



## SOMERLEY CAPITAL LIMITED

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30 April 2024

To: *the Independent Board Committee and the Independent Shareholders of MMG Limited*

Dear Sirs,

### **CONNECTED TRANSACTION ISSUE OF NEW SHARES TO CONNECTED PERSONS UNDER THE LONG TERM INCENTIVE EQUITY PLAN**

#### **INTRODUCTION**

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the Issue to the Connected Incentive Participants under the Long Term Incentive Equity Plan. Details of the Issue are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 30 April 2024 (the "**Circular**"), 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 requires otherwise.

Reference is made to the announcements of the Company dated 16 April 2024 and 24 April 2024 in relation to (i) the issue and allotment of up to 21,306,781 new Award Shares of the Company to the Incentive Participants, of which up to 4,900,058 (The number of Connected Award Shares was changed from 5,660,673 to 4,900,058 due to lapse of Mr Li Liangang's interest in 2021 Award following his resignation as interim CEO and executive Director of the Company with effect from 24 April 2024 (the "**Lapse**")) Connected Award Shares will be issued to 13 Connected Incentive Participants; and (ii) the issue and allotment of up to 29,882,658 new Award Shares of the Company to the Incentive Participants, of which up to 8,709,895 (The number of Connected Award Shares was changed from 9,959,139 to 8,709,895 due to the Lapse) Connected Award Shares will be issued to 15 Connected Incentive Participants in respect of the 2021 Award and the 2022 Award, respectively, under the Long Term Incentive Equity Plan (the "**Announcements**").



As the Issue involves the granting of the Award Shares to a total of 15 Connected Incentive Participants under the 2021 Award and the 2022 Award, it constitutes a non-exempt connected transaction for the Company under the Listing Rules, and is therefore subject to reporting, announcement and Independent Shareholders' approval requirements. Pursuant to Chapter 14A of the Listing Rules, the Connected Incentive Participants and their respective associates are required to abstain from voting on the relevant resolution at the general meeting to approve the Issue.

The Independent Board Committee, comprising all the Company's independent non-executive Directors, namely Dr Peter William Cassidy, Mr Leung Cheuk Yan and Mr Chan Ka Keung, Peter, has been formed to make recommendation to the Independent Shareholders on (i) whether the Issue is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (ii) whether the terms of the Issue are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. We, Somerley Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

During the past two years, we have not acted as an independent financial adviser to the Company. In addition, we are not associated with the Company, the Connected Incentive Participants or their respective close associates, associates or core connected persons (all as defined under the Listing Rules) and accordingly we are considered eligible to give independent advice on the proposed Issue. Apart from normal professional fees payable to us in connection with this and similar appointments, no arrangement exists whereby we will receive any fees or benefits from the Company, the Connected Incentive Participants or their respective close associates, associates or core connected persons.

In formulating our opinion, we have reviewed, amongst other documents, the Long Term Incentive Equity Plan, the guidebooks provided to the Incentive Participants in respect of the 2021 Award and the 2022 Award (the "**Grant Guidebooks**"), the Announcements, the annual report of the Company for the year ended 31 December 2023 (the "**2023 Annual Report**") and the information contained in the Circular.

We have relied on the information and facts supplied, and the opinions expressed to us, by the management of the Group (the "**Management**") which we have assumed to be true, accurate, complete and not misleading in all material aspects at the relevant time they were supplied or expressed. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth, accuracy or completeness of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.





## PRINCIPAL FACTORS AND REASONS CONSIDERED

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

### 1. Information of the Group

The Group is engaged in the exploration, development and mining of copper, zinc, cobalt, gold, silver, molybdenum and lead deposits around the world.

Set out below is a summary of the consolidated financial information of the Group for the two years ended 31 December 2023 as extracted from the 2023 Annual Report:

	For the year ended December 31	
	2023 <i>US\$ million</i>	2022 <i>US\$ million</i>
<b>Revenue</b>	<b>4,346.5</b>	<b>3,254.2</b>
- Las Bambas <sup>(1)</sup>	3,417.3	2,086.8
- Kinsevere <sup>(2)</sup>	354.6	421.5
- Dugald River <sup>(3)</sup>	331.2	484.3
- Rosebery <sup>(4)</sup>	240.0	259.9
- Others <sup>(5)</sup>	3.4	1.7
<b>Profit attributable to equity holders of the Company</b>	<b>9.0</b>	<b>172.4</b>

*Notes:*

- (1) The Las Bambas mine is a large open-pit, scalable, long-life copper and molybdenum mining operation with prospective exploration options. It is located in the Cotabambas, Apurimac region of Peru.
- (2) Kinsevere is an open-pit copper mining operation located in the Haut-Katanga Province of the Democratic Republic of Congo.
- (3) The Dugald River mine is an underground zinc mining operation located near Cloncurry in North West Queensland.
- (4) Rosebery is an underground polymetallic base metal mining operation located on Tasmania's west coast.
- (5) Includes corporate entities in the Group.

The Group's revenue increased by 33.6% to US\$4,346.5 million in 2023 from US\$3,254.2 million in 2022. The increase was primary attributable to the surge in sales of metal in Las Bambas, from US\$2,086.8 million in 2022 to US\$3,417.3 million in 2023, as a result of stable logistics since March 2023 in contrast to 173 days of road blockage in 2022, and the increase was partially offset by lower copper prices. The revenue derived from Kinsevere decreased by 15.9%, from US\$421.5 million in 2022 to US\$354.6 million in 2023, due to (i) lower copper sales



volumes in line with lower production; (ii) lower copper prices; and (iii) declining oxide feed grades and lower ore milled caused by an unstable power supply from the national grid affecting ore milled throughput. The revenue derived in Dugald River recorded a decrease of 31.6%, from US\$484.3 million in 2022 to US\$331.2 million in 2023, owing to (i) lower production following a 34-day suspension caused by a tragic incident in February 2023; and (ii) lower zinc prices.

The Group's profit attributable to equity holders of the Company recorded a significant year-on-year decline of 94.8% to US\$9.0 million in 2023 compared to US\$172.4 million in 2022. Such decrease was primary attributable to the loss after tax of US\$55.9 million arising from continuing operations other than Las Bambas in 2023, in contrast to a profit after tax of US\$154.6 million in 2022. In addition to reduction in revenue derived from Kinsevere and Dugald River as mentioned above, the decrease in profit was attributable to (i) the increase in the operating expenses of Kinsevere's mine by 21% driven by higher consumption of third-party ores; and (ii) unfavourable stock movement due to a net drawdown of concentrate inventory and ore stockpiles for Dugald River. As disclosed in the letter from the Board, the performance measures of the 2021 Award and the 2022 Award include (i) resources growth of the Group; (ii) relative total shareholder return as compared against that of the constituents of the Index or a selected group of comparable companies; and (iii) relative return on equity as compared against that of the constituents of the Index or a selected group of comparable companies over the relevant performance periods. The number of Performance Awards to be vested, will be subject to achieving the above-mentioned performance measures and their respective performance targets. The non-achievement of any performance conditions will result in a lower number of Performance Awards to be vested than the number granted.

## **2. Background of and reasons for the proposed Issue**

The Group recognises that the Group's success is critically dependent on its ability to retain able executive directors and key senior employees, and to ensure that their compensation terms are competitive. The Group has remuneration policies that align with legislative requirements, market practice and requirements and remunerates its employees based on the accountabilities of their roles, their performance and the performance of the Group. Employee benefits include market-competitive fixed remuneration, performance-related incentives and, amongst others, the Long Term Incentive Equity Plan. Permanent employees of any member of the Group in executive or senior roles on the date on which an award is granted under the Long Term Incentive Equity Plan can be a participant.

In 2012, the Board adopted a ten-year Long Term Incentive Equity Plan (save for the Chapter 17 share option scheme component, which was subject to approval by the Shareholders) to enable the Company to grant awards to selected employees of the Group as incentives or rewards for their contribution to the development of the Group. The ten-year Long Term Incentive Equity Plan expired in 2022 and no further grant of options or awards will be made under such Long Term Incentive Equity Plan.





As set out in the letter from the Board contained in the Circular, the principal objectives of the Long Term Incentive Equity Plan and the proposed Issue are to align the interests of executive directors and key senior employees with those of Shareholders, to recognise the contribution of such persons, and to incentivise them to remain in employment with the Group, through the application of performance conditions that ensure such persons are rewarded when Shareholders benefit from the performance of the Company.

Pursuant to the terms of the Long Term Incentive Equity Plan, eligible persons may be granted the following:

- (i) a conditional right to acquire and/or subscribe for Shares granted under the Long Term Incentive Equity Plan (the "**Conditional Award**");
- (ii) a right to acquire Shares granted under the Long Term Incentive Equity Plan (the "**Option**");
- (iii) cash award;
- (iv) forfeitable Shares held in the name of or for the benefit of the Incentive Participant subject to the forfeitable share agreement to be entered into between an incentive participant and the Company (to the extent that the forfeitable Shares lapses under the Long Term Incentive Equity Plan, the Shares granted are forfeited and the incentive participant will immediately transfer his or her interest in the Shares, for no consideration or nominal consideration, to any person specified by the Company) (the "**Forfeitable Shares**"); or
- (v) a combination of the above.

The conditional right under the Performance Awards will usually lapse at the end of the tenth anniversary of the grant of the right or six months after the person holding an award ceases to be an employee of any member of the Group. The grant of Options pursuant to the terms of the Long Term Incentive Equity Plan is subject to Chapter 17 of the Listing Rules. If eligible persons are granted with a Conditional Award or Forfeitable Shares, the Company may issue new Shares by general mandate or specific mandate, or purchase Shares from the market, to satisfy such award (which will not be subject to the above scheme limit). Under the Long Term Incentive Equity Plan, all the granted Options were expired in May 2023 and save for the 2021 Award and 2022 Award, there are no other outstanding Options or awards under the Long Term Incentive Equity Plan. The Company will comply with the applicable requirements of the Listing Rules in respect of any future adoption of a new share scheme. Details of the Long Term Incentive Equity Plan are set out in the circular of the Company dated 8 March 2013.

The Board resolved that the Connected Award Shares granted under the 2021 Award and the 2022 Award, subject to fulfilment of all other conditions of the Long Term Incentive Equity Plan, will be satisfied through the issue of new Shares (as opposed to the purchase of existing Shares on the stock market). Satisfying these Award Shares through the issue of new Shares rather than the purchase of existing Shares will mean that no cash payments need to be made by the Group to acquire existing Shares. Independent Shareholders are reminded that if the



conditions to the Issue are not satisfied as aforementioned, the Company will still need to discharge its obligations under each of the 2021 Award and the 2022 Award by purchasing the existing Shares on the stock market. As discussed with the Management, as the Issue will allow the Company to retain the equivalent amount of cash that would otherwise have been used to purchase existing Shares on the stock market, the Company has chosen to pursue the Issue to preserve its cash outlay. These preserved cash resources are proposed to be used for the Group's day-to-day operations.

Furthermore, we have reviewed (i) an executive and remuneration trends report prepared by PricewaterhouseCoopers in May 2021 on the Australian trends both overall and with a specific focus on long-term incentive plan market practices (the "**Remuneration Report**"); (ii) compensation benchmarking advisory reports prepared by Korn Ferry, an independent reputable compensation expert; and (iii) remuneration advisory reports prepared by Mercer, an independent reputable human resources consultant and noted that the grant of award shares is a prevalent practice in the market. We also understand that the proposed Issue has been reviewed and approved by the Board.



### 3. Background and basis of selecting the Connected Incentive Participants

The Company has granted a total of 21,306,781 Award Shares and 29,882,658 Award Shares under the 2021 Award and the 2022 Award respectively, of which an aggregate of 4,900,058 Connected Award Shares and 8,709,895 Connected Award Shares will be granted to the Connected Incentive Participants under the 2021 Award and the 2022 Award respectively. The identity of, roles and responsibilities of and number of Award Shares to be granted to each Connected Incentive Participant are set out in the table below.

Name	Position/Title	Roles and responsibilities	2021 Award		2022 Award		Total	
			Number of Performance Awards granted	Approximate % of total issued share capital as at the Latest Practicable Date	Number of Performance Awards granted	Approximate % of total issued share capital as at the Latest Practicable Date	Number of Performance Awards granted	Approximate % of total issued share capital as at the Latest Practicable Date
<b>Directors of Significant Subsidiaries of the Company</b>								
Ross Carroll	Chief Financial Officer (retired with effect from 6 March 2024)	Accountable for the Group's global commercial and finance, mergers and acquisitions, project delivery and exploration functions	1,241,323	0.014%	1,958,613	0.023%	3,199,936	0.037%
Troy Hey	Executive General Manager - Corporate Relations	Accountable for external stakeholder relations (i.e. investors, management, communities and governments) in the jurisdictions in which the Group operates globally	766,394	0.009%	1,246,611	0.014%	2,013,005	0.023%





Name	Position/Title	Roles and responsibilities	2021 Award		2022 Award		Total	
			Number of Performance Awards granted	Approximate % of total issued share capital as at the Latest Practicable Date	Number of Performance Awards granted	Approximate % of total issued share capital as at the Latest Practicable Date	Number of Performance Awards granted	Approximate % of total issued share capital as at the Latest Practicable Date
Wei Jianxian	Executive General Manager - Americas	Accountable for all of the Group's mining operations in South America including Las Bambas	718,140	0.008%	1,204,590	0.014%	1,922,730	0.022%
Guan Xiangjun	General Manager - China Relations	Accountable for external stakeholder relations (i.e. investors and government) in China	342,556	0.004%	541,805	0.006%	884,361	0.010%
Nicholas Myers	General Counsel	Accountable for governance and legal compliance in all jurisdictions in which the Group operates	328,015	0.004%	531,866	0.006%	859,881	0.010%
Michel Stevering	Deputy Executive General Manager - Finance	Accountable for the Group's global treasury, global tax, financial and management reporting and budgeting	300,548	0.003%	487,506	0.006%	788,054	0.009%





Name	Position/Title	Roles and responsibilities	2021 Award		2022 Award		Total	
			Number of Performance Awards granted	Approximate % of total issued share capital as at the Latest Practicable Date	Number of Performance Awards granted	Approximate % of total issued share capital as at the Latest Practicable Date	Number of Performance Awards granted	Approximate % of total issued share capital as at the Latest Practicable Date
Angus J Henderson	General Manager - Australia operations commercial and business support	Accountable for all business support and commercial activities in relation to the Group's operations in Australia	278,100	0.003%	473,650	0.005%	751,750	0.009%
Alvaro Ossio	General Manager - Commercial	Accountable for the Group's treasury, tax, financial and management reporting and budgeting in Las Bambas	272,627	0.003%	481,282	0.006%	753,909	0.009%
Jing Zhao	General Manager - Sustainability & Corporate Affairs	Accountable for stakeholder relations (i.e. government, company and community) and the management of the social risk to maintain a stable and sustainable environment in relation to the operation of Las Bambas in Peru	—	—	426,290	0.005%	426,290	0.005%



Name	Position/Title	Roles and responsibilities	2021 Award		2022 Award		Total	
			Number of Performance Awards granted	Approximate % of total issued share capital as at the Latest Practicable Date	Number of Performance Awards granted	Approximate % of total issued share capital as at the Latest Practicable Date	Number of Performance Awards granted	Approximate % of total issued share capital as at the Latest Practicable Date
Xia Weiquan	General Manager - Kinsevere	Accountable for all of the Kinsevere's mining operations in the Democratic Republic of Congo	193,345	0.002%	393,583	0.005%	586,928	0.007%
Charles Kyona	Manager Stakeholder Relations - Democratic Republic of the Congo	Accountable for stakeholder relations matters in relation to the Group's mining operations in the Democratic Republic of the Congo	182,338	0.002%	299,910	0.003%	482,248	0.006%
Claudio Caceres	Las Bambas Head Legal Counsel	Accountable for governance and legal compliance in relation to the Las Bambas operations in Peru	122,085	0.001%	205,260	0.002%	327,345	0.004%
Wong Poh Sang	Head of Shared Business Services	Accountable for the delivery of all group shared business services to the operations of the Group	101,203	0.001%	169,756	0.002%	270,959	0.003%





Name	Position/Title	Roles and responsibilities	2021 Award		2022 Award		Total	
			Number of Performance Awards granted	Approximate % of total issued share capital as at the Latest Practicable Date	Number of Performance Awards granted	Approximate % of total issued share capital as at the Latest Practicable Date	Number of Performance Awards granted	Approximate % of total issued share capital as at the Latest Practicable Date
Zhang Liang	Head of Supply	Accountable for governance of the global supply function	53,384	0.001%	98,077	0.001%	151,461	0.002%
Zhou Canliang	Acting General Manager Commercial	Accountable for the Group's treasury, tax, financial and management reporting and budgeting in Las Bambas	—	—	191,096	0.002%	191,096	0.002%
Total			<u>4,900,058</u>	<u>0.057%</u>	<u>8,709,895</u>	<u>0.101%</u>	<u>13,609,953</u>	<u>0.157%</u>



We have also reviewed the biographies and roles and responsibilities in the Group of Connected Incentive Participants. Based on our review, we are of the view that each of Connected Incentive Participants plays an important role over the Group's sustainable development.

#### 4. Key terms of the 2021 Award and the 2022 Award

Set out below is a summary of the principal terms of the 2021 Award and the 2022 Award, as extracted from the Grant Guidebooks. These terms are applied consistently to all Incentive Participants, regardless of whether they are Connected Incentive Participants or not. Further details of the principal terms of the 2021 Award and the 2022 Award are set out in the letter from the Board contained in the Circular.

##### *(i) Performance Awards*

A Performance Award under the Long Term Incentive Equity Plan is a contractual right, granted to an Incentive Participant, to be issued a given number of Award Shares for nil cash consideration if the nominated performance measures are achieved and vesting occurs. The Performance Awards do not confer rights to the Incentive Participants as Shareholders until such time as they are converted to a given number of ordinary shares. The Award Shares will, to the extent that they are to be satisfied with the issue of new Shares rather than the purchase of existing Shares on the stock market, be issued and allotted under the General Mandate.

According to the Remuneration Report, grants of performance based stock, such as shares or rights, have been the most common long-term incentive instrument amongst the then top 100 largest companies listed on the Australian Securities Exchange (the "**ASX100 Companies**") and companies in the resources and extractive sector amongst the ASX100 Companies, namely (i) AGL Energy Ltd (AGL.ASX); (ii) BHP Group Ltd (BHP.ASX); (iii) Origin Energy Ltd (ORG.ASX); (iv) South32 Ltd (S32.ASX); and (v) Woodside Petroleum Ltd (WPL.ASX) (collectively, the "**ASX100 Resources Companies**"). Such grants of performance rights have been generally made to chief executives and senior management of the Company's peer companies. As the Company's senior management is mostly based in Australia and the ASX100 Resources Companies comprise reputable international mining companies, the findings presented in the Remuneration Report offer valuable insights into the market practices and trends of long-term incentive plan for assessment of the Issue.

##### *(ii) Performance period*

The Long Term Incentive Equity Plan rewards performance of the Incentive Participants over a three-year period against the performance targets (as discussed in paragraph (iv) below). The performance periods are from 1 January 2021 to 31 December 2023 and 1 January 2022 to 31 December 2024 (the "**Performance Periods**") for the 2021





Award and the 2022 Award, respectively. The Group's achievement against the corresponding performance targets will be determined in early 2024 and early 2025 for the 2021 Award and the 2022 Award, respectively for the purpose of vesting of the Performance Awards.

According to the Remuneration Report, 73% of the ASX100 Companies set their performance period to be three years, which makes the three-year performance period the most common practice.

We also consider the Performance Periods to be adequate (but not prolonged) durations for assessing the Group's performance, striking the balance between sufficient evaluation time and the interests of Incentive Participants in realising their Performance Awards.

*(iii) Performance measures and performance targets*

Similar to the grant of Performance Shares under the Long Term Incentive Equity Plan in 2018 to 2020 ("**2018-2020 Awards**"), each of the 2021 Award and the 2022 Award is made up of three equal tranches and each tranche will be measured independently. Each tranche has its respective performance measures on individuals (the "**Performance Measures**") and performance targets of the Group (the "**Performance Targets**"), which are the same as those of the 2018-2020 Awards. Details of Performance Measures and Performance Targets are set out in the letter from the Board and our discussion is set out in our letter contained in circular of the Company dated 10 February 2021.

*(iv) Total quantum of the Performance Awards*

The quantum of the Performance Awards for each of the Incentive Participants, including the Executive General Managers and other senior management of the Group, was determined with reference to, amongst other things, the total fixed remuneration, the percentage of long-term incentive to total fixed remuneration, seniority and complexity of the work of the Incentive Participants and the prevailing market price of the Shares.

The Remuneration Committee regularly seeks advices on the remuneration levels of the senior management of the Group from compensation experts including Korn Ferry and Mercer. To assess the fairness and reasonableness of the remuneration level of the Incentive Participants, we have obtained and reviewed the reports issued by Korn Ferry in 2023 and Mercer in 2024, and noted that Korn Ferry employed a proprietary evaluation method of their own based on their proprietary database which includes more than 398,000 incumbents serving in 671 organisations in Australia, while Mercer compared executive general manager's remuneration of the Company with 19 peer companies selected from (i) 226 participants of 2023 Mercer Australia Resources Remuneration Survey; (ii) 47 participants of 2023 Mercer Peru Energy and Mining Remuneration Survey; and (iii) 27 participants of 2023 Mercer Democratic Republic of Congo Remuneration



Survey. We further noted that the remuneration packages, including the total fixed remuneration and the long-term incentive (i.e. the 2021 Award and the 2022 Award), of the Connected Incentive Participants generally lie within the range of those of the executives in similar capacities employed by industry peers.

(v) *Holding lock periods*

Holding lock periods will apply to 50% of the Award Shares held by the Incentive Participants from the time of vesting. Of these holding-locked Award Shares, half of them may be sold at, or after one year from, the end of the Performance Periods (i.e. 1 January 2025 and 1 January 2026 for the 2021 Award and the 2022 Award respectively), and the remaining half may be sold at, or after two years for the 2021 Award and the 2022 Award from, the end of the relevant Performance Periods (i.e. 1 January 2026 and 1 January 2027 for the 2021 Award and the 2022 Award respectively).

We consider the specified holding lock periods appropriate for the ensuring the ongoing alignment of interests of the Shareholders and the Incentive Participants.

Based on the above assessment, we are of view that the terms (including the vesting conditions which are the same as those of 2018-2020 Awards) of the 2021 Award and the 2022 Award pursuant to the Company's Long Term Incentive Equity Plan are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

## **5. Financial effects of the Issue**

During the Performance Period of three years, the Company recognises the fair value of the Performance Awards proposed to be granted to the Incentive Participants as an expense in its consolidated statement of profit or loss. Simultaneously, an equivalent amount is accounted for in a share-based payment reserve account in the equity in its consolidated statement of financial position, prior to the issuance of the Award Shares. The fair value of the Performance Awards was determined at the date of grant using Monte Carlo Simulations, incorporating the market based condition (i.e. relative total shareholder return) and referencing the share price on the grant dates for the 2021 Award and the 2022 Award. Additionally, non-market based vesting conditions (i.e. resources growth and return on equity) are included in assumptions about the number of the Performance Awards that are expected to vest.

At each reporting date, the Group revises its estimates of the number of the Performance Awards that are expected to vest based on non-market based vesting conditions. It recognises the impact of the revision of original estimates, in the consolidated statement of profit or loss. A corresponding adjustment will be made to the share-based payment reserve account in the equity in its consolidated statement of financial position. Once the Award Shares are issued under the Performance Awards, the balance held in the aforesaid reserve account will be transferred and credited to the share capital account in the equity in its consolidated statement of financial position.





As mentioned in the section headed “2. Background of and reasons for the proposed Issue” above, in the event that the Independent Shareholders’ approval for the Issue is not obtained at the general meeting, the Company still needs to honour its obligations under both the 2021 Award and the 2022 Award. In such a scenario, the Company will proceed with purchasing existing Shares on the stock market and thus reduce its cash balance, consequently resulting in a negative impact on the Group’s net asset value. For illustration purpose, assuming the purchase of all Connected Award Shares (i.e. 13,609,953 Shares) took place on the Latest Practicable Date at HK\$3.51 per Share, this would reduce the net asset value of the Group by approximately HK\$47.8 million (or equivalent to approximately US\$6.1 million) and the net asset value per Share (based on the consolidated net asset value of the Group as at 31 December 2023 of approximately US\$2,123.4 million and the total number of Shares in issue of 8,656,047,188 as at the Latest Practicable Date) will decrease by approximately 0.3%. On the contrary, the Issue is anticipated to have a minimal dilution impact of approximately 0.2% on the net asset value per Share. Overall, the Issue is expected to have limited effect on the net asset value of the Group and effectively preserve cash.

The Issue is anticipated to have an insignificant impact on the cash flows of the Group. However, if the obligations under each of the 2021 Award and the 2022 Award are fulfilled through the purchase of existing Shares from the stock market, it will further deplete the Group’s cash resources.

Apart from those discussed above, there will be no material difference in the impact on the Group’s consolidated statement of profit or loss between the Issue and purchase of existing Shares from the stock market, in order to satisfy the Company’s obligations under each of the 2021 Award and the 2022 Award.

In light of the above, we take a balanced view of factors including (i) the fact that the Issue has a lower dilutive effect on the net asset value per Share compared to purchasing an equivalent number of existing Shares from the stock market; (ii) the importance of preserving cash for the operations of the Group; and (iii) no material difference in the Group’s profit or loss between the Issue and purchase of existing Shares on the stock market. Taking into consideration the combined impact of these three factors, we are of the view that the Issue is an acceptable alternative to the purchase of existing Shares on the stock market.

## **6. Effects on the shareholding dilution**

As at the Latest Practicable Date, there were 8,656,047,188 Shares in issue. The total maximum number of the Connected Award Shares to be issued to the Connected Incentive Participants under the Issue will be 13,609,953 Shares, representing approximately 0.1572% of the issued share capital of the Company as at the Latest Practicable Date, and approximately 0.1570% of the issued share capital of the Company after completion of the Issue.

Considering the aforementioned reasons for and benefits of the Issue and terms and conditions of the Issue, the shareholding dilution to the Independent Shareholders upon the issuance of the Connected Award Shares to the Connected Incentive Participants is considered acceptable.



## OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Issue is conducted in the ordinary and usual course of business of the Group, the terms of the Issue are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and thus in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favor of the relevant ordinary resolution to be proposed at the general meeting in relation to the Issue.

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**

**Jenny Leung**  
Director

*Ms Jenny Leung is a licensed person and responsible officer of Somerley Capital Limited registered with the Securities Futures Commission to carry out type 6 (advising on corporate finance) regulated activity under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.*