23 May 2024

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION IN RELATION TO
(1) THE DISPOSAL OF TARGET PARKING SPACES;
AND
(2) THE EQUITY DISPOSAL**

I. INTRODUCTION

We, Optima Capital Limited ("**Optima Capital**"), have been appointed by the Company as the independent financial adviser in respect of (i) the Underground Parking Space Use Rights Transfer Agreements (the "**Parking Space Agreements**", each a "**Parking Space Agreement**") and the transactions contemplated thereunder; and (ii) the Equity Transfer Agreement and the transactions contemplated thereunder, details of which are contained in the letter from the Board (the "**Board Letter**") in the circular of the Company dated 23 May 2024 (the "**Circular**"), of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 24 August 2023, the Vendors (being subsidiaries of the Company) and Purchaser A (an indirect wholly-owned subsidiary of Dexin Services) entered into the Parking Space Agreements, pursuant to which, the Vendors have conditionally agreed to sell, and Purchaser A has conditionally agreed to acquire, the rights-of-use of the Target Parking Spaces at an aggregate consideration of RMB211,435,000.

On even date, Dexin Movie City (an indirect wholly-owned subsidiary of the Company), Purchaser B (an indirect wholly-owned subsidiary of Dexin Services) and the Target Company entered into the Equity Transfer Agreement, pursuant to which, Dexin Movie City has conditionally agreed to sell, and Purchaser B has conditionally agreed to acquire, the entire equity interest in the Target Company at a consideration of RMB90,000,000.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of each of the Disposal of Target Parking Spaces and the Equity Disposal exceeds 5% but is less than 25%, each of the Disposal of Target Parking Spaces and the

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Equity Disposal, on a standalone basis, constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. While the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the Disposals, on an aggregate basis, exceeds 25% but is less than 75%, the Disposals constitute a major transaction for the Company and are subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Company was held as to 64.56% by Mr. Hu, of which (i) 2.52% was beneficially held by Tak Yuan International Limited, which was in turn held as to 100% by Mr. Hu; and (ii) 62.03% was beneficially held by Tak Shin International Limited, the controlling Shareholder, which was in turn held as to 92% by Mr. Hu. On the other hand, each of Purchaser A and Purchaser B was wholly-owned by Dexin Services, which was held as to 56.46% by Shengfu International Limited, which was in turn held as to 91.6% by Mr. Hu. Thus, each of Dexin Services, Purchaser A and Purchaser B is a connected person of the Company pursuant to the Listing Rules. Accordingly, the Disposals also constitute connected transactions for the Company and are subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As (i) Mr. Hu has material interests in Dexin Services as aforementioned; and (ii) Mr. Fei Zhongmin, being an executive Director, holds 7.94% interests in Kaibang International Limited, a substantial shareholder of Dexin Services, Mr. Hu, Mr. Fei Zhongmin and each of their respective associates are required to abstain from voting on the relevant resolutions to be proposed at the EGM. Mr. Hu and Mr. Fei had also abstained from voting at the Board resolutions approving the Disposals. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, save as disclosed above, no other Shareholder has a material interest in the Disposals or should be required to abstain from voting on the relevant resolutions at the EGM.

The Independent Board Committee, comprising two independent non-executive Directors, namely Mr. Ding Jiangang and Mr. Chen Hengliu, has been established. Since Dr. Wong Wing Kuen Albert, an independent non-executive Director, also serves as an independent non-executive director of Dexin Services, he is deemed or may be perceived to have a material interest in the Disposals and is therefore excluded from the Independent Board Committee. The Independent Board Committee will advise and make recommendations to the Independent Shareholders on whether (i) the Parking Space Agreements and the Equity Transfer Agreement are entered into in the ordinary and usual course of business of the Group; (ii) the terms of the Parking Space Agreements and the Equity Transfer Agreement are on normal commercial terms, and fair and reasonable; and (iii) the Disposals are in the interests of the Company and the Shareholders as a whole. We, Optima Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated or connected with the Company, the Vendors, Dexin Movie City, Purchaser A, Purchaser B or their respective connected persons or associates. During the two years immediately prior to the date of our appointment, we have not (i) acted in the capacity as a financial adviser or independent financial adviser to the Company; (ii) provided any services to the Company; or (iii) had any relationship with the Company.

As at the Latest Practicable Date, we were not aware of any relationships or interests among us and the Company, the Vendors, Dexin Movie City, Purchaser A, Purchaser B or their respective connected persons or associates that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser. Accordingly, we consider that we are independent from the Company and eligible to give independent advice in respect of the Disposals. Apart from normal professional fees paid or payable to us in connection with this engagement, no arrangement exists whereby we had received or will receive any fees or benefits from the Company, the Vendors, Dexin Movie City, Purchaser A, Purchaser B or their respective connected persons or associates.

II. BASIS OF OUR OPINION

In formulating our advice and recommendations, we have relied on the information and facts supplied and the opinions expressed by the Directors and management of the Company (together, the "**Management**") and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respects at the time they were provided and expressed, and continue to be true, accurate and complete in all material respects up to the Latest Practicable Date.

We have reviewed, among other things, (i) the Parking Space Agreements; (ii) the Equity Transfer Agreement; (iii) the announcements of the Company dated 24 August 2023 and 28 September 2023 in respect of, among others, the Disposals; (iv) the annual reports for the three years ended 31 December 2021 (the "**2021 Annual Report**"), 2022 (the "**2022 Annual Report**") and 2023 (the "**2023 Annual Report**") published by the Company; (v) the accountants' report of the Target Company for the two years ended 31 December 2022; (vi) the unaudited management accounts of the Target Company for the year ended 31 December 2023; (vii) the valuation report (the "**Valuation Report**") in respect of the market value of the Target Parking Spaces (the "**Parking Space Valuation**") and the Property (the "**Property Valuation**", collectively, the "**Valuation**") as at 31 March 2024 (the "**Valuation Date**") prepared by Savills Valuation and Professional Services (China) Limited (the "**Valuer**"), an independent valuer, the text of which is set out in Appendix II to the Circular; (viii) the legal opinion in respect of the Target Parking Spaces (the "**Legal Opinion**") issued by Beijing Junzhi Law Firm (the "**Legal Adviser**"), an independent legal adviser; (ix) the information contained in the Circular; and (x) other information obtained from the public domain.

We have also sought and received confirmation from the Management that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs and taxation implications of the Disposals to the Group, nor have we carried out any independent verification of the information supplied.

III. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our independent advice with regard to the Disposals, we have considered the following principal factors and reasons:

1. Information of the Group

1.1 Principal businesses of the Group

The Group is principally engaged in (i) provision of property development and construction services (the "**Property Business**"); (ii) property investment (the "**Investment Business**"); and (iii) hotel operations (the "**Hotel Business**") in the PRC.

1.2 Financial performance of the Group

The Property Business generates revenue from (i) sales of properties; (ii) provision of property construction and project management services; and (iii) provision of management and consulting services, and it is the principal operation of the Group contributing more than 99% of the total revenue to the Group. The Investment Business generates revenue from the lease of residential and/or commercial properties. The Hotel Business generates revenue from the operations of hotel.

Set out below is the summary of the financial performance of the Group for the three years ended 31 December 2021 ("**FY2021**"), 2022 ("**FY2022**") and 2023 ("**FY2023**"), extracted from the annual reports of the Company for the respective years.

	FY2021 *RMB'million* (Audited)	**FY2022** *RMB'million* (Audited)	**FY2023** *RMB'million* (Audited)
Revenue	23,109	22,145	24,510
– Property Business	22,935	21,987	24,364
– Investment Business	141	104	92
– Hotel Business	33	54	54
Gross profit	5,011	2,178	1,799
Gross profit margin	21.7%	9.8%	7.3%
Operating profit/(loss)	3,582	634	(755)
Profit/(loss) before income tax	3,614	1,162	(1,311)
Profit/(loss) for the year attributable to owners of the Company	**941**	**374**	**(2,189)**

1.2.1 FY2022 vs FY2021

The Group's revenue decreased by approximately 4.2% as compared to that for FY2021. Such decrease was mainly due to the decrease of the total gross floor area delivered to the buyers during FY2022. In particular, revenue from the sales of properties for FY2022 accounted for approximately 96.0% of the total revenue of the Group, representing a year-on-year decrease of approximately 4.6%.

The gross profit of the Group decreased by approximately 56.5% for FY2022 as compared to that for FY2021. The significant decrease was primarily due to the decrease in revenue from sales of properties and a drop in the overall gross profit margin, which was mainly due to the relatively high land acquisition costs of projects recognised by the Group during FY2022. This was mainly a result of the PRC government imposing regulations on the sales price of commercial housing in the past two years, which led to higher land acquisition costs as compared to the corresponding sales price of housing sold during FY2022. Furthermore, in light of the downturn in the PRC real estate market, the Group had made provisions for impairment in respect of properties under development and held for sale in the amount of approximately RMB895 million, which were recognised as cost of sales during FY2022, resulting in a significant drop in gross profit.

The operating profit of the Group decreased by approximately 82.3% for FY2022 as compared to that for FY2021. Apart from the substantial decrease in gross profit, the Group also recognised the fair value losses on investment properties in the amount of approximately RMB26 million for FY2022, as compared to a fair value gain of approximately RMB54 million for FY2021.

As a result of the above changes, the profit attributable to owners of the Company decreased by approximately 60.3% for FY2022.

1.2.2 FY2023 vs FY2022

The revenue of the Group for FY2023 increased by approximately 10.7% as compared to that for FY2022. Such increase was mainly due to the increase in revenue from the sales of properties, which recorded a year-on-year increase of approximately 12.9% for FY2023. Revenue from the sales of properties accounted for approximately 97.8% of the total revenue of the Group.

The gross profit of the Group decreased by approximately 17.4% for FY2023 as compared to that for FY2022. The decrease was primarily due to the overall gross profit margin decreased by approximately 2.5 percentage points in FY2023, which was primarily due to the increase in the cost of sales of the recognised projects during FY2023.

The Group turned from operating profit for FY2022 to operating loss for FY2023. The turnaround was mainly due to (i) a significant increase in fair value loss on investment properties recorded for FY2023; (ii) an increase in other losses by approximately 149.7% for FY2023, which mainly consisted of (a) loss on disposal of subsidiaries of approximately RMB88.5 million; (b) exchange loss of approximately RMB48.1 million; and (c) other loss of approximately RMB103.4 million; (iii) an increase in selling and marketing expenses by approximately 22.7% due to the increase in the capitalised sales of recognised properties and the selling expenses; and (iv) an increase in administrative expenses by approximately 21.2% due to the provision for impairment of inventories and receivables and other receivables as a result of the impact of the macroeconomic situation and the downturn in the real estate market.

As a result of the above changes, the Group turned from profit-making for FY2022 to loss-making for FY2023.

1.3 Financial position of the Group

Set out below is the summary of the financial position of the Group as at 31 December 2023 as extracted from the 2023 Annual Report.

	As at 31 December 2023 *RMB'million* (Audited)
Non-current assets	
Investment properties	4,257
Investments accounted for using the equity method	4,775
Other non-current assets	1,371
	10,403
Current assets	
Properties under development	31,676
Completed properties held for sale	8,563
Amounts due from non-controlling interests	10,150
Amounts due from related parties	5,187
Restricted cash	145
Cash and cash equivalents	4,600
Other current assets	5,399
	65,720
Assets classified as disposal group held for sale *(Note 1)*	374
	66,094

	As at 31 December 2023 *RMB'million* (Audited)
Non-current liabilities	
Borrowings	2,959
Other non-current liabilities	172
	3,131
Current liabilities	
Borrowings	13,450
Trade and other payables	9,922
Amounts due to related parties	6,886
Contract liabilities	26,200
Other current liabilities	4,672
	61,130
Liabilities classified with disposal group held for sale *(Note 1)*	142
	61,272
Net current assets	**4,822**
Total assets	**76,497**
Total liabilities	**64,403**
Total equity	**12,094**
Equity attributable to the owners of the Company	**4,352**
Current ratio *(Note 2)*	1.08 times
Net gearing ratio *(Note 3)*	96.4%

Notes:

1. The asset and liabilities attributable to the Disposals, which are expected to be sold within twelve months, have been classified as held for sales and are presented separately in the consolidated statement of financial position.

2. The current ratio is calculated by dividing the current assets of approximately RMB66,094 million by the current liabilities of approximately RMB61,272 million.

3. The net gearing ratio is calculated by dividing the total borrowings of approximately RMB16,409 million, net of restricted cash and cash and cash equivalents of approximately RMB4,745 million, by total equity of approximately RMB12,094 million.

The total assets of the Group mainly comprised (i) properties under development and completed properties held for sales; (ii) amounts due from non-controlling interests; (iii) amounts due from related parties; (iv) investments accounted for using the equity method, representing the Group's investment in associates and joint ventures; (v) cash and cash equivalents; and (vi) investment properties, accounting for approximately 52.6%, 13.3%, 6.8%, 6.2%, 6.0% and 5.6% of the total assets of the Group as at 31 December 2023, respectively.

The total liabilities of the Group mainly comprised (i) contract liabilities, representing payments received by the Group from customers based on billing schedules under the contracts for property development and sales; (ii) borrowings from banks and other financial institutions, which were secured by the Group's properties under development, completed properties held for sale, land use rights and investment properties, with carrying value of approximately RMB20,315 million; (iii) trade and other payables; and (iv) amount due to related parties, accounting for approximately 40.7%, 25.5%, 15.4% and 10.7% of the total liabilities of the Group as at 31 December 2023, respectively.

In particular, the total borrowings of the Group consisted of (i) bank borrowings of RMB11,160 million; (ii) borrowing from other financial institutions of RMB2,373 million; and (iii) senior notes (including accrued interest payables) of RMB2,875 million. Among the total borrowings, RMB13,450 million was repayable within one year.

We note that the Group announced a restructuring of the 9.95% senior notes due December 2022 in the principal amount of US$350,000,000 (which is equivalent to approximately RMB2,500 million calculated based on an exchange rate of US$0.14 to RMB1) by way of scheme of arrangement (the "**Scheme**") on 2 May 2023. By an order made at the hearing held on 9 June 2023 (Cayman Islands time), the Grand Court of the Cayman Islands sanctioned the Scheme, and all conditions of the Scheme had been satisfied on 9 June 2023 (Cayman Islands time). However, despite that the effective date of the Scheme was extended to 15 December 2023, the Company was not able to consummate the restructuring in accordance with the Scheme and on 20 March 2024, a winding-up petition against the Company (the "**Petition**") was filed by China Construction Bank (Asia) Corporation Limited (the "**Petitioner**") in the High Court of the Hong Kong Special Administrative Region (the "**High Court**") in relation to the non-payment of the 9.95% senior notes. The Petition is scheduled to be heard on 5 June 2024. As advised by the Management, as at the Latest Practicable Date, the Company had engaged legal advisers and was still in seeking legal advice for various feasible solutions in respect of the 9.95% senior notes. Further details of the Scheme are set out in the announcements of the Company dated 2 May 2023, 31 May 2023, 12 June 2023, 29 September 2023, 15 December 2023, 21 March 2024, 28 March 2024 and 25 April 2024 as well as in the 2023 Annual Report.

It is also worth noting that, as at 31 December 2023, the net debt of the Group amounted to approximately RMB11,664 million (calculated by subtracting the total borrowing of the Group of approximately RMB16,409 million by the cash and cash equivalents plus restricted cash of approximately RMB4,745 million), representing a net gearing ratio of approximately 96.4%, which was at a higher level as compared to that of 68.7% as at 31 December 2022. With such high level of gearing, the finance costs of the Group amounted to approximately RMB352 million for FY2023, representing approximately 46.7% of the operating loss of approximately RMB755 million for FY2023. We understood from the Management that the Company has been actively making efforts to enhance its asset turnover so as to enhance its financial position and reduce the gearing of the Group.

2. Information of Dexin Services Group, Purchaser A and Purchaser B

2.1 Dexin Services Group

Dexin Services is a company incorporated under the laws of the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2215) since 15 July 2021.

Dexin Services Group is principally engaged in provision of property management services, community value-added services and value-added services to non-property owners, such as the Group.

2.2 Purchaser A

Purchaser A is a company established under the laws of the PRC with limited liability and was an indirect wholly-owned subsidiary of Dexin Services as at the Latest Practicable Date. It is principally engaged in provision of home decoration services, property sales and assistance services.

2.3 Purchaser B

Purchaser B is a company established under the laws of the PRC with limited liability and was an indirect wholly-owned subsidiary of Dexin Services as at the Latest Practicable Date. It is principally engaged in provision of property management services.

Purchaser B had been providing property management services to the Group for its property development projects prior to the listing of the Shares on the Stock Exchange and has been continuing. The provision of property management services by Purchaser B to the Group constituted a continuing connected transaction for the Company pursuant to the Listing Rules. Details of which are set out in the circulars of the Company dated 4 September 2020, 8 June 2021 and 3 April 2024. As set out in the 2021 Annual Report, the 2022 Annual Report and the 2023 Annual Report, the services fee in respect of provision of property management services by Purchaser B to the Group amounted to approximately RMB92.0 million, RMB72.4 million and RMB57.6 million for FY2021, FY2022 and FY2023, respectively.

3. Information of the Vendors and Dexin Movie City

3.1 Vendor A

Vendor A is a company established in the PRC with limited liability and was indirectly owned as to 90.1% by the Company and directly owned as to 9.9% by Mr. Hu Yuegen (胡月根), the brother of Mr. Hu, as at the Latest Practicable Date.

Vendor A is principally engaged in real estate development and operation. As at the Latest Practicable Date, Vendor A held the rights-of-use of the Target Asset A.

3.2 Vendor B

Vendor B is a company established in the PRC with limited liability and was indirectly owned as to 90.1% by the Company and directly owned as to 9.9% by Mr. Hu Yuegen as at the Latest Practicable Date.

Vendor B is principally engaged in real estate development and operation. As at the Latest Practicable Date, Vendor B held the rights-of-use of the Target Asset B.

3.3 Vendor C

Vendor C is a company established in the PRC with limited liability and was wholly-owned by the Company as at the Latest Practicable Date.

Vendor C is principally engaged in real estate development and operation. As at the Latest Practicable Date, Vendor C held the rights-of-use of the Target Asset C.

3.4 Vendor D

Vendor D is a company established in the PRC with limited liability and was indirectly owned as to 63.07% by the Company and directly owned as to 12.36%, 9.00%, 6.93%, 4.40%, 3.24% and 1.00% respectively by Sun Dashan (孫達山), Wu Jianrong (吳建榮), Mr. Hu Yuegen, Sun Zhongliang (孫仲良), Shen Jianmei (沈建妹) and Shi Fengxiang (史鳳香), as at the Latest Practicable Date.

Vendor D is principally engaged in real estate development and operation. As at the Latest Practicable Date, Vendor D held the rights-of-use of the Target Asset D.

3.5 Dexin Movie City

Dexin Movie City is a company established in the PRC with limited liability and was an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date. It is principally engaged in (i) development, construction and investment management of film, television base and tourist attraction; and (ii) development, construction, management services of tourist attractions and amenities. As at the Latest Practicable Date, Dexin Movie City wholly owned the Target Company.

4. **Information of the Target Parking Spaces**

4.1 Target Asset A

The Target Asset A comprises the designated 250 underground car parking spaces in Heping Dexin Center (和平德信中心), situated at the intersection of Shaoxing Road and Desheng Road, Gongshu District, Hangzhou City, Zhejiang Province, the PRC (中國浙江省杭州市拱墅區紹興路與德勝路交匯處).

The Target Asset A was constructed by Vendor A itself as part of the commercial property project known as Heping Dexin Center. The construction work of the Target Asset A was completed in around March 2023, and its construction cost was approximately RMB44,872,000.

4.2 Target Asset B

The Target Asset B comprises the designated 429 underground car parking spaces in Yinhu Technology Park (銀湖科技園), situated at West of the intersection of Fuxian Road and Chuangyi Road, Fuyang District, Hangzhou City, Zhejiang Province, the PRC (中國浙江省杭州市富陽區富閒路與創意路交匯處以西).

The Target Asset B was constructed by Vendor B itself as part of the commercial property project known as Yinhu Technology Park. The construction work of the Target Asset B was completed in around August 2020, and its construction cost was approximately RMB30,266,000.

4.3 Target Asset C

The Target Asset C comprises the designated 195 underground car parking spaces in Montnorth (嘉悦府), situated at the intersection of Xingguo Road and Xingchen Road, Linping District, Hangzhou City, Zhejiang Province, the PRC (中國浙江省杭州市臨平區興國路與星辰路交匯處).

The Target Asset C was acquired from an Independent Third Party in December 2020 in an original acquisition cost of RMB21,264,750.

4.4 Target Asset D

The Target Asset D comprises the designated 1,000 underground car parking spaces in Dexin Konggang City (德信空港城), situated at East of the intersection of Jichang Avenue and Kanhong Road, Xiaoshan District, Hangzhou City, Zhejiang Province, the PRC (中國浙江省杭州市蕭山區機場大道與坎紅路交匯處以東).

The Target Asset D was constructed by Vendor D itself as part of the commercial property project known as Dexin Konggang City. The construction work of the Target Asset D was completed in around November 2022, and its construction cost was approximately RMB135,510,000.

4.5 Title of the Target Parking Spaces

As advised by the Legal Adviser, the Vendors legally hold the rights-of-use of the respective Target Parking Spaces in accordance with the applicable PRC law as (i) the Target Asset A, the Target Asset B and the Target Asset D have been constructed in accordance with the local planning provisions and the relevant Construction Work Planning Inspection Certificate has been obtained by Vendor A, Vendor B and Vendor D; and (ii) the rights-of-use of the Target Asset C has been contracted to be vested in Vendor C. As such, the Vendors are entitled to occupy, use, lease out the Target Parking Spaces or transfer the rights-of-use of the Target Parking Spaces.

4.6 Parking space leasing and sales agency services

On 9 June 2022, the Company and Dexin Services entered into the Parking Space Leasing and Sales Agency Services Framework Agreement (the "**Agency Services Agreement**"), pursuant to which, Dexin Services Group shall provide exclusive parking spaces sales and leasing agency services in respect of the Target Parking Spaces (the "**Agency Services**") to the Group to facilitate the sales and leasing activities of the Target Parking Spaces, with a term from 11 October 2022 to 31 December 2024. In order to obtain the exclusive leasing and sales rights and the cooperation rights for the Target Parking Spaces, Dexin Services Group paid a deposit in the amount of RMB250,000,000 (the "**Deposit**") to the Group. On the other hand, the Group shall pay the agency service fees to Dexin Services Group on a monthly basis, after receiving the payment from third party customers for the sales or leasing of the Target Parking Spaces. Details of which are set out in the announcements of the Company dated 9 June 2022 and 23 September 2022.

As advised by the Management, given that the principal business activity of the Group is sales of properties, it had been the original intention to sell the Target Parking Spaces rather than leasing them for rental income. However, during FY2021, FY2022 and FY2023, due to various factors including the COVID-19 pandemic and the downturn of the PRC real estate market, the demand for the Target Parking Spaces had been low and the market price of the Target Parking Spaces had been lower than expectation. As such, none of the Target Parking Spaces were sold.

In view of the entering into of the Parking Space Agreements, on even date of the Parking Space Agreements, the Company and Dexin Services entered into the Termination Agreement to terminate the Agency Services Agreement upon and subject to Target Parking Spaces Disposal Completion.

Upon Target Parking Spaces Disposal Completion, the rights-of-use of the Target Parking Spaces will be transferred to Dexin Services Group and the Termination Agreement will come into force. Pursuant to the Termination Agreement, the Company is obligated to (i) pay the outstanding agency service fees to the Dexin Services Group, if any; and (ii) repay the Deposit to the Dexin Services Group. As at the Latest Practicable Date, there was no agency service fee required to be payable to the Dexin Services Group. As advised by the Management, it is the intention of the Vendors, Purchaser A and Purchaser B that the consideration of the Disposal of Target Parking Spaces, the consideration of the Equity Disposal and the repayment of the Deposit by the Group to the Dexin Services Group will be set-off against each other at the date of the completion of the Disposals. Following which, it is expected that the gross proceeds in the amount of RMB51,435,000 will be receivable by the Group, which is calculated by subtracting the Deposit of RMB250,000,000 from the aggregate consideration for the Target Parking Spaces of RMB211,435,000 and the consideration for the Equity Disposal of RMB90,000,000.

5. Information of the Target Company and the Property

5.1 Information of the Target Company

The Target Company is a company incorporated in the PRC on 26 February 2019 with limited liability. It is principally engaged in real estate development and operation. Other than the Property, the Target Company did not have other major assets as at the Latest Practicable Date.

As advised by the Management, the construction of the Property was completed in July 2021 and since August 2021, the Property has been leasing out to a wholly-owned subsidiary of the Company for rental income.

5.2 Information of the Property

The Property is situated at No. 66 Sanmo Line, Moganshan Town, Deqing County, Huzhou City, Zhejiang Province, the PRC. It occupies a site area of 17,819.66 square metres. The total gross floor area of the Property amounts to 31,955.09 square metres.

The Property consists of a 4-storey building, including a 1-storey basement, providing a total of 186 guest rooms and featuring 3 restaurants, a wine bar and a range of facilities including a pillar-free ballroom, several meeting rooms, an indoor swimming pool, a home party area and a gym.

5.3 Financial performance of the Target Company

Set out below is the summary of the financial performance of the Target Company for FY2021, FY2022 and FY2023, extracted from the audited financial statements of the Target Group for the two years ended 31 December 2022 and the unaudited management accounts of the Target Company for FY2023.

	For the year ended 31 December		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Unaudited)
Revenue	1,835	4,404	5,824
Loss before taxation	(16,350)	(21,676)	(21,691)
Loss after taxation	(16,350)	(21,676)	(16,268)

As advised by the Management, the revenue of the Target Company represents the rental income generated from leasing out the Property.

The Target Company had been generating net loss during FY2021, FY2022 and FY2023 which were mainly due to the depreciation expenses of the Property throughout the years.

5.4 Financial position of the Target Company

	As at 31 December 2023
	RMB'000
	(Unaudited)
Non-current assets	
Investment properties	179,756
Other non-current assets	9,692
	189,448
Current assets	
Trade and other receivables	409
Inventories	1,300
Bank and cash equivalents	122
	1,831
Non-current liabilities	
Borrowings	26,000
	26,000

	As at 31 December 2023 *RMB'000* (Unaudited)
Current liabilities	
Trade and other payables	11,602
Amounts due to fellow subsidiaries	44,369
Borrowings	100,000
	155,971
Net current liabilities	**(154,140)**
Total assets	**191,279**
Total liabilities	**181,971**
Net assets	**9,308**

The total assets of the Target Company mainly comprised investment properties, representing the Property.

The total liabilities of Target Company mainly comprised (i) borrowings, representing (a) a borrowing of RMB100 million from a financial institution which is repayable with one year and secured by the Property; and (b) a bank borrowing of RMB26 million which is repayable within five years and secured by the properties owned by third-party, ultimate holding company and fellow subsidiary of the Target Company; and (ii) the amounts due to fellow subsidiaries, which are unsecured, non-interest bearing and has no fixed repayment terms.

6. Industry overview of the real estate market in the PRC

According to an article headlined "China's property sector shrinks 5.1% in 2022 – NBS" published on 18 January 2023 by Reuters, China experienced one of its weakest rates of economic growth in nearly half a century in 2022, which primarily due to a slump in the property market and the impact of pandemic controls and COVID-19 outbreaks, particularly in the second and the fourth quarters of 2022. The National Bureau of Statistics of China ("**NBS**") reported a 5.1% year-on-year decline in the property sector of China for 2022. The PRC government implemented a series of policies to address the challenges faced by homebuyers and property developers and alleviate the long-standing liquidity squeeze in the industry with an aim to expediting the completion of housing projects that had been delayed. However, despite these efforts, investment in real estate in 2022 still decreased by 10.0% as compared to 2021, marking the first decline since records began in 1999, and property sales experienced the most significant decline since 1992.

Further according to an article headlined "China's property market slide worsens despite government support" published on 17 January 2024 by Reuters, China's troubled property market experienced the most significant declines in new home prices in nearly nine years by the end of 2022, despite the PRC government's efforts to prop up the sector that was once a key driver of the world's second-largest economy. In December 2023, new home prices recorded their sharpest drop since February 2015, while property sales measured by floor area decreased by 23% as compared to the corresponding month in the previous year. At the same time, property investment by developers in December recorded the fastest year-on-year decline since at least 2000, based on Reuters' calculations using NBS data. Overall for 2023, property investment dropped by 9.6%, similar to the decline observed in 2022. The persistent downturn in the sector, which accounts for approximately a quarter of China's economy, has the potential to impede the country's broader recovery and place pressure on the PRC government to introduce additional favourable measures.

At the same time, the global economy has faced significant inflation over the past two years, leading to a rapid hike in interest rates and a strengthening of the US dollar against the renminbi. This confluence of factors has elevated the risk of debt default for certain developers, leaving debt restructuring as the only viable option for some companies.

With reference to a research publication titled "China Research 2024 – China Real Estate Outlook" released by Savills on 17 January 2024, in November 2023, Sunac China Holdings Limited ("**Sunac**"), a major property developer in the PRC and listed on the Mainboard of the Stock Exchange (stock code: 1918.hk), became the first domestic real estate developer to successfully complete its overseas debt restructuring. Its existing debt of approximately US$10 billion was replaced with a combination of new notes, mandatory convertible bonds, convertible bonds, and shares of Sunac Services Holdings Limited (stock code: 1516.hk), a listed subsidiary of Sunac. Sunac's success has established a potential model for other distressed developers to mitigate their debt crises. Companies such as China Evergrande Group (stock code: 3333.hk), Country Garden Holdings Company Limited (stock code: 2007.hk), Zhenro Properties Group Limited (stock code: 6158.hk) and Logan Group Company Limited (stock code: 3380.hk) are actively pursuing overseas debt restructuring as well. Savills emphasised that debt restructuring merely defers existing obligations rather than eliminating them. The ultimate resolution of developers' debt crises depends on improving revenues by revitalising existing projects, accelerating sales, and enhancing operational efficiency.

7. Reasons for and benefits of the Disposals

As set out in the Board Letter, the Management considered that (i) the real estate market in the PRC remains sluggish which has led to increase in provision for impairment of the Target Parking Spaces; (ii) the Target Parking Spaces had not generated any revenue and net profits for the two financial years immediately preceding the Latest Practicable Date; (iii) the path to recovery in the real estate industry in the PRC is expected to remain challenging; (iv) accelerating the disposal of Target Parking Spaces can alleviate the cash flow burden of the Group.

As discussed in the section headed ''1. Information of the Group'' above, as at 31 December 2023, the net debt of the Group amounted to approximately RMB11,664 million and the Group had a net gearing ratio of 96.4%. In particular, the current portion of borrowings amounting to approximately RMB13,450 million, while the cash and cash equivalent only amounting to approximately RMB4,600 million, as at 31 December 2023. It is conceivable that the Group may face pressure in meeting its short-term liabilities, and that the Management has been striving to enhance asset turnover by actively accelerating the disposal of the Group's assets at reasonable prices so as to improve the Group's financial position.

As advised by the Management, in light of the downturn in the PRC economy and the real estate segment in the PRC, the Group had made provisions for impairment loss in the amount of approximately RMB2,500 million for the properties under development and held for sale in FY2023, representing a significant increase of approximately 179.5% as compared to that of approximately RMB895 million for FY2022.

As further advised by the Management, the Disposal of Target Parking Spaces and the Equity Disposal were negotiated with the Dexin Services Group as a package deal. Despite this, the Disposal of Target Parking Spaces and the Equity Disposal are not inter-conditional with each other so as to provide flexibility in completing the Disposal of Target Parking Spaces and the Equity Disposal for the purpose of enhancing asset turnover as mentioned above. Based on the aggregate consideration for the Disposals in the amount of RMB301,435,000, after deducting (i) the unaudited net asset value of the rights-of-use of the Target Parking Spaces as at 31 December 2023 of approximately RMB223.3 million; (ii) the unaudited net asset value of the Target Company as at 31 December 2023 of approximately RMB9.3 million; and (iii) the estimated tax payable incurred from the Disposals of approximately RMB17.5 million, the Disposals are expected to result in an unaudited net gain of approximately RMB51.4 million to the Group.

Besides, as mentioned in the paragraph headed "4.6 Parking space leasing and sales agency services" above, upon completion of the Disposals, the Group shall receive gross proceeds amounting to RMB51,435,000. After deducting the expenses, the net proceeds shall amount to approximately RMB50.9 million, which will be applied towards the general working capital of the Group.

In view that (i) the PRC economy, in particular, the real estate segment remains to be challenging; (ii) no income had been generated by the Target Parking Spaces since their completion of construction or acquisition (as the case may be) and substantial amount of provisions for impairment loss had been made for the Target Parking Spaces; (iii) the Target Company had recorded net loss over the years and had a net current liability position as shown in the section headed "5.4 Financial position of the Target Company" above, we concur with the views of the Management that the Disposals represent a good opportunity for the Group to realise the asset value of the Target Parking Spaces and the Target Company and re-deploy its resources to the development of the Group's principal business. The Disposals as a whole would also generate cash inflow for the Group and would record a gain on disposal as discussed

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above, which would overall enhance the financial position of the Group. Accordingly, we are of the view that the entering into of the Parking Space Agreement and the Equity Transfer Agreement is conducted in the ordinary and usual course of business of the Group, on normal commercial terms and is fair and reasonable, and the Disposals are in the interests of the Company and the Shareholders as a whole.

8. Principal terms of the Parking Space Agreements and the Equity Transfer Agreement

8.1 The Parking Space Agreements

Set out below is a summary of the principal terms of the Parking Space Agreements. Details of each of the Parking Space Agreements are set out in the Board Letter.

8.1.1 Subject Matter

Each of Vendor A, Vendor B, Vendor C and Vendor D has conditionally agreed to sell, and Purchaser A has conditionally agreed to purchase, the rights-of-use of the Target Asset A, the Target Asset B, the Target Asset C and the Target Asset D, respectively.

8.1.2 Consideration

The consideration for the Target Asset A, the Target Asset B, the Target Asset C and the Target Asset D is RMB52,825,000, RMB21,450,000, RMB17,160,000 and RMB120,000,000, respectively. The aggregate consideration for the Target Parking Spaces amounts to RMB211,435,000.

8.1.3 Conditions precedent

The completion of each of the Parking Space Agreements is conditional upon the fulfilment or waiver (as the case may be) of the following conditions:

(i) the Company having issued the relevant circular in relation to the Disposal of Target Parking Spaces and the transactions contemplated thereunder in accordance with the Listing Rules; and

(ii) the Company having obtained all necessary approvals for the Disposal of Target Parking Spaces (including but not limited to the approval by the Independent Shareholders).

Each of the Parking Space Agreements is not inter-conditional to each other.

8.1.4 Completion

The completion of each of the Parking Space Agreements shall take place on a date to be agreed by the respective Vendors and Purchaser A after all the conditions precedent have been satisfied.

8.2 The Equity Transfer Agreement

Set out below is a summary of the principal terms of the Equity Transfer Agreement. Details of the Equity Transfer Agreement are set out in the Board Letter.

8.2.1 Subject Matter

Dexin Movie City has conditionally agreed to sell, and Purchaser B has conditionally agreed to acquire, the 100% equity interest in the Target Company upon the terms and conditions of the Equity Transfer Agreement.

8.2.2 Consideration

The consideration for the Equity Disposal is RMB90,000,000.

8.2.3 Conditions precedent

The Equity Disposal Completion is conditional upon the fulfilment or waiver (as the case may be) of the following conditions:

(i) all representations, warranties and undertakings made by Dexin Movie City under the Equity Transfer Agreement remaining true, accurate and not misleading in all material aspects;

(ii) there being no laws, regulations or rules which may render the Equity Transfer Agreement illegal or impractical, none of the parties to the Equity Transfer Agreement facing any pending or potential claims which would restrict the performance of the Equity Transfer Agreement or have a material adverse effect on the legality or otherwise of the Equity Disposal;

(iii) all necessary and required consents and approvals regarding the transactions contemplated under the Equity Transfer Agreement and the completion of such transactions having been obtained and completed, including but not limited to the consents from the parties' respective shareholders (if applicable) and their respective board of directors;

(iv) the Equity Transfer Agreement having been duly signed and becoming effective;

(v) no material adverse effect having resulted or being reasonably likely to result from the Equity Disposal;

(vi) the equity interest in the Target Company shall be free from liabilities and/or contingent liabilities;

(vii) Purchaser B being satisfied with the results of its business, legal and financial due diligence review on the Target Company and the assets of the Target Company;

(viii) the Company having issued the relevant circular in relation to the Equity Disposal and the transactions contemplated thereunder in accordance with the Listing Rules;

(ix) the Company having obtained all necessary approvals for the Equity Disposal (including but not limited to the approval by the Independent Shareholders);

(x) the legal title of the Property having been registered under the Dexin Services Group; and

(xi) the Equity Transfer Agreement and the transactions contemplated thereunder have been completed in accordance with the articles of association of Purchaser B and Dexin Movie City, the Listing Rules and any relevant laws and regulations.

8.2.4 Completion

Equity Disposal Completion shall take place on a date to be agreed by Dexin Movie City and Purchaser B and after all the conditions precedent have been satisfied.

9. Assessment of the consideration for the Disposals

9.1 Basis of the considerations

9.1.1 Disposal of Target Parking Spaces

As set out in the Board Letter, the considerations were arrived at after arm's length negotiations between the respective Vendors and Purchaser A under each of the Parking Space Agreements after taking into consideration of factors including but not limited to (i) market price of the Target Parking Spaces; (ii) the unaudited net asset value of the Target Parking Spaces; and (iii) discussion with the Valuer.

9.1.2 Equity Disposal

As set out in the Board Letter, the consideration for the Equity Disposal was arrived at after arm's length negotiations between Dexin Movie City and Purchaser B after taking into consideration of factors including but not limited to (i) the net current liabilities of the Target Company of approximately RMB168,056,000 as at 31 December 2022; and (ii) the appraisal value of the Property of RMB260,000,000 as set out in the valuation report prepared by the Valuer as at 31 December 2023.

9.2 The Parking Space Valuation and the Property Valuation

Reference is made to the Valuation Report contained in the Appendix II to the Circular. In assessing the fairness and reasonableness of the considerations for the Disposals, we have reviewed the Valuation Report and discussed with the Valuer regarding the respective Parking Space Valuation and Property Valuation as discussed below.

9.2.1 Qualifications of the Valuer

We have reviewed the terms of engagement of the Valuer and consider that its scope of work is typical of valuation carried out by independent valuers. We are not aware of any limitation on the scope of work which might adversely affect the degree of assurance given by the Valuation Report.

We have interviewed the Valuer and enquired into the qualification, experience and independence of the Valuer in relation to preparation of the Valuation Report. We understood that the valuation team is led by Ms. Jennie C.W. Chang, who is a Senior Associate Director of the Valuer and the signor of the Valuation Report. Ms. Chang is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors and a Registered Professional Surveyor (General Practice), who has over 16 years of experience in valuation of properties in the PRC and has sufficient knowledge of the relevant market, the skills and understanding to handle the Valuation competently.

The Valuer has also confirmed that it is independent from the Company, the Vendors, Dexin Movie City, Purchaser A, Purchaser B and their respective connected persons or associates. Based on the above, we are satisfied with the expertise and independence of the Valuer.

9.2.2 Valuation bases and assumptions

As set out in the Valuation Report, the Valuation was carried out in accordance with the HKIS Valuation Standards 2020 of The Hong Kong Institute of Surveyors ("**HKIS**"), which incorporates the International Valuation Standards, and (where applicable) the relevant HKIS or jurisdictional supplement.

In general, the Valuer has made certain assumptions including, (i) the Group has good legal titles to the properties or has free and uninterrupted rights to occupy, use, transfer, lease or assign the properties for the whole of the respective unexpired terms as granted; and (ii) the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values. With respect to the Parking Space Valuation, the Valuer has relied on the Legal Opinion and prepared the Parking Space Valuation on the basis that the rights-of-use of the Target Parking Spaces are freely transferrable by the Vendors and that the transferable land use rights in respect of the Target Parking Spaces for their respective specific terms at nominal annual land use fees have been granted and that any land grant premium payable has already been fully paid.

We have reviewed the Valuation Report and the Legal Opinion, and discussed with the Valuer regarding the bases and assumptions adopted in the Valuation Report, we understood that such valuation bases and assumptions are adopted in line with general market practice. During the course of the review and discussion with the Valuer, we have not identified any major factors that would lead us to cast doubt on the fairness and reasonableness of the valuation bases and assumptions adopted in the Valuation Report.

9.2.3 Methodology of the Parking Space Valuation

We have discussed with the Valuer on the methodology adopted in the Parking Space Valuation, and understood that there are three generally accepted valuation approaches, namely the direct comparison approach, the income approach and the cost approach. As advised by the Valuer, as the Target Parking Spaces lacked valid title documents at the Valuation Date, the market value is not applicable for the Target Parking Spaces, rendering the direct comparison approach is not applicable. Besides, the cost approach is usually adopted for property with special nature or when there is a lack of sales or rental transactions for similar properties in the vicinity. In this case, the cost approach was considered not appropriate for the Parking Spaces Valuation as there are comparable rental transactions available in the market for parking spaces. Under the circumstances, the Valuer adopted the income capitalisation method under the income approach by applying a reversionary yield (rate of return or discount rate) to an estimated rental income, to derive the investment value for each of the Target Asset A, the Target Asset B, the Target Asset C and the Target Asset D, as a reference value for the

Company. As confirmed by the Valuer, the income approach by the income capitalisation method is commonly adopted methodology for valuation of similar type of properties without valid title documents.

Having considered the basis of selection of the methodology as explained by the Valuer, we are of the view that the adoption of income capitalisation method in the Parking Space Valuation is reasonable.

As further advised by the Valuer, the income capitalisation method is undertaken by capitalising the estimated rental income to be generated from the Target Parking Spaces for the residual term of its land use rights. As the Target Parking Spaces had not been leased out since their completion of construction or acquisition, the Valuer made reference to the monthly unit rent of comparable parking spaces (the "**Comparable Parking Spaces**") with appropriate adjustments including but not limited to size, property type, location, floor levels and age (the "**Adjustment Factors**") to arrive at the estimated rental income of the Target Parking Spaces. We have reviewed and discussed with the Valuer regarding the selection on the Comparable Parking Spaces and the adjustments made, and we understood that the Comparable Parking Spaces are recent market quotations of rents of car park properties similar to the Target Parking Spaces in terms of the Adjustment Factors. As advised by the Valuer, if the Target Parking Spaces are more favourable than the Comparable Parking Spaces in terms of each of the Adjustment Factors, an upward adjustment would be made. Alternatively, if the Target Parking Spaces is less favourable than the Comparable Parking Spaces in terms of each of the Adjustment Factors, a downward adjustment would be made. The average adjusted monthly unit rent of the Comparable Parking Spaces were adopted as the estimated monthly rental income to derive the Target Parking Space Valuation. As discussed with the Valuer, we understood that the adjustments made for Parking Space Valuation were with reference to the market practice and the Valuer's experience in the valuation of other similar properties and are appropriate in deriving at the Parking Space Valuation.

As advised by the Valuer, we understood that a reversionary yield ranging from 2.50% to 4% was applied in calculating the present value of the estimated rental income (i.e. investment value) of each of the Target Asset A, the Target Asset B, the Target Asset C and the Target Asset D, and such reversionary yields were determined based on their research and/or analysis of the property market in the PRC, which was in line with usual market practice.

During the course of our discussion with the Valuer, we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the valuation methodology, bases, assumptions and adjustments adopted in arriving at the Parking Space Valuation. Accordingly, we agreed that the Parking Spaces Valuation is appropriate and sufficient as a reference value for assessing the consideration for the Disposal of Target Parking Spaces.

9.2.4 Methodology of the Property Valuation

We have also discussed the methodology adopted in the Property Valuation with the Valuer, and understood that there are three generally accepted valuation approaches, namely the direct comparison approach, the income approach and the cost approach, for the Property Valuation. With respect to the Property Valuation, the Valuer has adopted an income approach to arrive at the market value of the Property, given that (i) the direct comparison approach was considered not appropriate due to a lack of comparable sales transactions of hotels for comparison; and (ii) the cost approach was also considered not appropriate due to its inability to adequately reflect the income generation potential of the Property. The Valuer adopted the discounted cash flow method (the "**DCF method**") under the income approach by discounting the future net cash flow that would be generated by the operation of the Property to its present value by using an appropriate discount rate that reflect the rate of return required by a typical investor for an investment of this type. As confirmed by the Valuer, the income approach by the DCF method is an appropriate and commonly adopted methodology for the valuation of income-generating properties, such as hotels. Having considered the above, we are of the view that the adoption of income approach for the Property Valuation is reasonable.

As advised by the Valuer, we understood that the Valuer has undertaken the DCF method on an annual basis over a five-year investment horizon, where periodic cash flow is estimated as gross income less operating expenses and other outgoings. The series of periodic net operating income, along with an estimate of the reversionary or terminal value anticipated at the end of the projection period, is then discounted at the discount rate of 8%. As confirmed by the Valuer, the discount rate of 8% is adopted based on terminal capitalisation rate plus terminal growth rate, which is in line with usual market practice.

The Valuer has assumed that the Property will be sold at the commencement of the sixth year and a terminal value using a terminal capitalisation rate of 5% has been adopted. We understood from the Valuer that based on the prevailing property market in the PRC, the adoption of a five-year period is a common practice and a reasonable holding period when assessing an income generating property such as a hotel, which allows (i) for the stabilisation of income over such a holding period; and (ii) for an investor to make an assessment of the long-term return. The Valuer further advised that the terminal value and the terminal capitalisation rate is adopted based on comparable cases of transferring similar hotel properties and is in line with usual market practice.

We have further discussed with the Valuer and understood that the expected cashflows for the Property were calculated based on (i) the average daily room rate and occupancy rate, which were based on the historical operating data of the Property; (ii) the stabilised occupancy rate, which was referenced from comparable five-star hotels in tier 2 or 3 cities in the PRC as shown in the 2020 China Hotel Industry Study (Financial Year 2019) issued by China Travel and Tourism Press (the "**Hotel Industry Study**"); (iii) the growth rates of the average daily room rate and the occupancy rate, which were primarily reflecting the inflation rate; and (iv) the cost of goods sold and other operating expenses, which were primarily based on their respective cost-to-revenue ratio from the historical financial information of the Property as well as referenced from the Hotel Industry Study.

We have enquired with the Valuer on the appropriateness of making reference to the selected comparable hotels and the Hotel Industry Study instead of relying solely on the historical financial information of the Property. We understood that the references were made after taking into account that (i) the Property is a five-star hotel located in Huzhou, a third-tier city in the PRC; (ii) the Hotel Industry Study represents the most recent industry data unaffected by the COVID-19 pandemic; and (iii) the historical occupancy rates of the Property were significantly impacted by the COVID-19 pandemic, which might not accurately reflect the Property's performance under normal circumstances. As such, the Valuer was of the view, and we concurred, that the comparable hotels and the Hotel Industry Study are appropriate reference for the purpose of the Property Valuation.

We have obtained and reviewed the historical operating data of the Property, the detailed calculation of the discounted cashflow model and the Hotel Industry Study. During the course of our discussion with the Valuer, we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the valuation methodology, bases and assumptions adopted in arriving at the Property Valuation. Accordingly, we agreed that the Property Valuation is appropriate and sufficient as a reference value for assessing the consideration for the Equity Disposal.

9.3 *Comparison between the Valuation and the consideration for the Disposals*

9.3.1 With respect to the Disposal of Target Parking Spaces

Set out below is the comparison of the consideration of the respective Target Parking Spaces with its corresponding Parking Space Valuation, being the respective investment value as set out in the Valuation Report:

	Consideration	Investment value
	RMB'000	*RMB'000*
Target Asset A	52,825	52,600
Target Asset B	21,450	21,700
Target Asset C	17,160	17,100
Target Asset D	120,000	118,000
Total	**211,435**	**209,400**

It is noted that the aggregate consideration for the Disposal of Target Parking Spaces of RMB211,435,000 represents a premium of approximately 1.0% or RMB2.0 million over the Parking Space Valuation as appraised by the Valuer.

9.3.2 With respect to the Equity Disposal

Set out below is the illustrative computations of the reassessed net asset value (the "**Adjusted NAV**") of the Target Company having adjusted for the Property Valuation:

The Target Company	**Approximate**
	RMB'000
Unaudited net asset value of as at 31 December 2023	9,308
Less: Carrying amount of the Property as at 31 December 2023	(179,756)
Add: Market value of the Property as appraised by the Valuer	260,000
Adjusted NAV of the Target Company	**89,552**

It is noted that the consideration for the Equity Disposal of RMB90,000,000 represents a premium of approximately 0.5% over the Adjusted NAV of the Target Company.

9.4 Our view

As discussed above, we are of the view that (i) the Valuer is independent, qualified and experienced with sufficient knowledge, skills and understanding necessary to appraise the Target Parking Spaces and the Property competently; and (ii) the bases, assumptions and methodologies applied in the Parking Spaces Valuation and the Property Valuation are fair and reasonable.

Having considered the above, we concur with the view of the Management that the consideration for the Disposals are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

10. Financial effect of the Disposals

10.1 Assets and liabilities

As set out in the Board Letter, upon completion of the Disposals, the audited consolidated total assets of the Group would decrease by approximately RMB374,424,000 and the audited consolidated total liabilities of the Group would decrease by approximately RMB142,487,000.

10.2 Earnings

Upon Target Parking Spaces Disposal Completion, the Group expects to recognise an unaudited loss of approximately RMB29,276,000, being the difference between the aggregate consideration for the Disposal of Target Parking Spaces after deduction of tax and the aforesaid net asset value of the rights-of-use of the Target Parking Spaces as at 31 December 2023. While upon Equity Disposal Completion, the Group expects to recognise an unaudited gain of approximately RMB80,692,000, being the difference between the consideration for the Equity Disposal and the unaudited net asset value of the Target Company as at 31 December 2023. The aggregate effect of the Disposals would be an unaudited gain on disposal of approximately RMB51,416,000.

The actual amounts of the consolidated assets and liabilities of the Group upon completion of the Disposals and the gain or loss as a result of the Disposal to be recorded by the Group are subject to the audit to be performed by the Company's auditors.

Upon Equity Disposal Completion, the Company will no longer have any interest in the Target Company, and the financial results of the Target Company will no longer be consolidated with the results of the Group.

IV. OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, in particular that:

(i) the Disposals align with the Group's ordinary and usual course of business and would facilitate realisation of the asset value of the Target Parking Spaces and the Target Company and re-deployment of resources to the development of the Group's principal business amidst the challenging market environment;

(ii) in view of the high gearing of the Group and the cashflow pressure considering the cash level and the short-term liabilities, the net proceeds from the Disposals of approximately RMB50.9 million would strengthen the working capital of the Group and enhance its financial position;

(iii) the aggregate consideration for the Disposal of Target Parking Spaces of RMB211,435,000 represents a premium of approximately 1.0% over the Parking Space Valuation of RMB209,400,000;

(iv) the consideration for the Equity Disposal of RMB90,000,000 represents a premium of approximately 0.5% over the Adjusted NAV of the Target Company; and

(v) the Group is expected to record an unaudited gain on disposal of approximately RMB51.4 million upon completion of the Disposals,

we consider that (i) the Parking Space Agreements and the Equity Transfer Agreement are entered into in the ordinary and usual course of business of the Group; (ii) the terms of the Parking Space Agreements and the Equity Transfer Agreement are on normal commercial terms and are fair and reasonable; and (iii) the Disposals are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Parking Space Agreements and the Equity Transfer Agreement and the respective transactions contemplated thereunder.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED

Ng Ka Po
Managing Director Corporate Finance

Mr. Ng is a responsible officer of Optima Capital Limited and a licensed person registered with the Securities and Futures Commission to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. Mr. Ng has participated in the provision of independent financial advisory services for various transactions involving companies listed on the Stock Exchange.