 38,500 square metres, and the construction of the Land was commenced in 2013. In particular, it was planned to build seven 11 to 32-storey buildings on the Land. As disclosed the 2020 Circular, construction of four buildings had been substantially completed; it was expected that the pre-sale of the properties would commence in six months from the date of receipt of the proceeds of the Loan and the construction of the properties on the Land would be fully completed in 2022.

We have enquired with the Management regarding the construction progress of the Land. Upon review of the relevant documents, we learnt that the acquisition of the Land by Huizhou Jiuyu was completed around the end of 2020 and the relevant 建築工程施工許可證 (building construction permit*) was granted by the PRC government authority in September 2021. As advised by the Management, since completion of the acquisition of the Land by Huizhou Jiuyu, the construction progress of the Land has been insignificant and delayed from time to time primarily as a result of the prevailing fluctuating situation of the COVID-19 pandemic and the ongoing downturn of the real estate market of the PRC. Further, we were advised that due to the lowered market sentiment amid the prolonged property distress in the PRC and the fact that the land use rights of the Land, being the major asset of Huizhou Jiuyu, have already been pledged under the Entrusted Loan Arrangement, it remained challenging for Huizhou Jiuyu to obtain any external banking facilities to facilitate the construction of the Land.

In assessing the prospects of the general property market of the PRC and the Land, we have conducted independent research from the public domains. According to the statistics issued by the National Bureau of Statistics of the PRC (the "**Statistics Bureau**") (*https://www.stats.gov.cn/*), the property market of the PRC has been contracting in recent years. Based on the statistics reports issued by the Statistics Bureau on 18 January 2023, 16 December 2023 and 17 January 2024, respectively, investment in the national real estate development for 2022 and 2023 had experienced year-on-year decreases of approximately 10% and approximately 9.6%, respectively. On the other hand, the National Real Estate Climate Index, being an index announced by the Statistics Bureau monthly for reflecting the prevailing climate of the PRC real estate market after considering indicators such as real estate investment, capital, area and sales, dropped significantly from the marginal robust level in December 2021 and reached the contracting range in January 2022, and had since then been generally decreasing towards December 2023, suggesting an overall continuously declining market.

Specifically, the property market of the PRC has exhibited declines in several key aspects during 2023, according to the research report named《中國房地產市場2023總結&2024展望》("**Summary of the real estate market of the PRC in 2023 and its prospect for 2024***") (the "**CIA Report**") issued by China Index Academy (*https://www.cih-index.com/*) on 3 December 2023. With reference to the public domain and its official website, China Index Academy, being a subsidiary of China Index Holdings Ltd whose shares are listed on the NASDAQ (ticker: CIH), is a leading real estate information and analytics service platform provider in the PRC which serves a significant base of real estate participants including real estate developers, brokers and agents, property management companies, financial institutions and individual professionals, and has been previously designated as "the big data cooperation platform enterprise" by the Statistics Bureau. Based on the CIA Report, the price of second-hand residential buildings in the PRC has dropped by 3% from January 2023 to November 2023, representing an enlargement in drop by 2.45 percentage points as compared to that for the previous corresponding period, indicating a continuously sluggish trend of the housing prices. In terms of transaction scale, although the transacted area of the commercial residential buildings has improved during the first quarter of 2023 and the central government has stepped up the level of property policy support, due to factors such as poor residents' income expectation, such policy effect was suggested to be unsustainable, the transacted area started to decline in mid-2023 and the property market remained sluggish throughout the period towards November 2023. Further, notwithstanding that the supply of the property market has weakened during the first ten months of 2023, saleable area of properties remained relatively high, resulting in a longer period of time required to sell the properties and a greater inventory pressure on the property developers.

Looking forward into 2024, it is anticipated by the CIA Report that the expected slowdown in the global economic growth would result in a continuous downturn in the external demand for the PRC properties, and there will continuously have downward pressure on the demand for the PRC property market. In fact, similar anticipations have been noticed with reference to the research report named "China Property Developers Outlook 2024" as issued by Fitch Ratings (*https://www.fitchratings.com/*), a credit rating agency with an establishment period of over 100 years and a global coverage of offices in over 30 countries, on 27 November 2023. According to such report, it is suggested that the Chinese property developers' operating environment shall remain challenging in 2024 with the persisting diverging operating and financing conditions. In particular, it is suggested that while government policies may help boost market confidence in the high-tier cities, demand for properties in lower-tier cities may accordingly be pulled away in the near term. Further, these lower-tier cities' housing markets are often saddled with unfinished projects, large unsold inventory and unfavourable demographics that may require a higher discount on the selling price to clear the market. Among others, it is expected that the local housing market for lower-tier cities may take time to digest the large stock of unsold inventory, and the difficult funding environment is likely to persist for most private property developers, which shall continue to restrict their financial and business flexibilities.

Taking into account the generally declining performance of the PRC property market since around 2022 and that such prolonged distress is expected to continue in the near future, under which the challenging situations are likely to be even more associated with the property markets in the lower-tier cities, we consider the prospect of the overall property market in the PRC and accordingly the prospect of the Land, the construction of which remains suspended and is located in a second-tier city, to be uncertain in the near future.

3.2 Potential improvement in gearing position and financial flexibility

With reference to the Interim Report 2023, gearing ratio of the Group as at 30 June 2023, as calculated based on the net debt to net debt and equity of the Group, reached approximately 63% as compared to that of approximately 57% as at 31 December 2022. Further, as advised by the Management, as at the date of the Transfer of Loan Agreement, total outstanding balance of the shareholder's loans of the Group owed to QCCIG amounted to approximately RMB459.1 million, which has exceeded each of the net current assets of approximately RMB206.8 million and net assets of approximately RMB362.3 million of the Group as at 30 June 2023, respectively.

Accordingly, by fully utilising the net proceeds from the Transfer of the Loan for partially repaying the shareholder's loan of the Group owed to QCCIG, the existing gearing position of the Group would be improved. Further, the reduction in the financial leverage of the Group will help relieve its future financial burden as well as provide the Group with enhanced internal resources and financing capability for its existing and/or future business developments when there are suitable opportunities, which would ultimately help improve returns to the Independent Shareholders.

In conclusion, considering the uncertain prospect of the Land, the additional expenditures to be incurred by the Group on its part to develop the property project on the Land as well as the potential lengthiness of the whole process shall the Group recover the Loan by way of enforcing the pledge of the Land pursuant to the Entrusted Loan Arrangement, we are of the view that the entering into of the Transfer of Loan Agreement and the transaction contemplated thereunder, which would provide the Group with timely one-off net proceeds to repay the shareholder's loan and accordingly help improve its gearing position and financial flexibility, is in the interests of the Company and the Independent Shareholders as a whole.

4. Principal terms of the Transfer of Loan Agreement and the transactions contemplated thereunder

Pursuant to the Transfer of Loan Agreement, the Consideration for the Transfer of the Loan is RMB155,000,000, which was arrived at after arm's length negotiation between the Transferor and the Transferee after taking into consideration of, among others, the appraised value of the Transfer Loan as at the Valuation Date.

For further details of the principal terms of the Transfer of Loan Agreement, please refer to the section headed "D. THE TRANSFER OF THE LOAN of the Letter from the Board.

In assessing the fairness and reasonableness of the terms of the Transfer of Loan Agreement and the transactions contemplated thereunder, we have primarily taken into account the appraised value of the Transfer Loan, which was in turn primarily made reference with the appraised value of the Properties, being collectively the Land and the construction-in-progress property projects on the Land (the "**CIP**"), as at the Valuation Date based on the valuations conducted by the Valuer (respectively, the "**Loan Valuation**" and the "**Properties Valuation**", and collectively, the "**Valuations**"). Relevant details of the Loan Valuation Report and the Properties Valuation Report are respectively set out in Appendix II-A and Appendix II-B to the Circular. In addition, for the purpose of our assessment under this section, we have also made reference to the carrying amount of the Loan as at 30 November 2023. Details of our respective analyses are set out below.

4.1 The Valuations

For the purpose of our assessment, we have reviewed the Valuation Reports and conducted interviews with the Valuer in relation to the Valuations.

4.1.1 Expertise and independence of the Valuer

Based on our review of the relevant information provided by the Valuer as well as the independent research conducted from the public domain, the Valuer is a professional service firm which provides, among others, valuation services on business, properties, financial instruments, intangible, natural resources and biological assets. In particular, it is noted that the team of staff responsible for the Loan Valuation Report and the Properties Valuation Report includes senior members who possess over 10 years of experience in business, intangible assets, financial instruments and/or property valuation. The Valuer has confirmed its independence from the Group, the Transferor, the Transferee and QCCIG, and/or any of their respective connected persons as at the Latest Practicable Date. The Valuer has further confirmed that all relevant material information, including the bases and assumptions adopted in arriving at the opinion, are set out in the Loan Valuation Report and the Properties Valuation Report and there are no other material relevant information or representations relating to the Transfer Loan and the Properties provided or made by the Company to the Valuer not having been included therein. Upon review of the terms of the engagement letter of the Valuer in relation to the Loan Valuation Report and the Properties Valuation Reports, we consider that the scope of work is appropriate to the opinion required to be given, and we are not aware of any limitation of the scope of work which might have an adverse impact over the degree of assurance given by the Valuer in the Loan Valuation Report and the Properties Valuation Report.

4.1.2 Methodologies, bases and assumptions of the Valuations

During our review, we noted that the Valuations were conducted based on key assumptions that, among others, in respect of the Properties, the owner of the Properties would sell the Properties in the open market as at the Valuation Date in its existing state without the benefit of deferred term contracts, leaseback, joint ventures, management agreements or any similar arrangements which would serve to affect the fair value of the Properties. Further, the Valuer has assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect the fair value, and the owners has absolute title to the Properties and has free and uninterrupted rights to occupy and use the Properties during the whole remaining land lease term. As advised by the Valuer, the above assumptions are in line with the market practice.

4.1.2.1 The Loan Valuation

In arriving at the appraised value of the Transfer Loan as at the Valuation Date, given that the Loan was deemed as defaulted and that the collateral of the Loan could be taken by the Company for repayment, the Valuer has considered that the recoverable value of the Transfer Loan is the recoverable value from the sale of the collateral in respect of the Properties. As confirmed by the Valuer, it is a common market practice to assess the recoverability of the collateral in appraising the fair value of defaulted loans with pledged assets. The Valuer has (i) first appraised the market value of the collaterals as at the Valuation Date under normal circumstances, and, (ii) after taking into account that the underlying collaterals shall be considered as foreclosed, subsequently applied a discount (the "**Foreclosure Discount**") to the aforesaid appraised value of the collaterals under different scenarios of base, optimistic and pessimistic considering that the market conditions may vary.

Based on our discussions with the Valuer, we understand that in appraising the fair value of the collaterals under the Entrusted Loan Arrangement, the Valuer has primarily considered the fair value of the Properties given other material collaterals such as (i) equity interests in Huizhou Yanlong, which had no material assets and liabilities according to its latest management accounts as at 31 December 2022; and (ii) the equity interests in Huizhou Jiuyu, which carried net liabilities value according to its latest management accounts as at 30 April 2023, were highly likely to have no commercial value as at the Valuation Date. We have, in this regard, reviewed the aforesaid management accounts of Huizhou Yanlong and Huizhou Jiuyu and noted the above financial status. For details including our assessment on the valuation of the fair value of the Properties as at the Valuation Date, please refer to the subsection below headed "4.1.2.2 The Properties Valuation" of this letter.

In respect of the Foreclosure Discount, the adopted Foreclosure Discount under the base scenario of the Loan Valuation is 23.75%. In determining the adopted Foreclosure Discount, we understand that the Valuer has primarily made reference to the research report named 《2023年三季度全國法拍市場監測報告》(**"The National Foreclosure Market Monitoring report for Q3 2023***") issued by the China Index Academy on 30 October 2023, which sets out the foreclosure discounts, being the discounts as represented by the final selling price to the appraised value of the transacted foreclosed residential and commercial properties in various cities of the PRC in the first three quarters of 2023. For our due diligence purpose, we have conducted research on the background of China Index Academy, details of which are set out in the section above headed "3. Reasons for and benefits of entering into the Transfer of Loan Agreement and the transactions contemplated thereunder" of this letter, and noticed that China Index Academy is a well recognised information and analytics service platform provider in the PRC. Based on our independent review of the aforesaid research report issued by China Index Academy, the adopted Foreclosure Discount of 23.75% is in line with the average of the relevant foreclosure discounts of commercial properties and residential properties in Huizhou City for the first three quarters in 2023 of 23.75% set out in the report. In light of the foregoing, we are of the view that the adopted Foreclosure Discount of 23.75% under the base scenario is fair and reasonable. On the other hand, for reference purpose only, the Valuer has included optimistic and pessimistic scenarios by adopting the foreclosure discounts of 18.75% and 28.75%, respectively, in order to indicate the potential impact of the change in foreclosure discount on the appraised value of the Transfer Loan as at the Valuation Date. As advised by the Valuer, it is common to adopt a +/-5% interval under scenario analysis in such valuations, and accordingly the interval of +/-5% from the value of the Foreclosure Discount of 23.75% adopted in determining the foreclosure discounts under the optimistic and pessimistic scenarios is fair and reasonable to reflect the potential market volatility. In this regard, we have conducted independent research from which we noted that the interval of 5% has been adopted to indicate the impacts of changes in different variables on the fair values under valuations of other listed companies in Hong Kong, and accordingly are of the view that the adopted interval of 5% under the optimistic and pessimistic scenarios of the Loan Valuation is fair and reasonable.

As confirmed by the Valuer, during the course of the Loan Valuation, it has complied with all relevant requirements set out in Hong Kong Financial Reporting Standard 13 "Fair Value Measurement". During our review of the Loan Valuation Report and discussions with the Valuer, we have not identified any major factors that cause us to doubt the fairness and reasonableness of the principal bases and assumptions adopted in arriving at the Loan Valuation.

Taking into account of the above, we consider that the valuation bases and assumptions adopted by the Valuer in the Loan Valuation are fair and reasonable.

4.1.2.2 The Properties Valuation

In arriving at the appraised value of the Properties as at the Valuation Date, considering that the Properties comprise two portions, namely, the Land and the CIP, the Valuer has adopted the market approach to obtain the appraised value of the Land, and then obtain the value of the CIP by taking into account the development costs incurred as at the Valuation Date. Based on our discussions with the Valuer, in respect of the Land, we understand that taking into account of the availability of the reliable market evidence, market approach facilitates a meaningful comparison that requires fewer subjective assumptions and it is a common market practice to conduct valuation of land parcels via market approach. In respect of other valuation approaches such as the income approach, as advised by the Valuer, given that the Properties are not income generating properties and the parameters required under the income approach may not be easily verified or reasonably justified, income approach is considered to be inappropriate for the purpose of the valuations of the Land. Further, market approach is not applicable to the CIP given the absence of similar transactions in respect of the CIP in the market. On the other hand, the Valuer has also considered adopting the residual method to obtain the appraised value of the Properties by assuming the development is completed as at the Valuation Date and deducting the outstanding development cost and developer's profit from its estimated completed development value. Yet, considering that the Properties comprise a property project which has been suspended for a long period, estimations under residual method such as the certainty to resume the construction may not be reliably made, the adopted market approach with the consideration of the development costs has been adopted for valuing the Properties as at the Valuation Date, which conforms to the market practice.

Under the market approach, the Valuer has made reference to the comparable transactions in the market in respect of the Land (the "**Land Comparables**"). The Valuer has identified sale and purchase transactions based on the criteria that (i) the underlying properties were land parcels located in the Zhongkai District, Huizhou City, the PRC, which is the same as the Land; (ii) the designated usages of the underlying properties were the same as those of the Land; and (iii) the transactions were executed through the local government's tenders during the 12 months immediately preceding the Valuation Date. As confirmed by the Valuer, on a best-effort basis, the Land Comparables represent an exhaustive list of Land Comparables having met all of the aforesaid selection criteria. Subsequently, corresponding adjustments have been made to the unit rates of the Land Comparables to reflect the differences in the characteristics of the underlying properties as compared to subject Land such as the location and accessibilities as well as the duration of the remaining land use right. In arriving at the adopted appraised value of the Land as at the Valuation Date, the Valuer has taken the average of the adjusted unit rates of the Land Comparables which resulted in the adopted unit rate of approximately RMB2,906 per square metre, and then multiplied it by the maximum plot ratio area of the Land of approximately 34,896 square metres, which is in turn compiled based on the site area of the Land of 17,448.2 square metres and the maximum plot ratio applicable to the Land of 2.0.

The Valuer has relied on 中國土地市場網 (**"China Land Market Website*"**) (*http://landchina.com/*) as the source of information on the Land Comparables. Based on our independent search, China Land Market Website is a website operated by the Real Estate Registration Centre, MNR, PRC. (Law Centre, MNR, PRC) (*http://www.rerc.com.cn/*), which is in turn an institution directly under the Ministry of Natural Resources of the PRC engaged in, among others, real estate registration in the PRC. Also, it is confirmed by the Valuer that China Land Market Website is a commonly adopted source of information in the valuation industry for gathering information of land transactions in the PRC. In light of the foregoing, we are of the view that the source of information on the Land Comparables is reliable and the Land Comparables are fair and reasonable.

After obtaining the appraised value of the Land as at the Valuation Date, the Valuer has compiled the estimated development cost in relation to the CIP as at the Valuation Date, which was in turn based on the actual incurred development cost which, as advised by the Management, has been mostly incurred back in 2014, as adjusted for the inflation and potential finance cost from 2014 up to the Valuation Date on the basis that the development cost was funded by financing. It is noted that in arriving at the adopted inflation rate from 2014 to 2023 of 13%, the Valuer has relied upon the producer price indices for 2014 to 2022 as announced by the Statistics Bureau annually where the index for 2022 represented the most recent data announced by the Statistics Bureau as at the Valuation Date. We have, in this regard, reviewed the relevant producer price indices announced by the Statistics Bureau and noticed that such figures are consistent with those adopted by the Valuer in the calculations. On the other hand, in arriving at the adopted annual financial interest rate of 3.45% per year from 2014 up to the Valuation Date, the Valuer has primarily made reference to the one-year loan prime rate issued from time to time by the People's Bank of China (*http://www.pbc.gov.cn/*). Based on our independent research, it is noted that the adopted annual financial interest rate of 3.45% is in line with the latest one-year loan prime rate announced by the People's Bank of China on 20 November 2023. It is confirmed by the Valuer that the above references made to the producer price index and loan prime rate as the respective proxies for the inflation rate and finance cost rate conform to the common valuation practice.

As confirmed by the Valuer, during the course of the Property Valuation, it has complied with all relevant requirements set out under the HKIS Valuation Standards 2020 published by the Hong Kong Institute of Surveyors; the RICS Valuation – Global Standards published by the Royal Institution of Chartered Surveyors which incorporates the International Valuation Standards published by the International Valuation Standards Council, as well as Chapter 5 and Practice Note 12 of the Listing Rules. During our review of the Properties Valuation Report and discussions with the Valuer, we have not identified any major factors that cause us to doubt the fairness and reasonableness of the principal bases and assumptions adopted in arriving at the Properties Valuation.

For our due diligence purpose, we have attempted to cross-check the appraised value of the Properties as at the Valuation Date compiled under the Property Valuation via different approaches, whereby we have first attempted to obtain direct market reference from online property transaction platforms in respect of the consideration for completed sale and purchase transactions of properties that possess similar attributes as the Properties, which include the Land with the CIP erected thereon. Yet, on a best-effort basis, we have failed to obtain any such results from the public domain. Considering the aforesaid, we have subsequently conducted independent research on the respective appraised values of the Land and the CIP by making reference to the recent respective comparable sale and purchase transactions of land parcels and property projects in the market. Specifically, in respect of the Land, we have made reference to the completed sale and purchase transactions of land parcels located in Zhongkai District, Huizhou City, the PRC with the same designated usages and similar accessibility as the Land in the 12 months immediately preceding the Valuation Date as announced in the official website of 惠州市公共資源交易中心土地與礦業網上掛牌交易系統 (“**The online listing and trading system of land and mining industry of The Public Resource Trading Centre of Huizhou City***”) as operated by 惠州市公共資源交易中心 (“**The Public Resource Trading Centre of Huizhou City**”), which is in turn a functional department under the Huizhou municipal government of the PRC. Based on our selection criteria and on a best-effort basis, an exhaustive list of three comparable transactions have been identified with an average unit price of approximately RMB2,722 per square metre of the maximum plot ratio area. Accordingly, the adjusted unit price per square metre of the maximum plot ratio area in respect of the Land adopted by the Valuer of approximately RMB2,906 is generally in line with the average unit price identified from our independent search. On the other hand, we have, on a best-effort basis, failed to identify any transactions in respect of construction-in-progress property projects comparable to the CIP from the market. Accordingly, given the lack of comparable transactions for the Properties and the CIP identified from the public domain, we have failed to complete any verifications directly in respect of the appraised value of the Properties as at the Valuation Date compiled under the Property Valuation.

Notwithstanding the above, taking into account of our independent work done and assessments conducted in respect of the Properties Valuation as disclosed above in this sub-section named “4.1 The Valuations”, from which, among others, (i) the adoption of the market approach with the consideration of the development costs by the Valuer conforms to the common market practice and is considered to be an appropriate valuation method having considered the relative reliability of this method as well as the disadvantages of other method; and (ii) bases and assumptions adopted by the Valuer in appraising the Land and the CIP, including but not limited to the sources of information and the adopted values of variables, have been studied and assessed by us which, in our view, are fair and reasonable, we consider that the valuation bases and assumptions adopted by the Valuer in the Properties Valuation are fair and reasonable.

Based on the appraised value of Land of approximately RMB101.4 million and the estimated development cost of the CIP of approximately RMB102.1 million, the appraised value of the Properties amounted to approximately RMB203.5 million (subject to rounding) as at the Valuation Date. Taking into account of the adopted Foreclosure Discount of 23.75% under the base scenario, the appraised value of the Transfer Loan accordingly amounted to approximately RMB155,000,000 as at the Valuation Date.

4.2 The carrying amount of the Loan

According to the Letter from the Board, the carrying amount of the Loan amounted to approximately RMB154,912,000 as at 30 November 2023. Accordingly, the Consideration of RMB155,000,000 is slightly higher than the carrying amount of the Loan as at 30 November 2023 by approximately RMB88,000.

Accordingly, considering (i) that the Consideration of RMB155,000,000 is (a) equivalent to the appraised value of the Transfer Loan as at the Valuation Date; and (b) slightly higher than the carrying value of the Loan as at 30 November 2023 of approximately RMB154,912,000; and (ii) the potential benefits to the Group of entering into the Transfer of the Loan, further details and analysis of which are set out in the section above headed "3. Reason for and benefits of entering into the Transfer of Loan Agreement and the transactions contemplated thereunder" of this letter, we are of the view that the terms of the Transfer of Loan Agreement and the transactions contemplated thereunder are fair and reasonable.

5. Financial effects of the Transfer of Loan Agreement and the transactions contemplated thereunder

When assessing the financial impacts of the Transfer of Loan Agreement and the transactions contemplated thereunder, we have primarily taken into account the following aspects.

5.1 Assets and liabilities

According to the Interim Report 2023, total assets and total liabilities of the Group as at 30 June 2023 amounted to approximately RMB1,146.7 million and approximately RMB784.4 million, respectively, and the net assets of the Group as at 30 June 2023 amounted to approximately RMB362.3 million. With reference to the Letter from the Board, upon Completion, subject to further audit procedures to be performed by the auditor of the Group, the Company is expected to record a gain of RMB88,000 in capital reserve (being the difference between the Consideration and the carrying value of the Loan as at 30 June 2023 as disclosed in the Interim Report 2023) as a result of the Transfer of the Loan. Hence, it is expected that the Completion will not have any material impact on the total assets, total liabilities and accordingly the net assets of the Group.

5.2 Earnings

According to the Annual Report 2022, the Group recorded loss for the year attributable to owners of the Company of approximately RMB63.5 million for the year ended 31 December 2022. With reference to the Letter from the Board, considering that there is no material difference between the Consideration and the carrying amount of the Loan as at 31 December 2022 as disclosed in the Annual Report 2022, it is expected that the Completion will have no material impact on the earnings of the Group.

RECOMMENDATIONS

Having considered the principal factors and reasons as discussed above, we are of the view that although the entering into of the Transfer of Loan Agreement is not in the ordinary and usual course of business of the Group, the terms of the Transfer of Loan Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Transfer of Loan Agreement is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Transfer of Loan Agreement and the transactions contemplated thereunder.

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

Billy Tang
Managing Director

Mr. Billy Tang is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in the accounting and investment banking industries.

* *for identification purpose only*