17 June 2024

To the Independent Board Committee and
the Independent Shareholders of
China Star Entertainment Limited

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF RIGHTS

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the independent board committee (the "**Independent Board Committee**") and the independent shareholders (the "**Independent Shareholders**") of China Star Entertainment Limited (the "**Company**") regarding the acquisition (the "**Acquisition**") of rights in relation to the shareholding of Reform Base Holdings Limited ("**Reform Base**") in Over Profit International Limited ("**Over Profit**"). The details of the Acquisition are disclosed in the announcement of the Company dated 20 February 2024 (the "**Announcement**") and in the letter from the Board (the "**Letter from the Board**") set out on pages 6 to 15 of the circular of the Company dated 17 June 2024 (the "**Circular**") to its shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 20 February 2024 (after trading hours), Reform Base, Ms. Chen and Modern Vision entered into the Agreement pursuant to which Reform Base has agreed to transfer the Rights to Modern Vision at the Consideration of HK$500 million (subject to the Adjustment).

Pursuant to the Agreement, Reform Base has also granted Modern Vision the option to require Reform Base, anytime after Completion, to sell all its shareholding interest in Over Profit to Modern Vision for HK$1.00 (i.e. the Call Option). If Modern Vision exercises its right with respect to the Call Option, it will comply with all applicable laws and regulations, including those in Macau, if necessary, with respect to the acquisition of such shares. As a result of the grant of the Call Option by Reform Base to Modern Vision, the Reform Base Call Option will be terminated on Completion.

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As the highest applicable percentage ratio regarding the transaction contemplated by the Agreement exceeds 5% but is lower than 25%, the transaction contemplated under the Agreement constitutes a discloseable transaction of the Company, which is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As Reform Base is wholly-owned by Ms. Chen, a Director and a Controlling Shareholder, the entering into of the Agreement and the transaction contemplated thereunder also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the entering into of the Agreement and the transaction contemplated thereunder is subject to, among other things, the approval of the Independent Shareholders at the SGM.

The SGM will be held for the Independent Shareholders to consider and, if thought fit, to approve the Acquisition. As at the Latest Practicable Date, Ms. Chen and her associates were beneficially interested in an aggregate of 1,640,375,595 Shares, representing approximately 67.56% of the total number of Shares in issue, and shall abstain from voting at the SGM in respect of the resolution to approve the Agreement and the transaction contemplated thereunder. Save for aforementioned, no other Shareholders are materially interested in the Acquisition and are required to abstain from voting at the SGM on the resolution approving the Agreement and the transaction contemplated thereunder.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Hung Cho Sing, Mr. Ho Wai Chi, Paul and Mr. Tai Kwok Leung, Alexander, has been established to advise the Independent Shareholders as to whether the terms of the Agreement and the transaction contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and as to voting in respect thereof at the SGM. We, Astrum Capital Management Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

INDEPENDENCE DECLARATION

As at the Latest Practicable Date, we were not aware of any relationships or interests between Astrum Capital Management Limited, the Company, Modern Vision, Ms. Chen, Reform Base, Over Profit, Splendid and/or any of their respective substantial shareholders, directors or chief executive, or any of their respective associates. In the last two years, save for the appointment as the independent financial adviser of the Company in respect of further extension of the final repayment date of the Loan (details of which were set out in the circular of the Company dated 26 August 2022), there was no other engagement between the Group and Astrum Capital Management Limited. Apart from the normal advisory fees payable to us for the relevant engagement in relation to the Acquisition, no other arrangement exists whereby we will receive any fees and/or benefits from the Group. Accordingly, Astrum Capital Management Limited is independent as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Acquisition.

BASIS OF OUR OPINION

In formulating our opinion and recommendations, we have reviewed, inter alia, the Announcement, the Circular, the Agreement, the Loan Agreement, the annual report of the Company for the two years ended 31 December 2022 and 31 December 2023 (the "**2022 Annual Report**" and the "**2023 Annual Report**", respectively). We have also reviewed certain information provided by the management of the Company (the "**Management**") relating to the operations and prospects of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussion with the Management regarding the Acquisition, the businesses and future prospects of the Group. In addition, we have reviewed the valuation report (the "**JLL Valuation Report**") prepared by an independent professional valuer, namely Jones Lang LaSalle Limited ("**JLL**"), in respect of the valuation of the gross development value ("**GDV**") of the Development Project (as defined below) as at 31 December 2023 (the "**JLL Valuation**"), including the methodology of, and the bases and assumptions adopted for, the JLL Valuation. Based on the foregoing steps, we consider that we have taken all the reasonable endeavors, which are applicable to the Acquisition, as referred to and required under Rule 13.80(2)(b) of the Listing Rules (including its annex notes) in forming our opinion. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion.

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Company in the Announcement and the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Announcement and the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters not contained in the Announcement and the Circular, the omission of which would make any statement herein or in the Announcement and the Circular misleading. We consider that we have performed all necessary steps to enable us to reach an informed view regarding the terms of, and the reasons for entering into, the Agreement and to justify our reliance on the information provided so as to provide a reasonable basis of opinion. We have no reasons to suspect that any material information has been withheld by the Directors or the Management, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date. This letter is issued to provide the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Acquisition. Except for the inclusion in the Circular, this letter shall not be quoted or referred to, in whole or in part, nor shall it be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the entering into of the Agreement, we have taken into account the following principal factors and reasons:

I. Information of the Group

A. Principal business of the Group

According to the Letter from the Board, the Company is an investment holding company and the Group is principally engaged in (i) investment, production, distribution and licensing of films and television drama series and provision of artist management services (the "**Film Business**"); (ii) properties development and investment and building management services (the "**Property Business**"); and (iii) development, promotion and operation in multi-channel e-commerce platform (the "**E-commerce Business**").

B. Financial information of the Group

Set forth below are the audited consolidated financial information of the Group for the three years ended 31 December 2021, 31 December 2022 and 31 December 2023 ("**FY2021**", "**FY2022**" and "**FY2023**", respectively) as extracted from the 2022 Annual Report and the 2023 Annual Report:

Table 1: Financial information of the Group

	FY2021 *HK$'000* *(audited)*	**FY2022** *HK$'000* *(audited)*	**FY2023** *HK$'000* *(audited)*
Revenue from continuing operations	3,717	3,879	206,168
– Film Business	3,717	3,879	4,435
– Property Business	–	–	148,230
– E-commerce Business	–	–	53,503
(Loss) for the year			
– from continuing operations	(148,649)	(94,120)	(289,508)
– from discontinued operations *(Note)*	(7,866)	–	–
	(156,515)	(94,120)	(289,508)
(Loss) for the year attributable to owners of the Company			
– from continuing operations	**(148,630)**	**(94,101)**	**(289,477)**
– from discontinued operations *(Note)*	**(7,866)**	**–**	**–**
	(156,496)	**(94,101)**	**(289,477)**

	As at 31 December		
	2021	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(audited)*
Non-current assets	214,382	694,674	271,172
Current assets	5,071,527	4,553,183	4,913,424
Current (liabilities)	(2,221,933)	(743,399)	(1,080,061)
Net current assets	2,849,594	3,809,784	3,833,363
Non-current (liabilities)	–	(1,554,706)	(1,444,052)
Equity attributable to the owners of the Company	**3,064,638**	**2,950,433**	**2,661,142**

Sources: *the 2022 Annual Report and the 2023 Annual Report*

Note: *According to the 2022 Annual Report, the Group ceased its restaurant operations (the "**Restaurant Business**") in September 2021 due to unsatisfactory performance. Accordingly, the results of the Restaurant Business have been presented as discontinued operations in the consolidated financial statements for FY2021.*

(i) For the year ended 31 December 2022 (i.e. FY2022)

In FY2022, revenue from the continuing operations of the Group (which was solely derived from the Film Business) amounted to approximately HK$3.9 million in FY2022, representing a year-on-year increase of approximately 4.4% as compared to approximately HK$3.7 million in FY2021. During FY2022, the Group concentrated on pre-production stage of film production (such as preparation of story board) and did not start any new film production. Revenue recorded in FY2022 was mainly derived from distribution of films in film library, sub-distribution fees and artist management service fees.

According to the 2022 Annual Report, the Group held two property projects in Macau (i.e. the Property and a residential and commercial real estate project (namely, Tiffany House)) as at 31 December 2022. During FY2022, the development of the Property was still subject to the approval to be granted by the Macau Government while the construction of Tiffany House was completed and the sales of Tiffany House was launched in October 2022. However, the sales of Tiffany House slowed down due to the spread of novel coronavirus ("**COVID-19**") in China and Macau in November and December 2022. The sale of property, in general, is required to take around three months to complete, and thus no sales of residential unit of Tiffany House was completed during FY2022. Therefore, no revenue was recorded from the Property Business in FY2022 (FY2021: nil).

In FY2022, the Group recorded loss attributable to owners of the Company of approximately HK$94.1 million, representing a significant decrease of approximately 39.9% as compared to approximately HK$156.5 million in FY2021. Such decrease was mainly attributable to (i) the substantial decrease in loss arising on change in fair value of financial assets at fair value through profit or loss of approximately HK$127.2 million; (ii) the absence of loss derived from the Restaurant Business, which was terminated in September 2021 (FY2021: approximately HK$7.9 million); and (iii) the decrease in other operating expenses of approximately HK$4.4 million, which was partially offset by (i) the decrease in loan interest income of approximately HK$40.0 million; (ii) the absence of gain recognised in disposal of property, plant and equipment (FY2021: approximately HK$13.4 million); (iii) the increase in administrative expenses of approximately HK$13.1 million; and (iv) the increase in marketing and distribution expenses of approximately HK$11.0 million.

As at 31 December 2022, the Group's total assets and total liabilities amounted to approximately HK$5,247.9 million and approximately HK$2,298.1 million, respectively. Equity attributable to owners of the Company decreased from approximately HK$3,064.6 million as at 31 December 2021 to approximately HK$2,950.4 million as at 31 December 2022. The decrease in equity attributable to owners of the Company was mainly due to (i) loss attributable to owners of the Company of approximately HK$94.1 million recorded in FY2022; and (ii) repurchase and cancellation of Shares of approximately HK$20.0 million in FY2022.

(ii) For the year ended 31 December 2023 (i.e. FY2023)

According to the 2023 Annual Report, the Group has launched the sale of Tiffany House in October 2022 and completed its first sale of the residential unit in January 2023. In FY2023, the Group also tapped into the E-commerce Business by establishing a wholly-owned subsidiary, namely 杭州英明向太多媒體有限公司 (Hangzhou Yingming Xiangtai Media Co., Ltd.*, "**YMXT**") in the PRC. The principal activities of YMXT are multi-media and entertainment business operations (including development, promotion and operation of livestreaming e-commerce in multi-channel network e-commerce platform).

In FY2023, the Group recorded total revenue of approximately HK$206.2 million, representing a significant increase of approximately 52.1 times as compared to approximately HK$3.9 million in FY2022. Such increase was mainly attributable to (i) the recognition of revenue generated from the Property Business of approximately HK$148.2 million (FY2022: nil); and (ii) the recognition of revenue generated from the newly-established E-commerce Business of approximately HK$53.5 million (FY2022: nil).

In FY2023, the Group recorded loss attributable to owners of the Company of approximately HK$289.5 million, representing an increase of approximately 2.1 times as compared to approximately HK$94.1 million in FY2022. Such deterioration was mainly attributable to (i) the increase in finance costs of approximately HK$140.6 million; (ii) the increase in marketing, selling and distribution expenses of approximately HK$68.0 million; (iii) the increase in other operating expenses of approximately HK$33.2 million; (iv) the decrease in loan interest income of approximately HK$10.9 million; and (v) the increase in administrative expenses of approximately HK$7.2 million, which was partially offset by the increase in gross profit of approximately HK$65.9 million.

As at 31 December 2023, the Group's total assets and total liabilities amounted to approximately HK$5,184.6 million and approximately HK$2,524.1 million, respectively. Equity attributable to owners of the Company decreased from approximately HK$2,950.4 million as at 31 December 2022 to approximately HK$2,661.1 million as at 31 December 2023. The decrease in equity attributable to owners of the Company was mainly due to the loss attributable to owners of the Company of approximately HK$289.5 million recorded in FY2023.

II. Information on the Property and Chronology of Development Approval

According to the Letter from the Board, the Property is a lot of land granted by the land lease concession (the "**Land Grant**") to Splendid under the Dispatch No. 69/2001 of Secretary for Transport and Public Works of Macau published in the Macau Government Gazette No. 34 dated 22 August 2001, with the area of 4,669 square meters, named "Lote 7 da Zona C do Plano de Urbanização da Zona da Baía da Praia Grande", located at Avenida Doutor Stanley Ho S/N and is registered with the Macau Land and Real Estate Registry under No. 23070.

According to the Land Grant, the Property is leased to Splendid for a term of 25 years commencing on 22 August 2001, i.e. until 21 August 2026, and subject to the completion of the development, shall be automatically renewable for successive periods of 10 years until 19 December 2049 in accordance with the legislation in force in Macau. Under an initial proposal to the Land Grant, the Property was to be developed into a building under strata title, for residential, commercial and parking, with the gross floor areas (in square meters): (i) residential 25,832; (ii) commercial 215; and (iii) parking 3,930. The development of the Property should have been completed within a term of 60 months commencing on 22 August 2001, i.e. until 21 August 2006 (the "**Development Period**"). Due to the pending of the finalization by the Macau Government of the master plan for the development of the Nam Van District, of which the Property comprises a portion, the Land and Urban Construction Bureau of Macau ("**DSSCU**", formerly known as the Land, Public Works and Transport Bureau of Macau (DSSOPT)) had not granted a permit for the development of the Property. In September 2006, Splendid received a proposed draft contract of amendment to the Land Grant with the gross floor areas (in square meters): (i) residential 59,160; (ii) commercial 1,700; and (iii) private parking 12,966; (iv) public parking 9,821; (v) free area with equipment 428; and (vi) free area without equipment 2,308. In June 2009, Splendid received a letter from DSSCU that informing it that the proposed draft contract of amendment to the Land Grant was rejected. On 15 September 2016, according to the Urban Conditions Plan (the "**UCP**") issued by DSSCU, Splendid was informed that the maximum allowed height of the building to be built on the Property is 34.5 meters above sea level with a maximum utilization rate of 5.58 (parking not included). As a result, a new development plan was submitted to the DSSCU for approval in December 2017. Furthermore, an application was made in August 2019 for an extension to the Development Period. Following further negotiations with the DSSCU, a further revised development plan was submitted to the DSSCU in September 2019.

Between May and July 2023, a new UCP was issued by DSSCU with a maximum allowed height of the building to be built on the Property at 46.7 meters above sea level and the approval for the Development Period was extended to 21 August 2026. In around July 2023, a new revised development plan was submitted to the DSSCU for approval. The development plan submitted to the DSSCU for approval indicated that the Property will be developed into a thirteen storey building and one basement and will have a gross floor area (in square meters): (i) residential 25,832; (ii) commercial 215; and (iii) parking 3,930, which is the same as the initial Land Grant. It will provide 345 residential units, a commercial unit, and 147 carparks and 29 motorcycle parking spaces at the underground level (the "**Development Project**"). On 5 October 2023, the development plan was conditionally approved by DSSCU and the construction permit for the foundations and retaining works of the Property was issued on 5 December 2023 with construction commencing on 14 December 2023.

III. Background of, reasons for and benefits of the entering into of the Agreement

According to the Letter from the Board, the Company is an investment holding company and the Group is principally engaged in (i) investment, production, distribution and licensing of films and television drama series and provision of artist management services (i.e. the Film Business); (ii) properties development and investment and building management services (i.e. the Property Business); and (iii) development, promotion and operation in multi-channel network e-commerce platform (i.e. the E-commerce Business).

As mentioned in the 2017 Circular, on 29 November 2016, Best Combo (a wholly-owned subsidiary of the Company) as lender entered into the Loan Agreement (as supplemented by a deed of variation dated 5 December 2016) with Ms. Chen as borrower, pursuant to which Best Combo has agreed to grant to Ms. Chen a term loan in the principal amount of HK$500 million (i.e. the Loan), subject to adjustment, with the final repayment date falling on the expiry of 60 months from the drawdown date of the Loan (the "**Drawdown Date**"), being 5 April 2022. Furthermore, pursuant to the Loan Agreement, Ms. Chen has agreed to grant the Reform Base Call Option to Best Combo which allows Best Combo to require Ms. Chen to sell the Call Option Shares to it at a price equal to the principal amount of the Loan (subject to adjustment, the "**Original Call Option Price**") at any time within the date falling on the expiry of 60 months from the Drawdown Date. In the event that Best Combo exercises the Reform Base Call Option to acquire the Call Option Shares, and on the basis that the Loan has been drawn down by Ms. Chen, Best Combo shall net-off the Original Call Option Price payable to Ms. Chen from the outstanding principal amount of the Loan. The transactions contemplated under the Loan Agreement were approved by the then independent Shareholders at the special general meeting of the Company held on 31 March 2017, and the Loan in an amount of HK$500 million has been drawn down by Ms. Chen on 6 April 2017 (i.e. the Drawdown Date).

In view of the facts that (i) the original final repayment date of the Loan and the original exercisable period of the Reform Base Call Option were due to expire; and (ii) the Company was still in discussions with the DSSCU regarding the future development of the Property and no approval has been obtained under the Land Grant, on 28 January 2022 and 11 February 2022 (after trading hours), Best Combo and Ms. Chen entered into the second deed of variation and the side letter, pursuant to which Best Combo (as lender) and Ms. Chen (as borrower) have agreed to (i) conditional upon the Company having obtained approval from the then independent Shareholders, extend the final repayment date of the Loan to the date falling on the expiry of 69 months from the Drawdown Date, i.e. 5 January 2023; and (ii) extend the exercisable period of the Reform Base Call Option to any time within the date falling on the expiry of 69 months from the Drawdown Date, i.e. 5 January 2023.

Nevertheless, due to the outbreak of COVID-19 in Macau in early 2020 and the corresponding social distancing and preventative measures in the city, it was unclear as to when the negotiation between the Company and DSSCU regarding the future development of the Property can be concluded. In light of the above, on 24 June 2022 (after trading hours), Best Combo and Ms. Chen entered into the third deed of variation (the "**Third Deed of Variation**"), pursuant to which Best Combo and Ms. Chen have agreed to (i) conditional upon the Company having obtained approval from the independent Shareholders, further extend the final repayment date of the Loan to the date falling on the expiry of 81 months from the Drawdown Date, i.e. 5 January 2024; and (ii) extend the exercisable period of the Reform Base Call Option to any time within the date falling on the expiry of 81 months from the Drawdown Date, i.e. 5 January 2024. The transactions contemplated under the Third Deed of Variation were approved by the then independent Shareholders at the special general meeting of the Company held on 14 September 2022.

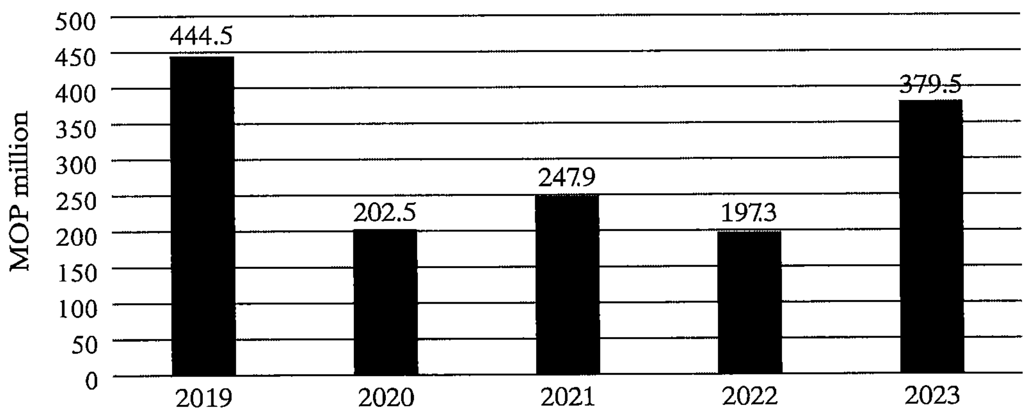
At the time of the entering into of the Loan Agreement, it was the intention of the Company to exercise the Reform Base Call Option after the approval of the gross construction floor areas of the Property is obtained from DSSCU. Such relevant development plan was eventually approved by DSSCU on 5 October 2023 as mentioned in the section headed "II. Information on the Property and Chronology of Development Approval" above. As advised by the Management, the Company's intention to acquire further interest in Over Profit by way of exercising the Reform Base Call Option (which will be substituted by the Call Option upon Completion pursuant to the Agreement) remains unchanged. However, according to the legal advice obtained by the Company from its Macau legal advisers, pursuant to Article 145 of the Land Law of Macau (No. 10/2013), when there is a replacement of the party or the transmission of situations resulting from the concession (including but not limited to the transfer on one or more occasions in accumulation, of more than 50% of its share capital of a company which holds a land granted by the Macau Government or the share capital of its controlling partner), it is necessary to obtain prior authorization from the Macau Government. Should Modern Vision exercise its right with respect to the Reform Base Call Option, there is no assurance that the Macau Government will not consider this operation as one which falls under the provision of Article 145 of the Land Law of Macau (No. 10/2013) as mentioned above, and there is no information as to how long the application, if necessary, will take to be processed. In view of the above, the Directors consider that the transfer of the Call Option Shares by exercising the Reform Base Call Option pursuant to the Loan Agreement may only be completed through burdensome and lengthy administrative procedures and therefore may hinder the development of the Property. The Directors consider, and we concur with their view, that the Acquisition would (i) allow the Group, through Modern Vision, to have *de facto* full board control and receive all the financial benefits of Reform Base in Over Profit, without prior authorization from the Macau government;

(ii) facilitate the development of the Property in terms of financing and resources allocation of the Company; (iii) enable the Company to have *de facto* controlling interest in the Property and thus, implement the decision in an efficient manner; and (iv) enable the Company to fully utilize its existing property development capabilities and speed up the development and construction of the Property.

According to the Letter from the Board, the Property is located at the Nam Van Lake in the Macau Peninsula and could enjoy the display of the Macau International Fireworks Display Contest, which holds in September and October every year. With its superb location and spectacular view overlooking the Macau Peninsula and the Cotai Island, the Company intends to develop the Property into high-end residential apartments for sale. As at the Latest Practicable Date, the Group also held another residential and commercial real estate project (namely, Tiffany House), which is positioned as high-end residential apartments and is targeted at high-net-worth individuals. As at the Latest Practicable Date, over 40% of the residential units of Tower 1 of Tiffany House have been sold. We concur with the Management's view that the Acquisition will facilitate the development and financing of the Property and maximise the Group's investment return in the Property, which will have a positive impact on the Group's long-term profitability.

In addition, we have conducted independent research from the public domain in respect of the future prospect of the residential property market in Macau, in which the Property is located. Set out below is the diagram showing the gross domestic product ("**GDP**") of Macau from 2019 to 2023:

Chart 1: GDP of Macau

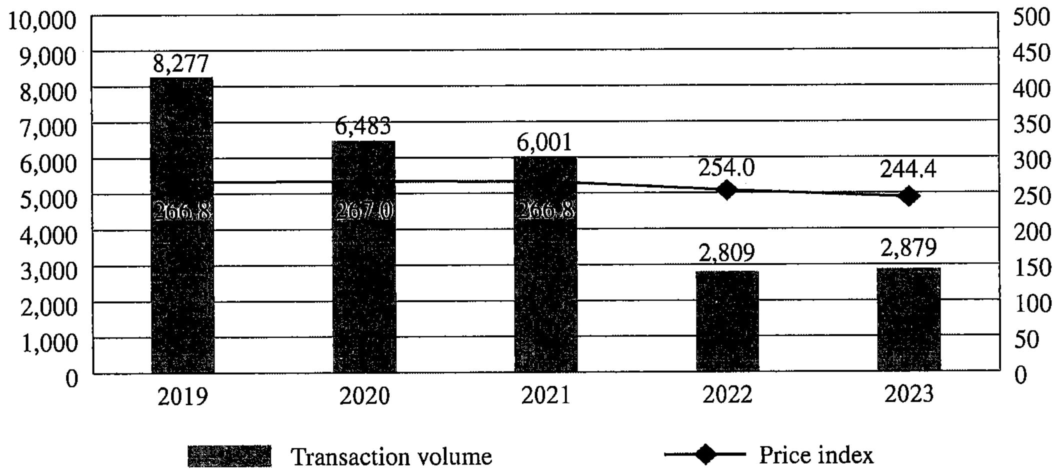


Source: the website of the Statistics and Census Service of Macau Government ("DSEC")

Gaming and tourism industries are predominant pillars in Macau. The gaming and tourism industries, in aggregate, contributed to over 70% of Macau's GDP in 2019. Since the outbreak of COVID-19 in early 2020, the gaming industry in Macau was heavily destroyed, with total receipt tumbling by approximately 78.4% in 2020 to approximately MOP63.9 billion, as compared to that in 2019. Macau's tourism industry also collapsed as a result of the implementation of the COVID-19 related precautionary measures by the Macau Government (including but not limited to various travel restrictions and quarantine measures), leading to a sharp decline in number of tourists from approximately 39.4 million in 2019 to approximately 5.9 million in 2020. Accordingly, Macau's GDP recorded a substantial decrease of approximately 54.5% from approximately MOP444.5 billion in 2019 (i.e. pre-COVID-19 level) to approximately MOP202.5 billion in 2020. Macau's GDP remained at a relatively low level in 2021 and 2022 amid the prolonged outbreak of COVID-19. Following the control of the pandemic and the full release of travel restriction in the first quarter of 2023, Macau's GDP recorded a significant increase of approximately 92.3% from approximately MOP197.3 billion in 2022 to approximately MOP379.5 billion in 2023, resuming to approximately 85.4% of the pre-COVID-19 level. The Macau gaming industry has witnessed an impressive start to 2024, with its gross gaming revenue ("**GGR**") rising by approximately 65.5% for the three months ended 31 March 2024 as compared to the corresponding period in 2023, driven by the strong influx of mainland Chinese visitors during the Lunar New Year. Fitch Ratings Inc. (a leading provider of credit ratings, commentary and research for global capital markets), expects the mass-market segment will continue to drive GGR recovery on buoyant tourist inflows. The Macau Government estimated that Macau's GDP in 2024 will further resume to 94.5% of the pre-COVID-19 level.

Over the past few years, there has been a slight retreat in property prices in Macau owing to global and local factors, in particular, the interest rate hike and the outbreak of COVID-19. Set out below is the diagram showing the price index and transaction volume of the residential property in Macau from 2019 to 2023:

Chart 2: Price index and transaction volume of Macau's residential property



Source: the website of DSEC

Note: The base year for the above price index compiled by DSEC is 2011 (price index = 100).

As shown in Chart 2 above, the Macau residential property price index remained stable at around 267 from 2019 to 2021, then decreased to 254.0 in 2022 and further to 244.4 in 2023, while the total transaction volume dropped significantly from 8,277 units in 2019 to 2,879 units in 2023. During the period from March 2022 to July 2023, the United States Federal Reserve increased interest rates for eleven times in order to continually curb inflation in the United States of America, and the federal funds target rate range was raised from 0.00% – 0.25% to 5.25% – 5.50%. The Bank of China, one of the major commercial banks in Macau, also increased the prime rate of Macau from 5.250% in July 2022 to 6.125% in July 2023. The interest rate hike, coupled with the economic contraction caused by the adverse effects from COVID-19, directly impacted the residents' ability to purchase properties or repay mortgages and, in turn, affected the overall performance of the Macau property market.

In view of the shrinkage of the property market, in November 2023, the Macau Government announced adjustments to the demand-side management measures for residential property (which have become effective from 1 January 2024). In particular, the acquisition of a second residential property by Macau residents will no longer be subject to stamp duty of five per cent of the purchase price, and the mortgage loan-to-value ratios for Macau residents on residential property with the purchase price over MOP8 million will be relaxed to 70%. According to the press conference held by the Financial Services Bureau of the Macau Government in November 2023, out of approximately 230,000 Macau residents who own at least one residential property in Macau, only approximately 14.3% of them have more than one residential property. In April 2024, the Macau Government revoked all major property cooling measures in Macau, including (i) special stamp duly payable by the seller on properties (including residential, commercial properties, office and parking spaces) disposed of within 24 months from the date of acquisition; (ii) buyer stamp duty payable by non-Macau residents, legal persons or individual entrepreneurs (natural person) on the acquisition of residential properties; and (iii) additional stamp duty payable by the owners who own two or more residential properties on the date of acquisition of additional residential properties (collectively, the "**Stamp Duty Relaxation**"). Moreover, Monetary Authority of Macau also relaxed the maximum mortgage loan-to-value ratio for both of Macau residents and non-Macau residents on residential properties at 70%, and suspended the stress test requirement for property mortgage lending that assumes a two percentage point rise in mortgage interest rates (collectively, the "**Mortgage Relaxation**"). It is expected that the demand for the property market from both local buyers and foreign investors will be increased in the coming future, while the Stamp Duty Relaxation and the Mortgage Relaxation could effectively improve the sentiment of the luxury property market. On the other hand, it is expected by the market that the United States Federal Reserve will start to cut interest rates in the coming future, which will lower the finance cost of property purchase and may revitalize the demand for residential properties in Macau in the long run.

Notwithstanding that Macau's residential property market was subdued by the interest rate hike and the outbreak of COVID-19 in the last few years, having taken into account the facts that (i) at the time of the entering into of the Loan Agreement, it was the intention of the Company to exercise the Reform Base Call Option after the approval of the gross construction floor areas of the Property is obtained from DSSCU; (ii) the Company's intention to acquire further interest in Over Profit by way of exercising the Reform Base Call Option (which will be substituted by the Call Option upon Completion pursuant to the Agreement) remains unchanged; (iii) should Modern Vision exercise its right with respect to the Reform Base Call Option, there is no assurance that the Macau Government will not consider this operation as one which falls under the provision of Article 145 of the Land Law of Macau (No. 10/2023), and there is no information as to how long the application, if necessary, will take to be processed; (iv) the transfer of the Call Option Shares by exercising the Reform Base Call Option pursuant to the Loan Agreement may only be completed through burdensome and lengthy administrative procedures and therefore may hinder the development of the Property; (v) the Acquisition would (a) allow the Group, through Modern Vision, to have *de facto* full board control and receive all the financial benefits of Reform Base in Over Profit, without prior authorization from the Macau government; (b) facilitate the development of the Property in terms of financing and resources allocation of the Company; (c) enable the Company to have *de facto* controlling interest in the Property and thus, implement the decision in an efficient manner; (d) enable the Company to fully utilize its existing property development capabilities and speed up the development and construction of the Property; and (e) facilitate the development and financing of the Property and maximise the Group's investment return in the Property, which will have a positive impact on the Group's long-term profitability; (vi) it is expected by the market that the United States Federal Reserve will start to cut interest rates in the coming future, which will lower the finance cost of property purchase and may revitalize the demand for the residential properties in Macau in a long run; and (vii) the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned (please refer to our analysis as detailed in the section headed "IV. Principal terms of the Agreement" below), we concur with the Directors' view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

IV. Principal terms of the Agreement

Date : 20 February 2024

Purchaser : Modern Vision, an indirect wholly-owned subsidiary of the Company

Vendor : Reform Base

Guarantor of the Vendor : Ms. Chen

Subject Matter : Pursuant to the Agreement, Modern Vision has agreed to acquire the Rights from Reform Base.

The Rights comprises the following:

(A) the right of Modern Vision to make recommendations to Reform Base on the management and operations of Over Profit upon which Reform Base shall adhere to such recommendations;

(B) the right of Modern Vision to make recommendations of such persons as Modern Vision may elect to be directors of Over Profit and upon which Reform Base shall adhere to such appointment; and

(C) the right for Modern Vision to receive dividends and other distribution of Over Profit payable or due to Reform Base

Call Option : Reform Base has granted Modern Vision the option to require Reform Base, anytime after Completion, to sell all its shareholding interest in Over Profit to Modern Vision for HK$1.00. If Modern Vision exercises its right with respect to the Call Option, it will comply with all applicable laws and regulations, including those in Macau, if necessary, with respect to the acquisition of such shares. As a result of this grant of the Call Option by Reform Base to Modern Vision, the Reform Base Call Option will be terminated on Completion.

The Consideration is HK$500 million (subject to the Adjustment (as detailed below)), which shall be satisfied by setting-off such amount from the amount outstanding under the Loan. As at the Latest Practicable Date, the outstanding principal amount of the Loan was HK$500 million.

The Adjustment is made by reference to the gross construction floor area of the Property approved by the DSSCU (the "**Approved Figures**") and calculated as follows:

$$\textbf{Adjustment} = \frac{\textbf{HK\$500 million}}{\textbf{Prelim Figures}} \times \textbf{(Prelim Figures – Approved Figures)}$$

where:

Prelim Figures = the gross construction floor area of the Property of (a) residential 26,047 square meters and (b) parking 5,200 square meters, compiled in accordance with the parameters of the UCP on 15 September 2016 of the Property

Approved Figures = the gross construction floor areas of the Property of (a) residential 25,832 square metres; (b) commercial 215 square metres; and (c) parking 3,930 square metres approved by DSSCU

Based on the above calculation, the amount of the Adjustment is approximately HK$20,322,000. Payment of the Adjustment by Ms. Chen to Modern Vision shall be made between 6 and 12 months from the date of Completion. Accordingly, the Consideration actually payable for the Rights is HK$479,678,000.

According to the Letter from the Board, the Consideration was determined after arm's length negotiations between Reform Base and Modern Vision on a "willing buyer – willing seller" basis having regards to (i) the UCP issued by DSSCU; (ii) the Prelim Figures of (a) residential of 26,047 square meters and (b) parking of 5,200 square meters, which are compiled in accordance with the parameters of the UCP; (iii) Modern Vision's 50% indirect interest in the Property; and (iv) the property valuation of HK$2,000 million at 28 February 2017 conducted by Roma Appraisals Limited, an independent valuer appointed by the Company, based on the Prelim Figures. The valuation of the Property was based on market approach by making reference to comparable sales transactions as available in the relevant market. When determining the Consideration in or around December 2023 to January 2024, the Company had always intended to acquire, Ms. Chen had always intended to sell, the additional indirect 25% interest in the Property at the consideration of HK$500 million (subject to adjustment) (the "**Original Consideration**"), which is equivalent to the Consideration, as disclosed in the 2017 Circular when entering into the Loan Agreement. The major concern of the Company had always been to determine what the gross construction areas of the Property would be as it had not yet been approved by DSSCU. As the Original Consideration had already built in an adjustment mechanism to take into account the gross development value of the Property, it is appropriate to continue to use the same valuation as disclosed in the 2017 Circular as a factor in determining the Consideration.

According to the 2017 Circular, on 29 November 2016, Best Combo and Ms. Chen entered into a conditional sale and purchase agreement (the "**C7 Agreement**") pursuant to which Best Combo has agreed to purchase and Ms. Chen has agreed to sell the entire issued share capital of Modern Vision and the sale loan due by Modern Vision to Ms. Chen upon completion at a purchase price of HK$1,000 million (subject to adjustment), which was determined between Best Combo and Ms. Chen having regards to, among others, the market value of the Property of HK$2,000 million (the "**2017 Fair Value**") as at 28 February 2017 based on the preliminary property valuation conducted by Roma Appraisals Limited, the independent valuer appointed by the Company, based on the Prelim Figures (please refer to the valuation report dated 10 March 2017 (the "**2017 Valuation Report**") as contained in Appendix II to the Circular for further details). The major asset of Modern Vision is its 50% equity interest in Over Profit, the market value of which was HK$1,000 million based on the 2017 Fair Value.

On the even date of the entering into of the C7 Agreement, Best Combo and Ms. Chen entered into the Loan Agreement, pursuant to which (i) Best Combo has agreed to grant to Ms. Chen a fixed term loan in the principal amount of HK$500 million (i.e. the Loan), subject to adjustment; and (ii) Ms. Chen has agreed to grant the Reform Base Call Option to Best Combo which allows Best Combo to require Ms. Chen to sell the Call Option Shares to it at the Original Call Option Price (i.e. HK$500 million, subject to adjustment) at any time within the date falling on the expiry of 60 months from the Drawdown Date. As advised by the Management, the major asset of Reform Base is its 25% equity interest in Over Profit, the market value of which was HK$500 million based on the 2017 Fair Value.

As mentioned in the paragraph headed "III. Background of, reasons for and benefits of the entering into of the Agreement" above, in view of the restriction of the transfer on one or more occasions in accumulation of more than 50% of its share capital of a company which holds a land granted by the Macau Government or the share capital of its controlling partner, the Directors consider that the transfer of the Call Option Shares by exercising the Reform Base Call Option pursuant to the Loan Agreement may only be completed through burdensome and lengthy administrative procedures and therefore may hinder the development of the Property. Given that the Company has the right to exercise the Call Option at the exercise price of HK$1.00 to acquire the Call Option Shares from Reform Base pursuant to the Agreement, we consider it reasonable to determine the Consideration with reference to (i) the Original Call Option Price as agreed between Best Combo and Ms. Chen at the time of the entering into of the Loan Agreement; and (ii) the fair value of the entire interest of Reform Base, which indirectly holds 25% interest of the Property.

We were given to understand that the Company has appointed JLL to prepare the JLL Valuation Report for the accounting purpose in preparation of the financial results of the Company for FY2023. Having considered that (i) the development plan was conditionally approved by DSSCU and the construction permit for the foundations and retaining works of the Property was issued on 5 December 2023 with construction commencing on 14 December 2023; and (ii) the JLL Valuation Report could provide a more up-to-date information regarding the market value of the Property as compared to the 2017 Valuation Report (which was prepared based on the Prelim Figures), we consider that it is more prudent to make use of the JLL Valuation Report, rather than the 2017 Valuation Report, in assessing the fairness and reasonableness of the Consideration.

A. Valuation

In assessing the fairness and reasonableness of the JLL Valuation, we have reviewed the JLL Valuation Report and discussed with JLL in relation to (i) the methodology and assumptions used in performing the JLL Valuation; (ii) their scope of work for conducting the JLL Valuation; and (iii) their relevant professional qualifications as a property valuer.

(i) Valuation methodology

We noted from the JLL Valuation Report that the JLL Valuation has been carried out by using the direct comparison method with reference to the recent sales of comparable properties (the "**Comparable Properties**") to assess the GDV of the Development Project. Comparable Properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each Comparable Property in order to arrive at fair comparison of values.

As advised by JLL, the direct comparison method is based on comparing the property to be valued directly with other comparable properties, which have recently been subject to transfer of legal ownership. Given the differences between individual real estate properties, appropriate adjustments are required to allow for any qualitative and quantitative differences that may affect the price likely to be achieved by the property under consideration. The GDV assessment is the aggregate capital value of the Development Project assuming sale on unit by unit basis. In this regard, we have reviewed similar property valuations conducted by other listed companies on the Stock Exchange, and noted that such approach is commonly adopted valuation methodology in valuing properties.

We have obtained from, and discussed with, JLL the details of the Comparable Properties selected (including but not limited to location, flooring, building age and transaction date). We understood from JLL that in conducting the JLL Valuation, they have divided the Development Project into several parts, namely (a) residential units; (b) villas; (c) retail units; and (d) parking spaces (including private car parking spaces and motorcycle parking spaces). The Comparable Properties were selected based on the following selection criteria:

(i) nature: Comparable Properties with the rights for designated use (i.e. residential, retail and parking) are selected;

(ii) location: Comparable Properties situated within close proximity to the Property are selected. The Comparable Properties regarding residential units, retail units and parking spaces are situated within 2 kilometers away from the Property while the Comparable Properties regarding villas are situated in Macau, in which the Property is located; and

(iii) transaction date: The transactions with transaction date close to the valuation date are selected in order to reflect the latest market price. Given (i) the information of property transactions in Macau is limited; (ii) most of them are not publicly available; and (iii) the transactions of retail units, parking spaces and villas are rare in the locality, JLL selected the most recent transactions as the Comparable Properties for each type of properties to provide the sufficient sample size for analysis purpose.

Table 2: Detail of the selection criteria adopted by JLL

	Residential units	**Villas**	**Retail units**	**Parking spaces**
Nature	Residential use	Residential use	Retail use	Parking
Location	Within two kilometers away from the Property	In Macau	Within two kilometers away from the Property	Within two kilometers away from the Property
Transaction date	January 2022 to December 2023 (being 2-year period prior to the valuation date)	January 2019 to December 2023 (being 5-year period prior to the valuation date)	January 2018 to December 2023 (being 6-year period prior to the valuation date)	January 2021 to December 2023 (being 3-year period prior to the valuation date)

We have discussed with JLL in respect of the reasons for the application of each selection criterion. In respect of nature, taking into account the designated land use of the Property, we consider it appropriate for JLL to select comparables with the rights for specific uses. Regarding location, we noted that save for the Villa Comparables (as defined below), all other comparables selected were situated within two kilometers away from the Property. As location is one of the material factors to affect the market value of a property, we concur with JLL's view that it is necessary to apply a selection criterion regarding location in order to truly reflect market value of the Property. In relation to time, depending on the available information, we were given to understand that JLL has selected most recent comparable transactions. Due to the limited public information of the comparable villas and parking spaces, JLL has selected (i) four most recent available villa transactions (the "**Villa Comparables**") with considerable distance, all of which were situated in Macau; and (ii) four most recent available parking space transactions (the "**Parking Comparables**"), which are close to the Property. In view of the above, we consider that the above selection criteria adopted by JLL are reasonable and sufficient for the purpose of selecting comparable transactions.

Adjustments on the transaction price of the Comparable Properties were made after taking into account certain factors (including but not limited to transaction date, location, flooring, size and building age (collectively, the "**JLL Valuation Adjustment Factors**")) in order to arrive at a fair comparison of values. We have reviewed and enquired with JLL regarding the JLL Valuation Adjustment Factors and the rationale behind, and were given to understand that adjustments were made in respect of (i) time of the underlying property transactions completed to reflect the change in market price; (ii) location of the underlying property to reflect the potential discount applied to the unit rate of property located in more remote area; (iii) floor of the underlying property to reflect the potential discount applied to the unit rate of property located in lower floor; (iv) size of the underlying property to reflect the potential discount applied to the unit rate of property with larger size; and (v) building age of the underlying properties to reflect the potential discount applied to the unit rate of properties with higher building age in view of depreciation, and vice versa.

To the best of their knowledge, JLL has identified an exhaustive list of (i) five residential unit comparables (the "**Residential Comparables**"); (ii) four Villa Comparables; (iii) three retail unit comparables (the "**Retail Comparables**"); and (iv) four Parking Comparables which met the selection criteria. The following tables set forth the relevant details of the Comparable Properties:

Table 3: Details of the Residential Comparables

	Residential units of the Property	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5
Usage	Residential	Residential	Residential	Residential	Residential	Residential
Location *(distance from the Property)*	Sé, Macau	Sé, Macau (0.6 km)	Sé, Macau (0.6 km)	Sé, Macau (0.6 km)	Sé, Macau (1.5 km)	Santo António, Macau (0.4 km)
Reference date	December 2023	May 2023	January 2023	June 2023	February 2023	November 2022
Transaction price *(HK$'000)*	–	6,929	3,900	4,650	6,000	12,758
Gross floor area *(sq.ft.)*	300-1200	599	411	368	656	1,214
Unit price *(HK$/sq.ft.)*	–	11,600	9,500	12,600	9,200	10,500
Flooring	3/F – 13/F	8/F	3/F	11/F	12/F	13/F
Building age *(years)*	–	10	10	10	9	5
Adjustment rate *(%)*	–	-2.0%	1.0%	-2.0%	7.5%	-7.5%
Adjusted rate price *(HK$/sq. ft.)*	–	11,300	9,600	12,400	9,800	9,700
Adopted unit rate *(HK$/sq. ft.)*	10,500					

Table 4: Details of the Villa Comparables

	Villas of the Property	Comparable 1	Comparable 2	Comparable 3	Comparable 4
Usage	Residential	Residential	Residential	Residential	Residential
Location *(distance from the Property)*	Sé, Macau	Santo António, Macau (0.4 km)	Sé, Macau (2.8 km)	Sé, Macau (2.8 km)	São Francisco Xavier, Macau (8.4 km)
Reference date	December 2023	December 2020	October 2019	October 2019	May 2020
Transaction price *(HK$'000)*	–	79,500	89,913	89,913	22,180
Gross floor area *(sq.ft.)*	3,500-4,500	6,258	5,717	5,717	2,153
Unit price *(HK$/sq.ft.)*	–	12,700	15,700	15,700	10,300
Building age *(years)*	–	Not available	22	22	31
Adjustment rate *(%)*	–	–5.0%	11.5%	11.5%	16.0%
Adjusted unit rate *(HK$/sq. ft.)*	–	12,100	17,500	17,500	12,000
Adopted unit rate *(HK$/sq. ft.)*	14,800				

Table 5: Details of the Retail Comparables

	Retail unit of the Property	Comparable 1	Comparable 2	Comparable 3
Usage	Retail	Retail	Retail	Retail
Location *(distance from the Property)*	Sé, Macau	Santo António, Macau (0.7 km)	Sé, Macau (0.6 km)	Santo António, Macau (0.7 km)
Reference date	December 2023	April 2022	November 2021	May 2021
Transaction price *(HK$'000)*	–	13,880	10,490	12,800
Gross floor area *(sq.ft.)*	298	318	531	1,439
Unit price *(HK$/sq.ft.)*	–	43,600	19,800	8,900
Building age *(year)*	–	52	20	3
Adjustment rate *(%)*	–	–80.0%	–77.2%	–46.2%
Adjusted unit rate *(HK$/sq. ft.)*	–	8,700	4,500	4,800
Adopted unit rate *(HK$/sq. ft.)*	6,000			

Table 6: Details of the Parking Comparables

	Parking space of the Property	Comparable 1	Comparable 2	Comparable 3	Comparable 4
Usage	Private car & Motorcycle	Private car	Private car	Motorcycle	Motorcycle
Location *(distance from the Property)*	Sé, Macau	Santo António, Macau (0.5 km)	Santo António, Macau (0.5 km)	Sé, Macau (0.6 km)	Sé, Macau (0.6 km)
Reference date	December 2023	February 2018	March 2022	May 2021	May 2021
Transaction price *(HK$'000)*	–	2,263	2,020	290	290
Adjustment rate *(%)*	–	–10%	0%	–50%	–50%
Adjusted unit price *(HK$'000/parking space)*	–	2,040	2,020	150	150
Adopted unit price *(HK$'000/parking space)* – Private car – Motorcycle	 2,000 150				

In view of the discrepancy between the Property and the Comparable Properties in terms of the JLL Valuation Adjustment Factors as set out in Tables 3, 4, 5 and 6 above, we concur with JLL's view that it is necessary to apply adjustments on the unit price/rate of the Comparable Properties in order to arrive at a fair comparison of values. In addition, JLL has also confirmed that all of the adjustments applied conform to the market practice. Based on the above, we are of the view that the relevant adjustments applied during the JLL Valuation are fair and reasonable.

In light of the above, and taking into account the JLL Valuation Adjustment Factors and their effects on the price adjustment of the Comparable Properties, we are of the view that the Comparable Properties are appropriate for the JLL Valuation, and we concur with JLL's view that the direct comparison method is appropriate and common to determine the GDV.

Table 7: Calculation of GDV

Type	Gross floor area	Parking space	Adopted unit rate	GDV
	(sq.ft.)	*(Number)*	*(HK$ per sq.ft.)*	*(HK$' million)*
Residential unit	239,400		10,500	2,514
Villa	60,245		14,800	892
Retail	3,207		6,000	19
			Adopted unit price	
			(HK$)	
Parking space – Private car – Motorcycle		 147 29	 2,000,000 150,000	 294 4
				3,723

Note: Any discrepancies in the tables above between totals and sums of amounts set out in it are due to rounding.

According to the JLL Valuation Report, GDV of the Property was approximately HK$3,723 million as at 31 December 2023.

(ii) Valuation assumptions

According to the JLL Valuation Report, JLL has adopted the following assumptions in arriving at the JLL Valuation:

1. good and marketable title, and no encumbrance on the property's title which could materially affect its value;

2. no encroachment by or on the property;

3. no major environmental factor (including contamination) affects the Property;

4. no deficiencies in the structural integrity of the Property and other improvements;

5. the Property is not affected or required for any public purposes or is to be acquired for a public purpose;

6. there are no outstanding statutory orders on the Property or the likely possibility of future orders being made by a regulatory authority;

7. body corporate records and finances are in a satisfactory order and there are no major financial commitments, orders or levies in respect of any major rectifications, remedial or other works to be undertaken by the body corporate above normal maintenance;

8. no material litigation pending relating to the Property;

9. that the Property (and any works thereto) comply with all relevant statutory regulations, including enactments relating to fire regulations;

10. no deleterious materials (including by way of example asbestos and calcium chloride);

11. ground conditions and services are suitable and no extraordinary expenses or delays will be incurred due to archaeological, ecological or environmental matters; and

12. applied the definition of market value to each unit independently. We have not allowed for any quantum discount or premium which may arise when the Property is sold as a single property interest at any one time.

Based on our discussions with JLL, we understand that all the assumptions in the JLL Valuation are generally adopted in other valuations of similar properties, and are necessary for JLL to arrive at a reasonable estimated reference value of the Development Project. Accordingly, we consider that the adoption of the assumptions in the JLL Valuation is fair and reasonable.

(iii) Scope of work and competence of JLL

In respect of the scope of work and competence of JLL, we have reviewed the engagement letter between the Company and JLL in respect of the JLL Valuation, and are satisfied that the terms of the engagement letter between the Company and JLL are appropriate to the opinion that JLL is required to provide. We have discussed with JLL in relation to their experiences and were given to understand that Mr. Alkan Au, the person-in-charge of the JLL Valuation, is a senior director of the Value and Risk Advisory in JLL supervising a team of valuers. He is a member of the Hong Kong Institute of Surveyors, a member of the Royal Institution of Chartered Surveyors and a Registered Professional Surveyor (General Practice Division) with over 30 years' and 20 years' experience in asset valuations in the property field in Hong Kong and Macau, respectively. JLL has also confirmed that they are independent to the Company, Ms. Chen, Modern Vision, Reform Base and/or any of their respective substantial shareholders, directors or chief executive, or any of their respective associates. We are of the view that JLL possesses sufficient professional qualifications and independence required to perform the JLL Valuation.

Having considered the above, we are of the view that the JLL Valuation conducted by JLL is fair and reasonable.

B. the Consideration

In assessing the fairness and reasonableness of the Consideration of approximately HK$479.7 million (after the Adjustment), we calculated the estimated profit on the Acquisition after the completion of, and the sale on, the Development Project (the "**Estimated Profit**") based on the JLL Valuation. According to the JLL Valuation, as at 31 December 2023, the GDV amounted to HK$3,723.0 million. As advised by the Management, the construction cost of the Development Project is expected to be approximately HK$1,076.5 million (the "**Construction Cost**"), which is calculated based on the agreements entered into between the Company and relevant construction-related parties (such as contractors and consultants) and the estimated soft costs (such as finance costs). The Estimated Profit is calculated as follows:

Table 8: Calculation of the Estimated Profit

	HK$ million
GDV	3,723.0
Less: Construction Cost	(1,076.5)
	2,646.5
25% interest owned by Reform Base	**661.6**
Less: Consideration	**479.7**
Estimated Profit	**181.9**

As set out in Table 8 above, the aggregate investment cost payable by the Company for the proportionate interest of Reform Base in the Development Project would be approximately HK$748.8 million (the "**Estimated Investment Cost**") (being the sum of the Consideration of approximately HK$479.7 million and 25% of the Construction Cost of approximately HK$269.1 million). As advised by the Company, based on the latest development plan of the Company, it is expected that the construction of the Development Project will be completed in the fourth quarter of 2025, and the sales of the Development Project will be launched in July 2024 (subject to the consent to be granted by the Macau Government for the pre-sale of the Development Project). Assuming that (i) Completion will take place on 30 June 2024; (ii) the sales of the Development Project will be completed by end of 2026 (i.e. 2.5 years from the date of Completion); and (iii) based on the Estimated Investment Cost of approximately HK$748.8 million and the Estimated Profit of approximately HK$181.9 million, the estimated annual rate of return of the Development Project ("**ROR**") would be approximately 9.1%. Having considered that (i) the Consideration shall be satisfied by setting-off such amount from the amount outstanding under the Loan which only bears interest of 5.0% per annum; (ii) as advised by the Company, the Property was the only property development project available to the Company for investment as at the Latest Practicable Date; (iii) the prime rate for Hong Kong dollars per annum as quoted by the Hongkong and Shanghai Banking Corporation Limited was 5.875% (the "**Prime Rate**") as at the Latest Practicable Date; and (iv) ROR of approximately 9.1% is higher than the interest rate of the Loan of 5.0% and the Prime Rate of 5.875%, we consider that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

OPINION

Having taken into account the above principal factors and reasons, we are of the view that notwithstanding that the entering into of the Agreement and the Acquisition are not in the ordinary and usual course of business of the Group, the terms of the Agreement are on normal commercial terms and are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favor of the relevant resolution at the SGM to approve the Agreement and the transactions contemplated thereunder (including the Acquisition).

Yours faithfully,
For and on behalf of

Astrum Capital Management Limited

Hidulf Kwan	**Joseph Chu**
Managing Director	*Director*

Note: Mr. Hidulf Kwan is a responsible officer to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and he has over 25 years of experience in the corporate finance industry.

Mr. Joseph Chu is a responsible officer to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and he has over 9 years of experience in the corporate finance industry.

* *for illustration purpose only*