RAINBOW CAPITAL (HK) LIMITED
浤博資本有限公司

29 June 2024

*To: the Independent Board Committee and the Independent Shareholders*

Hua Yin International Holdings Limited
Room 1305, 13th Floor
China Resources Building
No. 26 Harbour Road
Wanchai, Hong Kong

Dear Sir or Madam,

# CONNECTED TRANSACTION IN RELATION TO LOAN CAPITALISATION INVOLVING SUBSCRIPTION OF SHARES UNDER SPECIFIC MANDATE; AND APPLICATION FOR WHITEWASH WAIVER

## INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Loan Capitalisation Agreement, the Whitewash Waiver and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular issued by the Company to the Shareholders dated 29 June 2024 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 25 April 2024 (after trading hours), the Company and the Subscriber have entered into the Loan Capitalisation Agreement, pursuant to which the Company conditionally agreed to allot and issue to the Subscriber, and the Subscriber conditionally agreed to subscribe for, a total of 5,060,000,000 Capitalisation Shares at the Capitalisation Price of HK$0.05 per Capitalisation Share for a total consideration of HK$253 million (equivalent to approximately RMB230 million). The aggregate Capitalisation Price of all Capitalisation Shares payable by the Subscriber shall be satisfied by capitalising, and setting off against, the Loan in full on a dollar-for-dollar basis upon completion of the Loan Capitalisation Agreement. The Capitalisation Shares to be allotted and issued to the Subscriber will be allotted and issued under the Specific Mandate to be obtained at the SGM.

As at the Latest Practicable Date, the ultimate beneficial owners of each of the Subscriber and Ground Investment Holding are (i) Mr. Cui, who is the non-executive Director and the father of Ms. Cui, the chairperson of the Board and the executive Director; and (ii) Ms. Chai, the spouse of Mr. Cui and the mother of Ms. Cui. Hence, each of the Subscriber and Ground Investment Holding is a connected person of the Company and the Loan Capitalisation Agreement, the Whitewash Waiver and the transactions contemplated thereunder constitutes a connected transaction of the Company and is subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, the ultimate beneficial owners of the Subscriber are (i) Mr. Cui, who is the non-executive Director and the father of Ms. Cui; and (ii) Ms. Chai, the spouse of Mr. Cui and the mother of Ms. Cui. Ms. Cui, being the settlor and protector of The Ground Trust, is deemed to be interested (by virtue of Part XV of the SFO) in an aggregate of 2,229,101,065 Shares of the Company, representing approximately 30.94% of the issued Shares as at the Latest Practicable Date via her interests in Ka Yik and Charm Success. Pursuant to the definition under the Takeovers Code, the Subscriber, Ground Investment Holding, Mr. Cui, Ms. Chai, Ms. Cui, Charm Success, Ka Yik, Jilin Dongxiu and Changchun Dongxiu are presumed to be under classes (1) and (8) of the definition of acting in concert under the Takeovers Code, and as a matter of fact are, parties acting in concert. Under the Loan Capitalisation Agreement, the Subscriber shall subscribe for a total of 5,060,000,000 Capitalisation Shares. Assuming that there is no change in the issued share capital of the Company other than the allotment and issue of the Capitalisation Shares, the aggregate shareholding interest of the Concert Party Group would increase from 2,229,951,065 Shares, representing approximately 30.95% of the issued Shares as at the Latest Practicable Date, to 7,289,951,065 Shares, representing approximately 59.45% of the issued Shares as enlarged by the allotment and issue of the Capitalisation Shares immediately after completion of the transactions contemplated under the Loan Capitalisation Agreement. Upon completion of the Loan Capitalisation, the Concert Party Group would be required to make a mandatory general offer under Rule 26.1 of the Takeovers Code for all the issued Shares (other than those already owned or agreed to be acquired by the Concert Party Group) unless the Whitewash Waiver is granted by the Executive.

The Subscriber has made an application to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver will be conditional upon, among other things, (i) the approval by at least 75% of the independent votes that are casted by the Independent Shareholders at the SGM by way of poll in respect of the Whitewash Waiver; and (ii) the approval by more than 50% of the Independent Shareholders at the SGM by way of poll in respect of the Loan Capitalisation Agreement and the transactions contemplated thereunder. The Concert Party Group and their associates and any Shareholders who are involved in, or interested in (other than by being a Shareholder), or have a material interest in the Loan Capitalisation Agreement and/or the transactions contemplated thereunder, and/or the Whitewash Waiver shall abstain from voting on the relevant resolution(s) at the SGM. Other than Charm Success, Ka Yik and Ms. Chai who are members of the Concert Party Group and Shareholders, none of the Shareholders is involved in or interested in the Loan Capitalisation Agreement and/or the transactions contemplated thereunder, and/or the Whitewash Waiver and is required to abstain from voting in respect of the resolution(s) to approve the aforesaid matters at the SGM.

If the Whitewash Waiver is not granted and/or approvals by the Independent Shareholders are not obtained, or if any other conditions precedent under the Loan Capitalisation Agreement is not fulfilled, the subscription contemplated under the Loan Capitalisation Agreement will not proceed.

The Independent Board Committee, comprising all the three independent non-executive Directors (who have no direct or indirect interest in the Loan Capitalisation and the Whitewash Waiver), namely Mr. Tsang Hung Kei, Mr. Wang Xiaochu and Mr. Wang Xueguang, has been established pursuant to Rule 2.8 of the Takeovers Code and the Listing Rules to advise the Independent Shareholders as to, among other things, whether (i) the entering into of the Loan Capitalisation Agreement, the Whitewash Waiver and the transactions contemplated thereunder is conducted in the ordinary and usual course of business of the Group; and (ii) the terms of the Loan Capitalisation Agreement, the Whitewash Waiver and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and advise the Independent Shareholders as to voting. Mr. Cui, the non-executive Director, is the father of Ms. Cui and a member of the Concert Party Group, and is therefore considered to have material interest in the Loan Capitalisation Agreement and the Whitewash Waiver. Accordingly, Mr. Cui will not be a member of the Independent Board Committee (for the purpose of Rule 2.8 of the Takeovers Code).

We, Rainbow Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard and such appointment has been approved by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

We are not associated or connected financially or otherwise with the Company, the Subscriber, the Concert Party Group, their respective substantial shareholders and professional advisers, or any party acting, or presumed to be acting, in concert with any of them. In the last two years, there was no engagement or connection between the Group, the Subscriber or the Concert Party Group on one hand and us on the other hand. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangement exists whereby we will receive any fees or benefits from the Company, the Subscriber, the Concert Party Group, their respective substantial shareholders and other professional advisers, or any party acting, or presumed to be acting, in concert with any of them. As such, we are independent from the Company pursuant to the requirements under Rule 13.84 of the Listing Rules and qualified to give independent advice to the Independent Board Committee in respect of the Loan Capitalisation Agreement, the Whitewash Waiver and the transactions contemplated thereunder pursuant to Rule 2.6 of the Takeovers Code.

**BASIS OF OUR OPINION**

In formulating our opinion and advice, we have considered, among other things, (i) the information and facts contained or referred to in this Circular; (ii) the information and opinions provided by the Directors and the management of the Group; and (iii) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in this Circular were true, accurate and complete in all material respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in this Circular are true in all material respects at the time they were made and continue to be true in all material respects as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in this Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of such information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in this Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all material respects at the time they were made and continued to be so until the Latest Practicable Date.

Shareholders will be informed by the Group and us as soon as possible if there is any material change to the information disclosed in this Circular (including the content of this letter) during the period from the Latest Practicable Date up to the date of the SGM, in which case we will consider whether it is necessary to revise our opinion and inform the Independent Board Committee and the Independent Shareholders accordingly.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in this Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, the Subscriber or any of their respective subsidiaries and associates.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the Loan Capitalisation Agreement, the Whitewash Waiver and the transactions contemplated thereunder, we have taken into account the principal factors and reasons set out below:

### 1. Background information of the Group

The Group is principally engaged in the property development and management, including planning, designing, budgeting, licensing, contract tendering and contract administration and property investment in the PRC.

Set out below is a summary of the consolidated financial information of the Group for the three years ended 31 March 2024 as extracted from the annual report of the Company for the year ended 31 March 2023 and the annual results announcement of the Company for the year ended 31 March 2024 (the "**2023 Annual Results**"):

*(i) Financial performance*

| | For the year ended 31 March | | |
|---|---|---|---|
| | **2022** | **2023** | **2024** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | (audited) | (audited) | (audited) |
| **Revenue** | **112,103** | **394,107** | **116,072** |
| – Sales of properties | 65,040 | 349,158 | 69,936 |
| – Rental income | 14,052 | 12,103 | 13,239 |
| – Property management service income | 33,011 | 32,846 | 32,897 |
| **Gross profit** | **31,823** | **56,101** | **9,876** |
| Gross profit margin | 28.4% | 14.2% | 8.5% |
| Other income and gains | 134,610 | 550,510 | 8,940 |
| Selling and distribution expenses | (11,382) | (6,424) | (6,024) |
| Administrative expenses | (38,613) | (35,429) | (38,459) |
| Finance costs | (62,458) | (16,696) | (23,121) |
| Other expenses | (6,561) | (11,326) | (86,885) |
| Change in fair value of investment properties | (81,714) | (66,293) | (64,200) |
| Change in fair value of derivative financial instruments | (44,879) | (8,208) | (27,840) |
| **(Loss)/profit before tax** | **(79,174)** | **462,235** | **(227,713)** |
| **(Loss)/profit attributable to the Shareholders** | **(56,960)** | **366,009** | **(193,330)** |

*Year ended 31 March 2024 compared to year ended 31 March 2023*

Total revenue of the Group decreased by approximately 70.5% from approximately RMB394.1 million for the year ended 31 March 2023 to approximately RMB116.1 million for the year ended 31 March 2024. Such decrease was primarily attributable to the decrease in sales of properties by approximately RMB279.2 million due to the fact that there was no newly completed property project delivered during the year ended 31 March 2024 and the sale of the properties for the period was contributed from the sale of remaining property units completed in prior years.

In line with the decrease in revenue, the Group's gross profit decreased by approximately 82.4% from approximately RMB56.1 million for the year ended 31 March 2023 to approximately RMB9.9 million for the year ended 31 March 2024. The Group's gross profit margin decreased from approximately 14.2% for the year ended 31 March 2023 to approximately 8.5% for the year ended 31 March 2024, primarily attributable to the upward construction cost adjustment made in respect of properties sold in previous years during the year ended 31 March 2024.

The Group changed from profit attributable to the Shareholders of approximately RMB366.0 million for the year ended 31 March 2023 to loss attributable to the Shareholders of approximately RMB193.3 million for the year ended 31 March 2024, primarily attributable to (a) the decrease in revenue and gross profit as stated above; (b) the decrease in other income and gains by approximately RMB541.6 million mainly due to the Group's reversal of write-down of properties under development of approximately RMB545.4 million during the year ended 31 March 2023, where there was no such one-off gain recurred for the year ended 31 March 2024; (c) the increase in finance costs by approximately RMB6.4 million mainly due to the increase in interest on the convertible bonds as a result of a new issuance of HK$60 million convertible bonds during the year ended 31 March 2024 and the increase in interest on bank and other borrowings resulting from the reversal of interest due to the finalisation of the re-financing arrangement with lenders in the previous year; (d) the increase in other expenses by approximately RMB75.6 million mainly due to the write-down of a property project under development of approximately RMB84.3 million amidst unfavourable market sentiment in the PRC property market; and (e) the increase in change from fair value loss of derivative financial instruments by approximately RMB19.6 million due to the increased volatility of the Company's share price which led to deterioration of its time value attached to the early redemption right feature of the convertible bonds.

*Year ended 31 March 2023 compared to year ended 31 March 2022*

Total revenue of the Group increased by approximately 251.6% from approximately RMB112.1 million for the year ended 31 March 2022 to approximately RMB394.1 million for the year ended 31 March 2023. Such increase was primarily attributable to the increase in sales of properties by approximately RMB284.1 million mainly due to the completion and delivery of two newly completed property projects during the year while in the previous financial year, the sales of properties were mainly contributed from the sales of remaining property units completed in prior years and no project was newly completed and delivered.

In line with the increase in revenue, the Group's gross profit increased by approximately 76.3% from approximately RMB31.8 million for the year ended 31 March 2022 to approximately RMB56.1 million for the year ended 31 March 2023. However, the Group's gross profit margin decreased from approximately 28.4% for the year ended 31 March 2022 to approximately 14.2% for the year ended 31 March 2023, primarily attributable to the fact that the Group sold certain units at a lower gross profit margin during the year ended 31 March 2023.

The Group recorded a turnaround from loss attributable to the Shareholders of approximately RMB57.0 million for the year ended 31 March 2022 to profit attributable to the Shareholders of approximately RMB366.0 million for the year ended 31 March 2023, primarily attributable to (a) the increase in revenue and gross profit as stated above; (b) the increase in other income and gains by approximately RMB415.9 million mainly due to the increase in the

Group's reversal of write-down of properties under development by approximately RMB524.7 million during the year ended 31 March 2023; (c) the decrease in finance costs by approximately RMB45.8 million as a result of (1) the repayment of certain loans and entrusted loans during the year; and (2) a reversal of interest due to finalisation of the re-financing arrangement with lenders during the year; and (d) the decrease in fair value loss of derivative financial instruments by approximately RMB36.7 million.

***(ii) Financial position***

| | As at 31 March | | |
|---|---|---|---|
| | **2022** | **2023** | **2024** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | (audited) | (audited) | (audited) |
| **Non-current assets, including:** | **633,756** | **565,272** | **516,901** |
| Investment properties | 615,800 | 550,400 | 486,200 |
| **Current assets, including:** | **1,438,238** | **1,720,449** | **1,751,614** |
| Properties under development and completed properties held for sale | 1,262,844 | 1,597,786 | 1,606,803 |
| Cash and cash equivalents | 93,151 | 69,939 | 53,635 |
| **Total assets** | **2,071,994** | **2,285,721** | **2,268,515** |
| **Current liabilities, including:** | **1,576,760** | **1,499,626** | **1,643,598** |
| Trade and other payables | 481,876 | 448,149 | 490,797 |
| Loans from a controlling shareholder | 234,819 | 354,490 | 344,849 |
| Loans from related parties | – | – | 63,651 |
| Bank and other borrowings | 420,697 | 445,696 | 420,640 |
| Liability component of the convertible bonds | – | 90,052 | 95,726 |
| **Non-current liabilities, including:** | **450,693** | **388,483** | **396,043** |
| Liability component of the convertible bonds | 79,267 | – | 45,950 |
| Bank and other borrowings | 290,897 | 229,000 | 230,990 |
| Deferred tax liabilities | 52,042 | 131,498 | 97,905 |
| **Total liabilities** | **2,027,453** | **1,888,109** | **2,039,641** |
| **Equity attributable to the Shareholders** | **44,541** | **397,612** | **228,874** |
| **Gearing ratio (Note)** | **91.5%** | **74.2%** | **80.1%** |

*Note:* gearing ratio equals net debt (being the sum of loans from a controlling shareholder, loans from related parties, bank and other borrowings and trade and other payables less the sum of cash and cash equivalents and pledged and restricted deposits) divided by the adjusted capital (being the sum of liability component of the convertible bonds and total equity) plus net debt

As at 31 March 2024, total assets of the Group amounted to approximately RMB2,268.5 million, which mainly consisted of (a) properties under development and completed properties held for sale of approximately RMB1,606.8 million; (b) cash and cash equivalents of approximately RMB53.6 million; and (c) investment properties of approximately RMB486.2 million, representing certain units of a shopping mall in Baishan city, Jilin province, the PRC.

As at 31 March 2024, total liabilities of the Group amounted to approximately RMB2,039.6 million, which mainly consisted of (a) trade and other payables of approximately RMB490.8 million; (b) loans from a controlling shareholder of approximately RMB344.8 million; and (c) bank and other borrowings of approximately RMB651.6 million.

As at 31 March 2024, the Group had equity attributable to the Shareholders of approximately RMB228.9 million with a gearing ratio of approximately 80.1%.

By taking into account the effect of the revaluation surplus arising from the valuation of the relevant property interests held by the Group as set out in Appendix II to the Circular, set out below is the calculation of the Group's adjusted unaudited consolidated net asset value attributable to the Shareholders:

| | RMB'000 |
|---|---|
| Audited consolidated net asset value attributable to the Shareholders as at 31 March 2024 | 228,874 |
| Adjustment: | |
| Revaluation surplus arising from the valuation of the relevant property interests held by the Group as at 31 March 2024 based on the property valuation report set out in Appendix II to the Circular *(Note)* | 108,563 |
| Adjusted unaudited consolidated net asset value of the Group attributable to the Shareholders | 337,437 |

*Note:* this represents the excess of the market value of the relevant property interests held by the Group as at 31 March 2024 over their corresponding net book values as at 31 March 2024.

As at 31 March 2024, the adjusted unaudited consolidated net asset value of the Group attributable to the Shareholders amounted to approximately RMB337.4 million.

*(iii) Overall comment*

The Group's financial performance has experienced significant fluctuations over the periods under review. Such fluctuations in the Group's revenue and profit attributable to the Shareholders are mainly driven by the Group's delivery and sales of the completed property project and reversal of write-down of properties under development. As at 31 March 2024, the Group had total debt (being the sum of loans from a controlling shareholder, loans from related parties and bank and other borrowings) of approximately RMB1,060.1 million. Although the Group's gearing ratio as at 31 March 2024 has improved compared to that as at 31 March 2022, it still remained at a high level of approximately 80.1%. As disclosed in the 2023 Annual Results, under the uncertainties surrounding the PRC economy and property market and the high gearing position of the Group, the Group will maintain a more prudent approach in developing its businesses and opportunities by (a) replenishing land reserve for the Group's property development; and (b) following closely and monitoring the progress of the Group's cultural tourism property projects located in Changbaishan, Baishan City, Fusong County (the "**Fusong Property Project**"), which are currently under construction in progress, and its funding need. Given the size of the Fusong Property Project and its huge land area, the management of the Group will keep an open-minded attitude towards the development of the project and will closely consider any potential business partners to jointly develop the project, or may even consider to divest the project to any potential investor who wishes to develop independently. Against this backdrop, the future business operation and financial performance of the Group requires a substantial amount of working capital to repay the outstanding loans and support the property development business, so as to maintain the competitiveness and healthy financial position of the Group.

## 2. Information of the Subscriber

The Subscriber is a company incorporated in Hong Kong with limited liability, and is principally engaged in investment holding. As at the Latest Practicable Date, Mr. Cui and Ms. Chai are the ultimate beneficial owners of the Subscriber.

Mr. Cui, aged 58, is a non-executive Director of the Company. Mr. Cui has been the chairman of Ground Investment Holding from 2010 up to now. For the period from 2001 to 2010, Mr. Cui was the chairman of 吉林省廣澤集團有限公司 (Jilin Province Guangze Group Company Limited*). Mr. Cui was working as a manager of 吉林省儲備糧公司長春分公司 (Jilin Province Grain Reserve Company – Changchun Branch) for the period from 1999 to 2001. Mr. Cui graduated from Jilin Agricultural University major in agricultural studies in 1988 and obtained an EMBA degree at Cheung Kong Graduate School of Business in 2008.

### 3. Reasons for and benefits of the entering into of the Loan Capitalisation Agreement

With reference to the Letter from the Board, the Group has been proactive in seeking appropriate investment opportunities and conducting prudent project research, due diligence or formulating execution plans on its core business as well as in areas including but not limited to cultural tourism projects and supplementary businesses in mineral water industry and ginseng industry. Nevertheless, the financial performance of the Group has been adversely impacted by the lack of newly completed property project delivered and the decrease in sales of properties, which had in turn led to a significant decrease in the overall revenue and gross profit of the Group (i) for the six months ended 30 September 2023 as compared to that of the corresponding period in 2022; and (ii) for the year ended 31 March 2024 as compared to the year ended 31 March 2023, and a change in the financial position of the Group from profit making to loss making. In light of the persisting uncertainties in the property market of the PRC, the loss position of the Group as well as the aforementioned business plans of the Group, the Board considers that it is vital for the Group to have access to additional funding and working capital in order to maintain its competitiveness in the market.

As at 31 March 2024, the Group was in a highly leveraged financial position, having total debt of approximately RMB1,060.1 million (which included the outstanding amount of the Loan of approximately RMB230.0 million) and recording a gearing ratio of approximately 80.1%, as discussed in the section headed "1. Background information of the Group" above. On the other hand, as at 31 March 2024, the Group only had cash and cash equivalents of approximately RMB53.6 million, which were insufficient to cover even the current portion of total debt of approximating RMB829.1 million. Having considered the above, it is conceivable that the Group would have difficulties in satisfying its short-term liabilities with its limited existing financial resources. Although there is no immediate need to repay the Loan, it is a good timing to conduct the Loan Capitalisation as (i) the Subscriber offers the opportunity to the Company to conduct the Loan Capitalisation prior to the maturity of the other debts of the Group, such that the Company may have the ability to obtain further bank borrowings and conduct equity financing for the repayment of the other debts as they fall due, which are not feasible under the current financial position; (ii) the Loan Capitalisation would enable the Group to settle the Loan owed by the Group to the Subscriber (after the Debt Reorganisation) without obtaining additional bank borrowing or utilising its internal financial resources, and thereby lead to an improved financial position of the Group; and (iii) the Loan Capitalisation represents an opportunity for the Group to deleverage in accordance with the industry trend under the Three Red Lines Guidance (as defined below). As disclosed in the Letter from the Board, upon completion of the Loan Capitalisation, the Group's gearing ratio is expected to decrease from approximately 80.1% as at 31 March 2024 to approximately 67.8%, thereby strengthening its financial position and debt financing capability in the long run.

We have discussed with the management of the Group and were given to understand that the Company had considered alternative means for raising funds to settle the Loan, such as bank borrowings, share placement, rights issue or open offer.

In respect of bank borrowings, in light of the loss-making position as well as the high gearing ratio and burdened debt position of the Group, it is considered to be infeasible, practically difficult, uncertain and time-consuming for the Company to obtain additional bank borrowings at acceptable finance cost with affordable terms and conditions. In addition, taking into account that obtaining additional bank borrowings (i) would not improve the Group's gearing level but would further incur finance costs, as compared to the Loan Capitalisation which will improve the Group's gearing position without incurring interest expenses; and (ii) generally involve pledge of assets and/or securities which may limit the Group's operational flexibility, we concur with the management of the Group that obtaining further bank borrowings is not a desirable financing alternative for the Group.

In terms of other equity financing options such as a private placement of Shares to independent third party investors or a rights issue or open offer to the existing Shareholders, we understand that (i) pre-emptive fundraising methods such as rights issues or open offers normally take at least five to six weeks, and lengthy discussions with potential underwriters may also be involved; (ii) additional costs, including but not limited to placing fees, underwriting commissions and other administrative and legal expenses, are likely to be incurred; and (iii) under the current volatile market condition and in light of the financial position of the Company which may not be appealing to the market, it is also difficult to ascertain market demand and there is uncertainty in successful equity financing. On the other hand, the Loan Capitalisation (i) will be more expedient and require less discussions/negotiations with external parties; (ii) incurs no additional costs; and (iii) is subject to less completion risk given the Subscriber's intention to capitalise the Loan. In light of the above, we concur with the view of the management of the Group that equity financing is not an appropriate means for raising fund for the Group.

In view of the foregoing, in particular the time and costs that would be incurred, and the uncertainties involved for debt financing and equity financing as compared to that of the Loan Capitalisation, we consider that the Loan Capitalisation is a more appropriate and desirable means in alleviating the financial burden faced by the Company. Although the Company would not raise any proceeds from the Loan Capitalisation, the Loan Capitalisation enables the Company to fully settle the Loan of approximately RMB230.0 million in one go without requiring substantial cash outflow or other external financings for repayment when the Loan falls due.

Having considered that (i) the Loan Capitalisation will allow the Company to settle the Loan in one go without imposing any substantial cash outflow so as to relieve the liquidity and working capital pressure of the Company when the Loan falls due; (ii) the severe shortage of cash and working capital for the repayment of the indebtedness of the Group; (iii) the Loan Capitalisation is an appropriate means of financing option for the Group after considering the respective advantages and disadvantages of each of the financing alternatives as discussed above; (iv) the Subscriber, with its ultimate beneficial owners being the parents of Ms. Cui (the controlling Shareholder of the Company and the chairperson of the Board) is willing to accept the settlement of the Loan by way of the Loan Capitalisation which in turn demonstrated their faith and confidence in the Group's business operation; and (v) the terms of the Loan Capitalisation Agreement are generally in line with the recent market practice as discussed in the sub-section headed "7. Assessment of the Capitalisation Price - (iv) Comparable companies" below, we concur with the Directors that the terms of the Loan Capitalisation Agreement are fair and reasonable and although the entering into of the Loan Capitalisation Agreement is not conducted in the ordinary and usual course of the business of the Group, it is in the interests of the Company and the Independent Shareholders as a whole.

## 4. Industry overview

Over the past years, the PRC real estate developers have aggressively increased their debt levels to acquire lands to build their land banks, leading to higher land and property prices. To establish the long-term mechanism for healthy and sustainable development of the PRC real estate market and maintain the long-term stability of housing prices, the Chinese government imposed the three red lines guidance (the "**Three Red Lines Guidance**") on real estate developers by assessing their financial situation against three ratios, namely liability-to-asset ratio, net gearing ratio and cash-to-short-term debt ratio, in August 2020. Many real estate developers had to deleverage so as to comply with the requirements under the Three Red Lines Guidance, which has adversely affected their liquidity and therefore demand for lands. As advised by the management of the Group, the Group has followed the Three Red Lines Guidance to deleverage its financial position.

According to the National Bureau of Statistics, for the four months ended 30 April 2024, total investment in property development and sales area of commodity properties in the PRC decreased by approximately 9.8% and 28.3%, respectively, as compared to the corresponding period in 2023. During the same period, total investment in property development and sales area of commodity properties in the Northeast of the PRC (i.e. the region where the Group's principal business and properties are located) decreased by approximately 20.6% and 21.3%, respectively, as compared to the corresponding period in 2023. This was primarily attributable to the introduction and effecting of various regulations and policies including the "Three Red Lines" policy and recent debt default of certain large property developers which have adversely affected the Chinese property market, including the property market in the Northeast of the PRC. In addition, Moody's has downgraded the outlook for the Chinese economy from stable to negative in late 2023, as a result of persistently lower medium-term economic growth and the ongoing downsizing of the property sector in the economy.

In summary, taking into account that (i) the current demand and investment atmosphere in the property market in the PRC and the Northeast of the PRC appeared to be pessimistic; (ii) it is unlikely for the Chinese government to significantly ease its restriction policies, especially the Three Red Lines Guidance which is still effective as at the Latest Practicable Date; and (iii) the persistently lower medium-term economic growth of the PRC, we consider that the prospects of the property market in the PRC and the Northeast of the PRC, as well as the Group's businesses, to be uncertain in the short run.

## 5. Principal terms of the Loan Capitalisation Agreement

Set out below are the principal terms of the Loan Capitalisation Agreement. Independent Shareholders are advised to read further details of the Loan Capitalisation Agreement as set out in the Letter from the Board:

| | | |
|---|---|---|
| Date | : | 25 April 2024 |
| Parties | : | (i) the Subscriber as the subscriber; and |
| | | (ii) the Company as the issuer |

| | | |
|---|---|---|
| | | As at the Latest Practicable Date, the ultimate beneficial owners of the Subscriber are (i) Mr. Cui, who is the non-executive Director and the father of Ms. Cui, the chairperson of the Board and the executive Director; and (ii) Ms. Chai, who is the spouse of Mr. Cui and the mother of Ms. Cui. Hence, the Subscriber is a connected person of the Company. |
| Total consideration | : | HK$253 million (equivalent to approximately RMB230 million) |
| Number of Capitalisation Shares to be allotted and issued | : | 5,060,000,000 Capitalisation Shares |
| Capitalisation Price per Capitalisation Share | : | HK$0.05 |

As at the Latest Practicable Date, Jilin Rongyu, an indirect wholly-owned subsidiary of the Company, was indebted to Ground Investment Holding, the entire issued share capital of which is owned by Mr. Cui and Ms. Chai, the Loan in the amount of approximately RMB230 million (equivalent to approximately HK$253 million). The Loan is unsecured, interest free and repayable on or before 28 February 2025. The Loan was provided to Jilin Rongyu by Ground Investment Holding for the purpose of the Group's general working capital requirement, primarily for the repayment of the Group's bank borrowings and finance costs. As at the Latest Practicable Date, the entire issued share capital of Ground Investment Holding was owned as to 75% by Jilin Dongxiu, a company beneficially wholly-owned by Mr. Cui, the non-executive Director and the father of Ms. Cui, and as to 25% by Changchun Dongxiu, a company beneficially owned as to approximately 4.55% and approximately 95.45% by Mr. Cui and Ms. Chai, the spouse of Mr. Cui and the mother of Ms. Cui, respectively. For details of the Loan, please refer to the section headed "Information on the Loan" in the Letter from the Board.

It is proposed that the Debt Reorganisation shall be conducted among (i) the Company; (ii) Jilin Rongyu; (iii) Ground Investment Holding; and (iv) the Subscriber regarding the Loan, pursuant to which (i) the Loan owing to Ground Investment Holding by Jilin Rongyu shall be novated to, and borne by, the Company; and (ii) the rights of Ground Investment Holding as creditor of the Loan shall be assigned to the Subscriber.

Upon the completion of the Debt Reorganisation, the Company would be directly indebted to the Subscriber in the sum of the Loan. Subject to the completion of the Debt Reorganisation, the Company will issue to the Subscriber the Capitalisation Shares at the Capitalisation Price, which shall be satisfied by capitalising, and setting off against, the Loan in full on a dollar-for-dollar basis upon completion of the Loan Capitalisation Agreement.

Taking into account that (i) the terms of the Loan Capitalisation Agreement are generally in line with the recent market practice as discussed in the sub-section headed "7. Assessment of the Capitalisation Price – (iv) Comparable companies" below; (ii) the dilution effect on the shareholding interests of existing public Shareholders arising from the Loan Capitalisation is acceptable to be discussed in the section headed "8. Potential dilution effect on the shareholding interests of the Independent Shareholders" below; and (iii) the reasons for and benefits of the Loan Capitalisation as discussed in the section headed "3. Reasons for and benefits of the entering into of the Loan Capitalisation Agreement" above, we consider that the terms of the Loan Capitalisation Agreement are fair and reasonable.

**6. Capital-raising activities in the past 12 months**

On 23 June 2023, the Company issued convertible bonds with an aggregate principal amount of HK$60.0 million to no less than six placees who are independent third parties not acting in concert with the Concert Party Group (i.e. the 2023 Convertible Bonds). The 2023 Convertible Bonds carry a coupon of 6% per annum and matures on the date falling on the expiration of the third anniversary of the issue date. The Company received net proceeds from the placing of approximately HK$58.3 million (equivalent to approximately RMB54.1 million), which has been substantially utilised as planned and applied as to (i) approximately RMB30.8 million has been applied for the acquisition of ginseng assets and investment in a mineral water project, all of which has been utilised; (ii) approximately RMB19.5 million has been applied for repayment of the Group's indebtedness and finance cost, of which approximately RMB18.7 million has been utilised; and (iii) approximately RMB3.8 million has been applied for general working capital of the Group, all of which has been utilised. For details, please refer to the section headed "Fund-raising activities of the Company during the past twelve months" in the Letter from the Board.

Saved as disclosed above, the Company had not conducted any equity fundraising activities in the past twelve months immediately preceding the Latest Practicable Date.

**7. Assessment of the Capitalisation Price**

The Capitalisation Price of HK$0.05 per Capitalisation Share represents:

(i) a premium of approximately 11.11% over the closing price of HK$0.045 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a premium of approximately 19.05% over the closing price of HK$0.042 per Share as quoted on the Stock Exchange on 25 April 2024, being the date of the Loan Capitalisation Agreement (the "**Last Trading Day**");

(iii) a premium of approximately 6.38% over the average closing price of HK$0.047 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement;

(iv) a discount of approximately 3.29% to the average closing price of HK$0.0517 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement;

(v) a discount of approximately 15.68% to the average closing price of HK$0.0593 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement;

(vi) a discount of approximately 30.07% to the average closing price of HK$0.0715 per Share as quoted on the Stock Exchange for the last 60 consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement;

(vii) a discount of approximately 46.35% to the average closing price of HK$0.0932 per Share as quoted on the Stock Exchange for the last 90 consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement;

(viii) a discount of approximately 66.17% to the average closing price of HK$0.1478 per Share as quoted on the Stock Exchange for the last 180 consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement;

(ix) a discount of approximately 83.18% to the average closing price of HK$0.2973 per Share as quoted on the Stock Exchange for the last 360 consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement;

(x) there is no theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) given that the theoretical diluted price of approximately HK$0.0482 per Share is higher than the benchmarked price of approximately HK$0.047 per Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of (a) the closing price of the Shares as quoted on the Stock Exchange on the date of the Loan Capitalisation Agreement of HK$0.042 per Share; and (b) the average closing price of the Shares as quoted on the Stock Exchange for the five consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement of HK$0.047 per Share);

(xi) there is no theoretical dilution effect as the theoretical diluted price of approximately HK$0.0482 per Share is higher than the closing price as at the Latest Practicable Date of HK$0.045 per Share;

(xii) a premium of approximately 45.77% over the Group's audited net assets per Share of approximately HK$0.0343 (equivalent to approximately RMB0.0318 at the exchange rate of HK$1 = RMB0.9284) as at 31 March 2024 based on the 7,203,638,808 Shares in issue as at 31 March 2024, being the date to which the latest published audited accounts of the Company were made up; and

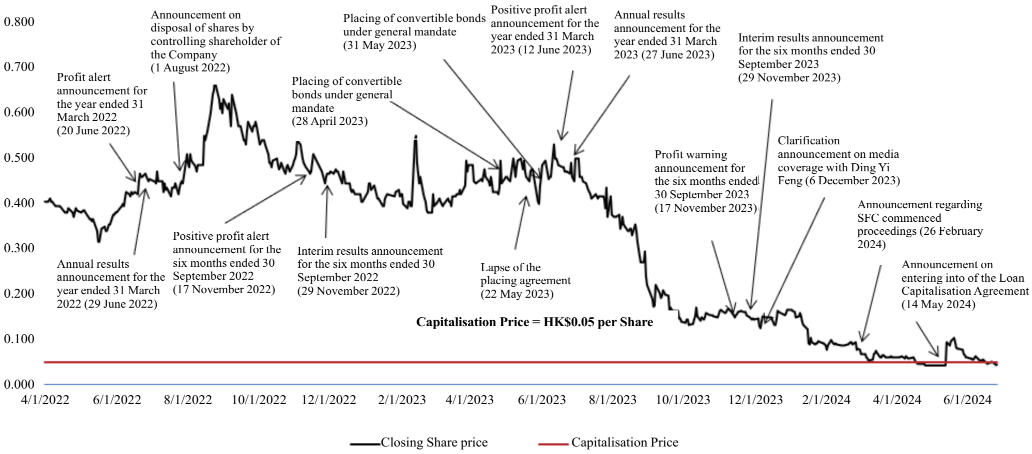
(xiii) a discount of approximately 0.79% to the Group's adjusted unaudited consolidated net asset value attributable to the Shareholders of approximately HK$0.0504 per Share (equivalent to approximately RMB0.0468 at the exchange rate of HK$1 = RMB0.9284) as at 31 March 2024 based on (a) the 7,203,638,808 Shares in issue as at the Latest Practicable Date; and (b) the adjusted unaudited consolidated net asset value of the Group attributable to the Shareholders of approximately RMB337.4 million.

The Capitalisation Price was determined after arm's length negotiations between the Company and the Subscriber with reference to (i) the recent and historical market prices of the Shares; (ii) the outstanding amount of the Loan; (iii) the market conditions, which suggest that it would be difficult for the Company to pursue sizeable equity financing alternative in the stock market; and (iv) the financial position of the Group, having considered that the audited net assets of the Group of approximately RMB228.9 million and the amount of cash and cash equivalents of approximately RMB53.6 million as at 31 March 2024.

*(i) Historical Share price performance*

In order to assess the fairness and reasonableness of the Capitalisation Price, we have performed a review on the daily closing prices of the Shares from 1 April 2022 to the Last Trading Day (i.e. 25 April 2024) (the "**Review Period**"), being approximately two years period, and up to the Latest Practicable Date. We consider the Review Period is adequate, fair and representative to reflect the prevailing market sentiment primarily and illustrate the general trend and level of movement of the daily closing prices of the Shares.

Set out below is the chart showing the movements of daily closing prices of the Shares during the Review Period:




*Source: the website of the Stock Exchange*

As shown above, the closing prices of the Shares were above the Capitalisation Price at almost all times during the Review Period (499 days out of 506 days), ranging from HK$0.042 per Share on 25 April 2024 (i.e. the Last Trading Day) to HK$0.67 per Share on 25 August 2022. In other words, the Capitalisation Price to/over the closing prices of the Shares ranged from a discount of approximately 92.54% to a premium of approximately 19.05% during the Review Period.

The closing price of the Shares fluctuated between HK$0.315 per Share and HK$0.425 per Share from 1 April 2022 to 20 June 2022 and closed at HK$0.42 per Share on 20 June 2022. Following the publication of the profit alert announcement and annual results announcement for the year ended 31 March 2022 on 20 June 2022 and 29 June 2022, respectively, the Share price experienced an upward trend and reached the highest of HK$0.67 per Share on 25 August 2022. Thereafter, it dropped to HK$0.465 per Share on 25 October 2022 and fluctuated between HK$0.38 per Share and HK$0.55 per Share from 25 October 2022 to 3 July 2023. Based on our discussion with the management of the Group, such fluctuation may be due to the Company's publication of (a) the positive profit alert announcement and interim results announcement for the six months ended 30 September 2022 dated 17 November 2022 and 29 November 2022, respectively; (b) the announcements in relation to placing of convertible bonds under general mandate dated 28 April 2023 and 31 May 2023; and (c) the positive profit alert announcement and annual results announcement for the year ended 31 March 2023 dated 12 June 2023 and 27 June 2023, respectively. From then on, the Share price generally exhibited a downward trend and hit the lowest of HK$0.042 per Share on 25 April 2024. Such downward trend may due to (a) the publication of the profit warning announcement and interim results announcement for the six months ended 30 September 2023 on 17 November 2023 and 29 November 2023, respectively; (b) the media coverage in December 2023 on the notice issued by the Shenzhen Municipal Financial Regulatory Bureau (深圳市地方金融監督管理局) regarding the risk of illegal fundraising of Ding Yi Feng (鼎益豐) under which has a branch known as "華音", which has a similar name as the Company. The Company has clarified that the Directors do not consider the Company or any of its subsidiaries should be taken as a "branch" or a subsidiary of Ding Yi Feng Holdings Group International Limited or any entity carrying the name "鼎益豐". None of the Company or any of its subsidiaries have carried out nor involve in any alleged wrongdoing or misconduct as stated in the above notice. For details, please refer to the Company's clarification announcement dated 6 December 2023; and (c) the announcement dated 26 February 2024 regarding the SFC having commenced proceedings against a then non-executive Director. Immediately following the publication of the Announcement, the Share price surged substantially from HK$0.042 on 25 April 2024 (i.e. the Last Trading Day) to HK$0.095 on 14 May 2024, representing a premium of 90.0% over the Capitalisation Price. We consider such surge indicates a positive market response to the Loan Capitalisation. Nevertheless, as the Loan Capitalisation is subject to conditions and may or may not proceed, the Share price gradually dropped following the publication of the Announcement, and dropped to HK$0.045 as at the Latest Practicable Date.

As at the Last Trading Day and the Latest Practicable Date, the Share price per Share closed at HK$0.042 and HK$0.045, respectively, representing a discount of approximately 16.00% and 10.00% to the Capitalisation Price, respectively.

***(ii) Historical trading liquidity of the Shares***

The following table sets out the average daily trading volume of the Shares for each month or period and the percentages of such average daily trading volume to the total number of Shares in issue and held by the public during the period from 1 April 2022 to the Latest Practicable Date:

| | Number of trading days *(Note 1)* | Approximate average daily trading volume | Approximate percentage of average daily trading volume to total number of Shares in issue *(Note 2)* | Approximate percentage of average daily trading volume to total number of Shares held by the public *(Note 3)* |
|---|---|---|---|---|
| **2022** | | | | |
| April | 18 | 564,178 | 0.0083% | 0.0162% |
| May | 20 | 1,019,780 | 0.0151% | 0.0292% |
| June | 21 | 2,834,095 | 0.0419% | 0.0812% |
| July | 20 | 963,135 | 0.0134% | 0.0245% |
| August | 23 | 4,560,826 | 0.0633% | 0.1160% |
| September | 21 | 1,390,743 | 0.0193% | 0.0354% |
| October | 20 | 1,162,940 | 0.0161% | 0.0296% |
| November | 22 | 1,050,091 | 0.0146% | 0.0267% |
| December | 20 | 594,896 | 0.0083% | 0.0151% |
| **2023** | | | | |
| January | 18 | 474,800 | 0.0066% | 0.0121% |
| February | 20 | 2,043,700 | 0.0284% | 0.0520% |
| March | 23 | 867,287 | 0.0120% | 0.0221% |
| April | 17 | 1,037,739 | 0.0144% | 0.0264% |
| May | 21 | 2,161,952 | 0.0300% | 0.0550% |
| June | 21 | 2,687,743 | 0.0373% | 0.0684% |
| July | 20 | 3,326,615 | 0.0462% | 0.0846% |
| August | 23 | 1,474,261 | 0.0205% | 0.0375% |
| September | 19 | 3,823,758 | 0.0531% | 0.0973% |
| October | 20 | 2,349,150 | 0.0326% | 0.0597% |
| November | 22 | 1,081,982 | 0.0150% | 0.0275% |
| December | 19 | 1,247,453 | 0.0173% | 0.0317% |
| **2024** | | | | |
| January | 22 | 1,820,318 | 0.0253% | 0.0463% |
| February | 19 | 1,415,737 | 0.0197% | 0.0360% |
| March | 20 | 2,088,815 | 0.0290% | 0.0531% |
| April | 17 | 1,077,969 | 0.0150% | 0.0274% |
| May | 13 | 6,734,308 | 0.0935% | 0.1713% |
| From 3 June to the Latest Practicable Date | 17 | 772,682 | 0.0107% | 0.0197% |

*Source: the website of the Stock Exchange*

*Notes:*

1. Number of trading days of the Shares represents number of trading days during the month or period which excludes any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole trading day (if applicable).

2. Based on the total number of the Shares in issue at the end of each month or period as disclosed in the monthly returns of the Company.

3. Based on the number of Shares held by public Shareholders as calculated by deducting the Shares held by the Concert Party Group and Hong Kong Toprich Investment Limited as at the Latest Practicable Date.

As illustrated in the table above, the trading of the Shares was generally inactive during the period from 1 April 2022 to the Latest Practicable Date. The average daily trading volume for the respective month or period during the above period ranged from approximately 474,800 Shares in January 2023 to approximately 6,734,308 Shares in May 2024, representing approximately 0.0066% to 0.0935% of the total number of the Shares in issue and approximately 0.0121% to 0.1731% of the total number of the Shares held by the public, respectively.

The thin trading liquidity of the Shares during the Review Period suggests that when the Company explores substantial equity financing in the stock market as an alternative to raise funds for settling the Loan, potential investors will likely seek more significant incentives, including more substantial discount on the subscription price relative to the prevailing market price of the Shares, to encourage their participation in these fundraising activities. As such, we consider that it is reasonable for the Capitalisation Price to be set at a discount to the prevailing historical closing prices of the Shares to balance the low liquidity of the Shares during the Review Period.

***(iii) Comparable transactions***

In order to further assess the fairness and reasonableness of the Capitalisation Price, we have reviewed the recent market practices which (a) involved subscription of new shares with at least 75% of the proceeds allocated for debt repayment, and involved whitewash application; and (b) were announced by the companies listed on the Main Board of the Stock Exchange for the period from 1 April 2023 up to the Last Trading Day (being approximately one year). We have identified an exhaustive list of three transactions (the "**Comparable Transactions**").

However, we noted that the listed issuers involved in the Comparable Transactions have different principal activities and market capitalisations as compared to those of the Company, and there were only three Comparable Transactions that could be identified. According, we consider that the comparison of the Capitalisation Price with the Comparable Transactions may only provide limited value to the Shareholders. Shareholders shall only regard the comparison results of the Capitalisation Price with the Comparable Transactions as a general reference for recent subscription of new shares exercises for debt repayment involving whitewash application.

The details of the Comparable Transactions are set out below:

| Date of announcement | Company name (stock code) | Principal business activities | Nature and amount of the debts (percentage of use of proceeds for the settlement of the debts) | Connected transaction | Whether shareholders' approval is required | Dilution effect of the subscription of new shares on public shareholders *(Note 1)* | Premium/(discount) of the subscription price over/to the closing price on/prior to the date of the corresponding agreement (%) | Premium/(discount) of the subscription price over/to the average closing price per share for the last five consecutive trading days prior to/up to and including the date of the corresponding agreement (%) | Premium/(discount) of the subscription price over/to the average closing price per share for the last 30 consecutive trading days prior to/up to and including the date of the corresponding agreement (%) | Premium/(discount) of the subscription price over/to the average closing price per share for the last 60 consecutive trading days prior to/up to and including the date of the corresponding agreement (%) | Premium/(discount) of the subscription price over/to the average closing price per share for the last 90 consecutive trading days prior to/up to and including the date of the corresponding agreement | Premium/(discount) of the subscription price over/to the average closing price per share for the last 180 consecutive trading days prior to/up to and including the date of the corresponding agreement | Discount of the subscription price to the net asset value or adjusted net asset value (if applicable) per share |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 18 March 2024 | China Qidian Guofeng Holdings Limited (1280.HK) | Retail of household appliance, mobile phones, computers, import and general merchandise and provision of maintenance and installation services, the liquor business and education-related training business | Approximately HK$185.50 million payable under the shareholder's loan (100%) | Yes | Yes | 39.28 | (31.37) | (31.64) | (42.24) | (63.84) | (76.93) | (72.51) | Net liability *(Note 2)* |
| 7 February 2024 | Enviro Energy International Holdings Limited (1102.HK) | Supply of construction essentials business | Approximately HK$44.8 million owed by the company to the subscribers (100%) | Yes | Yes | 43.94 | (10.71) | (5.66) | 11.36 | 19.24 | 11.75 | (5.94) | Net liability *(Note 3)* |
| 27 September 2023 | China Greenland Broad Greenstate Group Company Limited (1253.HK) | Services of landscape design and gardening and the related services | Approximately US$39.1 million owed by the company to the subscriber (100%) | Yes | Yes | 15.41 | (16.67) | (6.54) | (15.25) | (28.94) | (33.14) | (32.68) | (42.30) *(Note 4)* |
| | | | | | Maximum | 43.94 | (10.71) | (5.66) | 11.36 | 19.24 | 11.75 | (5.94) | (42.30) |
| | | | | | Minimum | 15.41 | (31.37) | (31.64) | (42.24) | (63.84) | (76.93) | (72.51) | (42.30) |
| | | | | | Average | 32.88 | (19.58) | (14.61) | (15.38) | (24.51) | (32.77) | (37.04) | (42.30) |
| | | | | | Median | 39.28 | (16.67) | (6.54) | (15.25) | (28.94) | (33.14) | (32.68) | (42.30) |
| **14 May 2024** | **The Company** | **Property development, management, and investment** | **Approximately HK$253.0 million owed by the Company to the Subscriber upon completion of the Debt Reorganisation (100%)** | **Yes** | **Yes** | **22.54** | **19.05** | **6.38** | **(15.68)** | **(30.07)** | **(46.35)** | **(66.17)** | **(0.79)** *(Note 5)* |

*Source: Bloomberg and the website of the Stock Exchange*

*Notes:*

1. *The dilution effect on public shareholders is calculated as the difference of the shareholdings of public shareholders of the respective companies involved in the Comparable Transactions as at the date of the relevant announcements and immediately after the completions of the respective debt/loan capitalisation.*

2. *China Qidian Guofeng Holdings Limited (1280.HK) recorded net liabilities as at 31 December 2023.*

3. *Enviro Energy International Holdings Limited (1102.HK) recorded adjusted net liabilities as at 31 December 2023.*

4. *Discount to the audited net asset value attributable to the shareholders of China Greenland Broad Greenstate Group Company Limited (1253.HK) share as at 30 June 2023.*

5. *By taking into account the effect of revaluation surplus arising from the valuation of the relevant property interests held by the Group as at 31 March 2024, the Group's adjusted unaudited consolidated net asset value attributable to the Shareholders per Share amounted to approximately HK$0.0504, the calculation of which is set out in this section above.*

As set out in the table above, we noted that:

(a) the subscription price to the closing price on/prior to the date of the corresponding agreement of the Comparable Transactions ranged from a discount of approximately 31.37% to approximately 10.71%, with a median discount of approximately 16.67% and an average discount of approximately 19.58%. The premium of approximately 19.05% as represented by the Capitalisation Price over the closing price of the Shares on the date of the Loan Capitalisation Agreement is better than the all of the Comparable Transactions;

(b) the subscription price to the average closing price for the last five consecutive trading days prior to/up to and including the date of the corresponding agreement of the Comparable Transactions ranged from a discount of approximately 31.64% to approximately 5.66%, with a median discount of approximately 6.54% and an average discount of approximately 14.61%. The premium of approximately 6.38% as represented by the Capitalisation Price over the average closing price of the Shares for the last five consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement is better than all of the Comparable Transactions;

(c) the subscription price to/over the average closing price for the last 30 consecutive trading days prior to/up to and including the date of the corresponding agreement of the Comparable Transactions ranged from a discount of approximately 42.24% to a premium of approximately 11.36%, with a median discount of approximately 15.25% and an average discount of approximately 15.38%. The discount of approximately 15.68% as represented by the Capitalisation Price to the average closing price of the Shares for the last 30 consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement is close to the median and average discounts of the Comparable Transactions;

(d) the subscription price to/over the average closing price for the last 60 consecutive trading days prior to/up to and including the date of the corresponding agreement of the Comparable Transactions ranged from a discount of approximately 63.84% to a premium of approximately 19.24%, with a median discount of approximately 28.94% and an average discount of approximately 24.51%. The discount of approximately 30.07% as represented by the Capitalisation Price to the average closing price of the Shares for the last 60 consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement is slightly higher than the median discount and higher than the average discount of the Comparable Transactions;

(e) the subscription price to/over the average closing price for the last 90 consecutive trading days prior to/up to and including the date of the corresponding agreement of the Comparable Transactions ranged from a discount of approximately 76.93% to a premium of approximately 11.75%, with a median discount of approximately 33.14% and an average discount of approximately 32.77%. The discount of approximately 46.35% as represented by the Capitalisation Price to the average closing price of the Shares for the last 90 consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement is higher than the median and average discounts of the Comparable Transactions;

(f) the subscription price to the average closing price for the last 180 consecutive trading days prior to/up to and including the date of the corresponding agreement of the Comparable Transactions ranged from a discount of approximately 72.51% to approximately 5.94%, with a median discount of approximately 32.68% and an average discount of approximately 37.04%. The discount of approximately 66.17% as represented by the Capitalisation Price to the average closing price of the Shares for the last 180 consecutive trading days immediately prior to the date of the Loan Capitalisation Agreement is substantially higher than the median and average discounts of the Comparable Transactions; and

(g) as two of the Comparable Transactions recorded net liabilities or adjusted net liabilities, the remaining Comparable Transaction has its subscription price represented a discount of approximately 42.30% to its net asset value per share. The discount of approximately 0.79% as represented by the Capitalisation Price to the adjusted net asset value attributable to the Shareholders per Share of the Group is smaller than the Comparable Transaction.

***(iv) Comparable companies***

The Group is principally engaged in the property development and management, including planning, designing, budgeting, licensing, contract tendering and contract administration and property investment in the PRC.

Price-to-earnings ("**P/E(s)**"), price-to-book ("**P/B(s)**") and price-to-sale ("**P/S(s)**") multiples are the three most commonly used benchmarks in valuing a company. P/E is usually adopted for judging valuations for companies which are profit making. On the other hand, P/B is typically applied for valuing companies which hold relatively liquid assets on their balance sheets and their book values approximate their fair market values such as real estate companies, banks and money lenders whereas P/S is appropriate for valuing companies which have volatile earnings or loss but relatively stable revenue such as retailers offering general merchandise.

Given that (a) the Group was loss making for the year ended 31 March 2024; (b) the Group recorded net assets position as at 31 March 2024; and (c) the Group recorded volatile revenue for the three years ended 31 March 2024, we consider the valuation methodology using P/B is more appropriate in valuing the Group. Based on (a) the Capitalisation Price of HK$0.05 per Share; (b) 7,203,638,808 Shares in issue as at the Latest Practicable Date; (c) the adjusted unaudited consolidated net asset value of the Group attributable to the Shareholders of approximately RMB337.4 million as at 31 March 2024; and (d) the exchange rate of HK$1=RMB0.9 for illustrative purpose, the P/B implied by the Capitalisation Price is approximately 0.96 time (the "**Implied P/B**").

In evaluating the fairness and reasonableness of the Capitalisation Price, we have, based on our search on Bloomberg and the website of the Stock Exchange, identified an exhaustive list of companies (the "**Comparable Companies**") which (a) are principally engaged in the property development in the PRC; (b) have their shares listed and traded on the Main Board of the Stock Exchange; (c) had positive net asset value attributable to the shareholders in the latest financial year; and (d) has market capitalisation not exceeding HK$1,000 million as at the Last Trading Day. Based on the aforesaid criteria, we have identified 16 Comparable Companies, which represents an exhaustive list.

The following table set out the details of the Comparable Companies:

| **Company name (stock code)** | **Principal activities** | **Market capitalisation as at the Last Trading Day** *(HK$ million)* | **P/B** *(Note 1)* *(times)* |
|---|---|---|---|
| KWG Group Holdings Limited (1813.HK) | Property development, property investment and hotel operation | 871.8 | 0.06 |
| Weiye Holdings Limited (1570.HK) | Development of residential projects | 623.7 | 0.44 |
| Zhongliang Holdings Group Company Limited (2772.HK) | Real estate development | 616.1 | 0.08 |
| Greenland Hong Kong Holdings Limited (337.HK) | Development for sale and rental of properties and related services and the operation of hotels | 536.0 | 0.04 |
| China SCE Group Holdings Limited (1966.HK) | Property development, property investment and property management | 502.5 | 0.05 |
| Yuzhou Group Holdings Company Limited (1628.HK) | Property development | 412.3 | 0.86 |
| Times China Holdings Limited (1233.HK) | Property development | 311.1 | 0.44 |
| Sino Harbour Holdings Group Limited (1663.HK) | Property development | 303.1 | 0.16 |
| Ganglong China Property Group Limited (6968.HK) | Property development and sale | 207.6 | 0.05 |

| Company name (stock code) | Principal activities | Market capitalisation as at the Last Trading Day *(HK$ million)* | P/B *(Note 1)* *(times)* |
|---|---|---|---|
| Redsun Properties Group Limited (1996.HK) | Property development, commercial property investment and operations and hotel operations | 190.3 | 0.04 |
| Chen Xing Development Holdings Limited (2286.HK) | Property development | 177.0 | 0.11 |
| Huijing Holdings Company Limited (9968.HK) | Real estate development | 141.9 | 10.48 |
| Glory Health Industry Limited (2329.HK) | Property development | 137.8 | 0.01 |
| Golden Wheel Tiandi Holdings Company Limited (1232.HK) | Property development, property leasing and hotel operation | 50.4 | 0.06 |
| Sanxun Holdings Group Limited (6611.HK) | Property development | 42.6 | 0.03 |
| Jingrui Holdings Limited (1862.HK) | Property development | 33.9 | 0.20 |

| Company name (stock code) | Principal activities | Market capitalisation as at the Last Trading Day *(HK$ million)* | P/B *(Note 1)* *(times)* |
|---|---|---|---|
| | | **Maximum** | **10.48** |
| | | **Minimum** | **0.01** |
| | | **Average** | **0.82** |
| | | **Median** | **0.07** |
| | **The Company** | **360.2** **Implied by the Capitalisation Price** | **0.96** *(Note 2)* |

*Source: Bloomberg and the website of the Stock Exchange*

*Notes:*

1. For each of the Comparable Companies, its P/B is calculated based on (a) the market capitalisation as at the Last Trading Day; (b) the equity attributable for the Shareholders as at the end of the latest financial year; and (c) the exchange rate of HK$1=RMB0.9 for illustrative purpose; and

2. Being the Implied P/B.

As shown in the table above, the P/Bs of the Comparable Companies ranged from approximately 0.01 time to approximately 10.48 times with an average and median of approximately 0.82 time and 0.07 time, respectively, on the Last Trading Day. The Implied P/B of approximately 0.96 time is within the range of the P/Bs of the Comparable Companies and lies towards the high end of the P/Bs of the Comparable Companies.

As such, we consider the Capitalisation Price was determined with reference to the prevailing market valuation of the Comparable Companies, which we consider to be fair and reasonable so far as the Independent Shareholders are concerned.

In conclusion, although it is noted that the Capitalisation Price is below the closing Share prices during the majority of the trading days in the Review Period (499 days out of 506 days) and appears to represent the low end of the Company's historical share price performance, we consider that the Capitalisation Price should be assessed together with the prevailing market conditions and the most recent financial performance of the Group. As disclosed in the 2023 Annual Results, under the uncertainties surrounding the PRC economy and property market and the high gearing position of the Group, the Group will maintain a more prudent approach in developing its businesses and opportunities by (i) replenishing land reserve for the Group's property development; and (ii) following closely and monitoring the progress of the Group's Fusong Property Project and its funding need. Given the size of the Fusong Property Project and its huge land area, the management of the Group will keep an open-minded attitude towards the development of the project and will closely consider any potential business partners to jointly develop the project, or may even consider to divest the project to any potential investor who wishes to develop independently.

Taking into account:

(i) that as discussed in the sub-section headed "(iv) Comparable companies" above, the Implied P/B is within the range of the Comparable Companies and lies toward the high end of P/Bs of the Comparable Companies which indicates that the Capitalisation Price is determined at a level higher than the industry average;

(ii) the declining trend of the Share price of the Company and the thin trading liquidity during the Review Period;

(iii) the Group's deteriorating financial performance for the year ended 31 March 2024 and highly leveraged financial position as at 31 March 2024, in particular, that the Group had a relatively low cash position compared to its short-term liabilities (which included the outstanding amount of the Loan of approximately RMB230.0 million) as at 31 March 2024; and

(iv) as discussed in the section headed "4. Industry overview" above, the prospects of the property market in the PRC and the Northeast of the PRC, as well as the Group's businesses are considered to be uncertain in the short run,

we are of the view that the Capitalisation Price is fair and reasonable.

**8. Potential dilution effect on the shareholding interests of the Independent Shareholders**

As at the Latest Practicable Date, other than (i) the convertible bonds issued on 14 December 2021 in an aggregate principal amount of HK$103,076,730 and convertible into Shares at a conversion price of HK$0.39 each (i.e. the 2021 Convertible Bonds); (ii) the 2023 Convertible Bonds; and (iii) 51,400,000 share options granted under the share options scheme of the Company, the Company has no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares.

The shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after completion of the Loan Capitalisation assuming that there will be no changes in the total number of issued Shares between the Latest Practicable Date and date of the allotment and issue of the Capiatlisation Shares, is set out below:

| | **As at the Latest Practicable Date** | | **Immediately after completion of the Loan Capitalisation** | |
|---|---|---|---|---|
| | *No. of Shares* | *Approx. %* | *No. of Shares* | *Approx. %* |
| **Substantial Shareholder** | | | | |
| Charm Success *(Note 1)* | 434,320,694 | 6.03 | 434,320,694 | 3.54 |
| Ka Yik *(Notes 1 & 2)* | 1,794,780,371 | 24.91 | 1,794,780,371 | 14.64 |
| Ms. Chai | 850,000 | 0.01 | 850,000 | 0.01 |
| The Subscriber *(Note 3)* | – | – | 5,060,000,000 | 41.26 |
| **Sub-total (The Concert Party Group)** | 2,229,951,065 | 30.95 | 7,289,951,065 | 59.45 |
| Hong Kong Toprich Investment Limited *(Note 4)* | 1,042,000,000 | 14.46 | 1,042,000,000 | 8.50 |
| **Public Shareholders** | | | | |
| Public shareholders | 3,931,687,743 | 54.59 | 3,931,687,743 | 32.05 |
| Total | 7,203,638,808 | 100.00 | 12,263,638,808 | 100.00 |

*Notes:*

1. Charm Success and Ka Yik are companies wholly owned by Deep Wealth Holding Limited, which is in turn wholly held by TMF (Cayman) Ltd. as trustee of the Ground Trust. The Ground Trust is a discretionary trust set up by Ms. Cui as settlor and protector, and TMF (Cayman) Ltd. as trustee on 27 July 2016. By virtue of part XV of the SFO, Ms. Cui is deemed to be interested in the securities of the Company held by Charm Success and Ka Yik.

2. Ka Yik entered into a sale and purchase agreement (the "**SPA**") on 29 July 2022 pursuant to which Ka Yik agreed to sell 1,000,000,000 Shares (representing approximately 13.88% of the total issued share capital of the Company as at the Latest Practicable Date) to Tianfeng International Holding Limited ("**Tianfeng**"). Tianfeng is a company wholly owned by Jilin Wanding Holdings Group Co., Ltd.*, which 90%, 5% and 5% of its shares are owned by (i) Mr. Sui Guangyi ("**Mr. Sui**"), a former non-executive Director, not acting in concert with the Concert Party Group; (ii) Mr. Wang Jian (王健), an independent third party not acting in concert with the Concert Party Group; and (iii) Ms. Wang Min (王敏), an independent third party not acting in concert with the Concert Party Group, respectively. As at the Latest Practicable Date, while Tianfeng shall be deemed to be interested in those 1,000,000,000 shares via its interests in SPA, as Tianfeng has not yet fulfilled all of the obligations undertaken by it, (i.e. the only outstanding obligation being the undertaking by Tianfeng to procure the Group to discharge any corporate guarantee given by Ka Yik or its associates as a security for the Group's borrowing when fall due or upon re-financing), notwithstanding the consideration payable by Tianfeng under the SPA has been fully settled, the completion of the SPA has not taken place and the transaction has not completed yet. Accordingly, Ka Yik remains to be the legal and beneficial owner of the 1,000,000,000 Shares as at the Latest Practicable Date.

3. The Subscriber is a wholly-owned subsidiary of Ground Investment Holding, which is in turn held as to 75% by吉林省東秀投資有限公司 (Jilin Dongxiu Investment Limited*), a company beneficially wholly-owned by Mr. Cui, and as to 25% by長春市東秀投資有限公司 (Changchun Dongxiu Investment Limited*), a company beneficially owned as to approximately 4.55% by Mr. Cui and as to 95.45% by Ms. Chai. The Subscriber is considered to be the controlled corporation of Jilin Dongxiu. Mr. Cui, the non-executive Director, through his shareholding in Jilin Dongxiu and being one of the ultimate beneficial owners of the Subscriber, is deemed to be interested in the securities held by the Subscriber by virtue of Part XV of the SFO.

4. These 1,042,000,000 Shares are held by Hong Kong Toprich Investment Limited, which is in turn wholly owned by Final Destination Limited, which is in turn wholly owned by Eternity Sky Limited, which is in turn wholly owned by Flying Goddess Limited, which is in turn wholly owned by Ding Yi Feng Holdings Group International Limited, a company the shares of which are listed on the Main Board of the Stock Exchange and approximately 22.26% of shares of which is held by/deemed to be held by Mr. Sui by virtue of Part XV of the SFO.

5. Certain percentage figures included in the above table are subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

As shown in the above table, we noted that the shareholding in the Company held by the existing public Shareholders would be diluted from approximately 54.59% as at the Latest Practicable Date to approximately 32.05% immediately after completion of the Loan Capitalisation. Nonetheless, taking into account that (i) the Loan Capitalisation can relieve part of the Group's existing borrowings without depleting its existing financial resources; (ii) the Capitalisation Shares, when allotted and issued, will be recognised entirely as equity of the Company which in turn will reduce the gearing ratio, enlarge the capital base and enhance the financial position of the Group; and (iii) as disclosed in the sub-section headed "7. Assessment of the Capitalisation Price - (iii) Comparable transactions" above, the potential dilution effect of the Loan Capitalisation on public Shareholders of approximately 22.54% is smaller than the median and average of those of the Comparable Transactions, we are of the view that the potential dilution effect on the shareholding interests of the existing public Shareholders to be acceptable.

**9. Financial effects of the Loan Capitalisation**

***(i) Effect on total liabilities and net asset value***

According to the 2023 Annual Results, the audited total liabilities and net asset value attributable to the Shareholders was approximately RMB2,039.6 million and RMB228.9 million as at 31 March 2024, respectively. Assuming the Group will not incur new borrowings and no other settlement will be made on the Group's liabilities, the Group's total liabilities will be decreased by the amount of the Loan of approximately RMB230.0 million upon completion of the Loan Capitalisation. In light of the decrease of total liabilities, the net asset value attributable to owners of the Company will also be enhanced by the amount of the Loan of approximately RMB230.0 million. We consider that the Loan Capitalisation will result in an overall improvement on the Group's net assets position.

***(ii) Effect on debt to total equity ratio***

As discussed in the section headed "1. Background information of the Group" above, the gearing ratio of the Group was approximately 80.1% as at 31 March 2024. Upon completion of the Loan Capitalisation, the gearing ratio is expected to improve to approximately 67.8% as the total amount of debts of the Group would decrease by approximately RMB230.0 million, being the amount of the Loan and the total equity of the Group will be enlarged by the allotment and issue of the Capitalisation Shares. We, therefore, consider that the Loan Capitalisation will have an overall improvement on the gearing ratio of the Group.

***(iii) Effect on working capital***

As the Loan will be fully settled by way of allotment and issue of the Capitalisation Shares without incurring any cash outflow (save and except the professional fees in relation to the Loan Capitalisation) by the Group, the Loan Capitalisation would enable the Company to free the cash flow on its general working capital, for repayment of other borrowings and/or development of its business without affecting the working capital of the Company. Accordingly, the cash and liquidity positions of the Group are expected to improve upon completion of the Loan Capitalisation.

Although the above analysis is for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Loan Capitalisation, based on the above analyses, the Loan Capitalisation would have a positive impact on the Group's net asset value, gearing ratio and working capital. On such bases, we are of the view that the entering into of the Loan Capitalisation Agreement is fair and reasonable and is in the interests of the Company and the Independent Shareholders as a whole.

**10. The Whitewash Waiver**

As at the Latest Practicable Date, the ultimate beneficial owners of the Subscriber are (i) Mr. Cui, who is the non-executive Director and the father of Ms. Cui; and (ii) Ms. Chai, the spouse of Mr. Cui and the mother of Ms. Cui. Ms. Cui, being the settlor and protector of The Ground Trust, is deemed to be interested (by virtue of Part XV of the SFO) in an aggregate of 2,229,101,065 Shares of the Company, representing approximately 30.94% of the issued Shares as at the Latest Practicable Date via her interests in Ka Yik and Charm Success. Pursuant to the definition under the Takeovers Code, the Subscriber, Ground Investment Holding, Mr. Cui, Ms. Chai, Ms. Cui, Charm Success, Ka Yik, Jilin Dongxiu and Changchun Dongxiu are presumed to be under classes (1) and (8) of the definition of acting in concert under the Takeovers Code; and as a matter of fact are, parties acting in concert.

Under the Loan Capitalisation Agreement, the Subscriber shall subscribe for a total of 5,060,000,000 Capitalisation Shares. Assuming that there is no change in the issued share capital of the Company other than the allotment and issue of the Capitalisation Shares, the aggregate shareholding interest of the Concert Party Group would increase from 2,229,951,065 Shares, representing approximately 30.95% of the issued Shares as at the Latest Practicable Date, to 7,289,951,065 Shares, representing approximately 59.45% of the issued Shares as enlarged by the allotment and issue of the Capitalisation Shares immediately after completion of the transactions contemplated under the Loan Capitalisation Agreement. Upon completion of the Loan Capitalisation, the Concert Party Group would be required to make a mandatory general offer under Rule 26.1 of the Takeovers Code for all the issued Shares (other than those already owned or agreed to be acquired by the Concert Party Group) unless the Whitewash Waiver is granted by the Executive.

The Subscriber has made an application to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver will be conditional upon, among other things, (i) the approval by at least 75% of the independent votes that are casted by the Independent Shareholders at the SGM by way of poll in respect of the Whitewash Waiver; and (ii) the approval by more than 50% of the Independent Shareholders at the SGM by way of poll in respect of the Loan Capitalisation Agreement and the transactions contemplated thereunder. The Concert Party Group and their associates and any Shareholders who are involved in, or interested in (other than by being a Shareholder), or have a material interest in the Loan Capitalisation Agreement and/or the transactions contemplated thereunder, and/or the Whitewash Waiver shall abstain from voting on the relevant resolution(s) at the SGM. Other than Charm Success, Ka Yik and Ms. Chai who are members of the Concert Party Group and Shareholders, none of the Shareholders is involved in or interested in the Loan Capitalisation Agreement and/or the transactions contemplated thereunder, and/or the Whitewash Waiver and is required to abstain from voting in respect of the resolution(s) to approve the aforesaid matters at the SGM.

If the Whitewash Waiver is not granted and/or approvals by the Independent Shareholders are not obtained, or if any other conditions precedent under the Loan Capitalisation Agreement is not fulfilled, the subscription contemplated under the Loan Capitalisation Agreement will not proceed.

Based on our analysis of the benefits and terms of the Loan Capitalisation Agreement, we consider that the entering into of the Loan Capitalisation Agreement is in the interests of the Company and the Independent Shareholders as a whole. As such, we are of the view that the approval of the Whitewash Waiver, which is a prerequisite for the implementation of the Loan Capitalisation, is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole for the purpose of proceeding with the Loan Capitalisation.

**OPINION AND RECOMMENDATION**

In arriving at our opinion and recommendation, we have considered the principal factors and reasons as discussed above and in particular the following:

(i) the Group recorded net losses for the year ended 31 March 2024 and its financial performance has experienced significant fluctuations over the periods under review which suggested that the Group is operating in a challenging business environment and it remains uncertain as to the future performance of the Group as a whole. As disclosed in the 2023 Annual Results, under the uncertainties surrounding the PRC economy and property market and the high gearing position of the Group, the Group will maintain a more prudent approach in developing its businesses and opportunities by (a) replenishing land reserve for the Group's property development; and (b) following closely and monitoring the progress of the Group's Fusong Property Project and its funding need. Given the size of the Fusong Property Project and its huge land area, the management of the Group will keep an open-minded attitude towards the development of the project and will closely consider any potential business partners to jointly develop the project, or may even consider to divest the project to any potential investor who wishes to develop independently. Against this backdrop, the future business operation and financial performance of the Group requires a substantial amount of working capital to repay the outstanding loans and support the property development business, so as to maintain the competitiveness and healthy financial position of the Group;

(ii) as at 31 March 2024, the Group had total debt (being the sum of loans from a controlling shareholder, loans from related parties and bank and other borrowings) of approximately RMB1,060.1 million, while the Group only maintained cash position of approximately RMB53.6 million, which were insufficient to cover even the current portion of total debt of approximating RMB829.1 million;

(iii) the Group is not able to raise fund effectively through debt financing and placing as discussed in the section headed "3. Reasons for and benefits of the entering into of the Loan Capitalisation Agreement" above;

(iv) the Loan Capitalisation is an appropriate fund raising method currently available to the Group as it enables the Group to mitigate a substantial cash outflow, allowing the Company to retain working capital to support its business operations and development;

(v) although it is noted that the Capitalisation Price is below the closing Share prices during the majority of the trading days in the Review Period (499 days out of 506 days) and appears to represent the low end of the Company's historical share price performance, the Capitalisation Price is fair and reasonable after considering the following:

   (a) the thin trading liquidity of the Shares during the Review Period;

   (b) the declining trend of the Share price of the Company;

   (c) as discussed in the section headed "4. Industry overview" above, the prospects of the property development market in the PRC and the Northeast of the PRC, as well as the Group's businesses are considered to be uncertain in the short run; and

   (d) the Implied P/B is within the range of the Comparable Companies and lies toward the high end of P/Bs of the Comparable Companies;

(vi) the dilution effect on the shareholding interests of existing public Shareholders arising from the Loan Capitalisation is acceptable and the Loan Capitalisation does not result in a theoretical dilution effect of 25% or more on its own, complying with the Listing Rules; and

(vii) the Loan Capitalisation is expected to have a positive impact on the Group's net asset value, gearing ratio and working capital, which is in line with the interests of Shareholders.

Based on the above, we consider that the terms of the Loan Capitalisation Agreement, the Whitewash Waiver and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that although the entering into of the Loan Capitalisation Agreement, the Whitewash Waiver and the transactions contemplated thereunder is not conducted in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Loan Capitalisation, the Whitewash Waiver and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
**Rainbow Capital (HK) Limited**

Larry Choi

**Larry Choi**
*Managing Director*

*Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over 10 years of experience in the corporate finance industry.*