八方金融有限公司
OCTAL Capital Limited

10 February 2023

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION DISPOSAL OF ENTIRE EQUITY INTEREST IN TARGET COMPANY

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement, particulars of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company to the Shareholders dated 10 February 2023 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

Pursuant to the Sale and Purchase Agreement, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase (i) the Sale Share; and (ii) the Sale Loan.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Disposal ((i) on a standalone basis; or (ii) when aggregating with the Previous Disposal pursuant to Rule 14.22 of the Listing Rules) exceeds 25% but less than 75%, the Disposal constitutes a major disposal of the Company under Chapter 14 of the Listing Rules. As at the Latest Practicable Date, the Vendor is a wholly-owned subsidiary of the Company. The Company and the Purchaser are both indirectly controlled by the respective private discretionary trusts which were all set up by Dr. Yeung who is the deemed substantial shareholder of the Company. As such, under Chapter 14A of the Listing Rules, the Purchaser is a deemed connected person of the Company and as one or more of the applicable percentage ratios (as defined in Listing Rules) in respect of the Disposal are greater than 5%, the Disposal constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The Disposal is subject to announcement, Independent Shareholders' approval and reporting requirements under the Listing Rules.

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The Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Chan Hon Piu, Mr. Chu Kar Wing and Mr. Poon Yan Wai, has been formed to advise the Independent Shareholders on the terms of the Sale and Purchase Agreement and the transaction contemplated thereunder. We, Octal Capital Limited, have been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee in accordance with the Listing Rules to advise the Independent Board Committee and the Independent Shareholders in these regards and to give our opinion for the Independent Board Committee's consideration when making their recommendations to the Independent Shareholders.

As at the Latest Practicable Date, we are not connected with the Group and the Target Group, or where applicable, any of the respective substantial shareholders, directors or chief executives, or any of their respective subsidiaries or associates pursuant to Rule 13.84 of the Listing Rules. During the last two years, there has been no other engagement entered into between the Company and us. We are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Sale and Purchase Agreement.

Apart from normal professional fees payable to us by the Company in connection with these appointments, no arrangement exists whereby we will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company, the Group or the Target Group or any of their respective subsidiaries or associates that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser pursuant to Rule 13.84 of the Listing Rules.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the Directors and management of the Company regarding the Group, the Sale and Purchase Agreement, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice, among other things, (i) the Sale and Purchase Agreement; (ii) the Valuation Report; (iii) the annual report of the Company for the year ended 31 March 2022 (the "**2021/22 Annual Report**"); (iv) the interim report of the Company for the six months ended 30 September 2022 (the "**2022/23 Interim Report**"); and (v) other information as set out in the Circular. We have no reason to neither suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group and the Target Group and their respective subsidiaries or associates nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the Sale and Purchase Agreement, we have considered the following principal factors and reasons:

1. Information of the Company and the Vendor

The Company is an investment holding company and its subsidiaries are principally engaged in property investments, property development and hospitality in Greater China and overseas. The Vendor is a direct wholly-owned subsidiary of the Company with principal business of investment holding.

Set out below is a summary of the consolidated financial information of the Group for the years ended 31 March 2021 (**"FY2020/21"**) and 2022 (**"FY2021/22"**) as extracted from the 2021/22 Annual Report, and for the six months ended 30 September 2021 (**"HY2021/22"**) and 30 September 2022 (**"HY2022/23"**) as extracted from the 2022/23 Interim Report.

(a) Financial performance of the Group

HK$'million	**FY2020/21** (audited)	**FY2021/22** (audited)	**HY2021/22** (unaudited)	**HY2022/23** (unaudited)
Revenue				
Lease of properties	899	904	440	431
Properties development	82	1,025	732	14
Hotel and hotel related operations	336	400	221	96
Total revenue	**1,317**	**2,329**	**1,393**	**541**
Gross profit	647	813	409	231
Gross profit margin	*49.1%*	*34.9%*	*29.4%*	*42.7%*
(Loss)/profit before taxation	(1,075)	(831)	183	(1,094)
(Loss)/profit attributable to owners of the Company	(767)	(469)	233	(956)

Comparison between FY2020/21 and FY2021/22

Revenue of the Group increased by approximately 76.8% from approximately HK$1,317 million for FY2020/21 to approximately HK$2,329 million for FY2021/22. Such increase was mainly because of the increase of approximately 1,147.0% or approximately HK$943 million in revenue from property development contributed by the sales income from Central 8 as well as Seaside Castle.

Gross profit of the Group increased by approximately 25.6% from approximately HK$647 million in FY2020/21 to approximately HK$813 million in FY2021/22. The increase in gross profit was mainly due to the increased sales of properties during the financial year.

The Group's loss before taxation decreased from approximately HK$1,075 million for FY2020/21 to approximately HK$831 million for FY2021/22. Such decrease was mainly due to the increase in gross profit and decrease in the fair value loss of investment properties compared to FY2020/21.

Comparison between HY2021/22 and HY2022/23

Revenue of the Group decreased by approximately 61.2% from approximately HK$1,393 million for HY2021/22 to approximately HK$541 million for HY2022/23. Such decrease was mainly due to the decrease of approximately 98.1% or approximately HK$718 million in revenue generated from sales of property development during the period, and the decrease of approximately 56.6% or approximately HK$125 million in revenue generated from hotel and hotel related operations.

Gross profit of the Group decreased from approximately HK$409 million for HY2021/22 to approximately HK$231 million for HY2022/23, representing a decline of approximately 43.5%. The decrease in gross profit of the Group was mainly due to the substantial decrease in sales of properties during the period.

The Group's loss before taxation was approximately HK$1,094 million for HY2022/23 as compared to a profit before taxation of approximately HK$183 million for HY2021/22. This was mainly due to the adverse change in fair value of the Group's investment properties for HY2022/23, as compared to a positive change in such items for HY2021/22.

(b) Financial position of the Group

HK$'million	**As at 30 September 2022** (unaudited)
Investment properties	39,405
Property, plant and equipment	2,760
Interests in associate/joint venture	1,082
Other non-current assets	648
Total non-current assets	**43,895**

HK$'million	**As at 30 September 2022** (unaudited)
Properties under development for sale	4,828
Cash, bank balances and bank deposits	1,568
Other current assets	1,350
Total current assets	**7,746**
Total assets	**51,641**
Bank borrowings	15,614
Deferred taxation	1,749
Unsecured notes	1,246
Other non-current liabilities	35
Total non-current liabilities	**18,644**
Bank borrowings	3,780
Amounts due to related companies	1,213
Trade and other payables	795
Unsecured notes	200
Amounts due to non-controlling interests of subsidiaries	40
Other current liabilities	296
Total current liabilities	**6,324**
Total liabilities	**24,968**
Net assets	**26,673**
Net gearing ratio *Note*	**39.7%**

Note: Being the aggregate amount of borrowings less cash and bank balances divided by total assets

Total assets of the Group amounted to approximately HK$51,641 million as at 30 September 2022, which mainly comprised of (i) investment properties of approximately HK$39,405 million, representing approximately 76.3% of the total assets; and (ii) properties under development for sale of approximately HK$4,828 million, representing approximately 9.4% of the total assets.

Total liabilities of the Group amounted to approximately HK$24,968 million as at 30 September 2022, which mainly comprised of (i) bank borrowings of approximately HK$19,394 million, representing approximately 77.7% of the total liabilities; and (ii) deferred taxation of HK$1,749 million representing approximately 7.0% of the total liabilities.

2. Information of the Purchaser

The Purchaser, New Global, is a company incorporated in the BVI and it is indirectly controlled by a private discretionary trust set up by Dr. Yeung. The trustee of the private discretionary trust is First Trust Management AG. The Purchaser's principal business is investment holding.

3. Information of the Target Group

The Target Company is a company incorporated in the BVI and indirectly wholly-owned by the Company. The principal business of the Target Group is property investment holding. The Target Company is the indirect beneficial owner of the Property through the Property Company. The Property Company is a company incorporated in Hong Kong with limited liability and directly wholly-owned by the Target Company. The Property Company is directly holding the Property and engaged in the business of property investment.

Assuming the Target Group had been formed since 1 April 2020, the unaudited pro forma combined financial information of the Target Group for the two years ended 31 March 2021 and 2022 is set out below:

HK$'000	**FY2021/22** (unaudited)	**FY2020/21** (unaudited)
Revenue	4,981	887
(Loss)/Profit before taxation	(16,592)	95,942
(Loss)/Profit after taxation	(18,220)	97,596

Based on the information provided by the management, the unaudited pro forma combined total asset value and net asset value of the Target Group as at 30 November 2022 were approximately HK$1,163.6 million and approximately HK$1,059.4 million respectively.

4. Information of the Property

The Property, ***Lane Up***, is a 13-storey commercial complex located at No. 4 Kin Fat Lane, Tuen Mun, spanning diverse functions such as food and beverage, retail and office spaces. According to the Valuation Report, the Property has a total saleable area of approximately 115,807.66 sq. ft.. The Property has been revitalised and transformed from an industrial building into a commercial complex in 2021. It mainly comprises retail and office units, of which the ground floor and 2nd floor to 4th floor are devoted to retail uses, and the 5th floor to 12th floor are devoted to office uses. The Property is currently leased out for retail and office uses, with tenancy terms ranging from approximately 1.14 years to 5 years. The prevailing occupancy rate is approximately 64.8% and the average monthly rent of the leased out units is approximately HK$31,057.

5. Background of and the reasons for entering into the Sale and Purchase Agreement

As stated in the Letter from the Board, the Group pursues quality properties with growth potential, which are mainly premium office towers and commercial complexes located in key commercial districts, as well as retail spaces in popular shopping areas, in its core investment properties portfolio. Adopting a portfolio optimisation strategy, the Group examines its portfolio regularly to (i) expand the portfolio by acquiring quality properties; (ii) enhance the asset value by redeveloping and refurbishing the properties in its existing portfolio; and (iii) unlock the asset value by disposing of non-core assets.

After the Group's regular review of the business operation of its investment portfolio, the Group is of the view that as the Property is located beyond the central business districts, it is regarded as a non-core investment property with limited room of further enhancement of rental yield or value. Therefore, the management considered the Disposal a good opportunity to crystalise the appreciated value of the asset of approximately HK$882.6 million against its total investment cost of approximately HK$277.4 million (including the acquisition cost and the cost of revitalisation exercise).

The net proceeds from the Disposal is estimated to be approximately HK$1,136.8 million (subject to adjustments), out of which (i) not less than 90% for enrichment of working capital for operation and expansion of existing property development and property investment businesses, with an aim to strengthen its financial position for future investment opportunities and enhance the return of its investment portfolio; and (ii) the remaining for general working capital such as staff cost, professional fees and other general administrative and operating expenses of the Group. The proceeds is expected to be utilised on or before 31 March 2024.

According to the 2022/23 Interim Report, the Group's investment properties in Hong Kong accounted for more than 50% of the Group's total gross floor area of investment properties currently for lease. The Group owns a number of premium offices, commercial and industrial complexes which are mainly located in Central, Wan Chai and Sheung Wan. The Property is located in the industrial area of Tuen Mun and therefore considered a non-core asset of the Group's investment properties portfolio. As stated in the Letter from the Board, the revenue of the Target Group for FY2021/22 was only approximately HK$5.0 million, representing approximately 0.6% of the Group's total leasing income for FY2021/22. Moreover, the Target Group recorded loss after taxation of approximately HK$18.2 million as a result of the adverse change in fair value of the Property as at 31 March 2022. Based on above, the Disposal represents an opportunity for the Group to offload its non-core asset in return for financial resources for future investment opportunities. We concur with the Directors that the Disposal is with commercial rationale and justification.

6. The Sale and Purchase Agreement

On 6 January 2023 (after trading hours), the Vendor entered into the Sale and Purchase Agreement with the Purchaser, which is a connected party, in relation to the sale and purchase of the Sale Share and the Sale Loan at a consideration of approximately HK$1,137.3 million (subject to adjustments).

6.1. Consideration

The consideration for the Disposal was arrived at after arm's length negotiation between the Vendor and the Purchaser on normal commercial terms with reference to the Management Accounts which comprises (i) the fair market valuation of the Property, of HK$1,160.0 million as at 23 December 2022 as indicated by the Valuer; (ii) the loan due from the Target Company to the Vendor of approximately HK$77.9 million as at 30 November 2022; and (iii) the unaudited combined net asset value of the Target Group of approximately HK$1,059.4 million as at 30 November 2022 after adjustment on the book value of the Property to HK$1,160.0 million.

Valuation Report

Given that as at the Latest Practicable Date, the Target Company and its subsidiary, the Property Company, principally serve as investment holding vehicles and that their only property interest is the Property, in assessing the fairness and reasonableness of the consideration for the Disposal, we have focused on analysing the Valuation Report.

We have performed the works with reference to Note 1(d) to Rule 13.80 of the Listing Rules and paragraph 5.3 of the Corporate Finance Adviser Code of Conduct in respect of the Valuation Report, which included (i) assessment of the Valuer's experiences in valuing properties in Hong Kong similar to the Property; (ii) obtaining information on the Valuer's track records on other property valuations; (iii) inquiry on the Valuer's current and prior relationship with the Group and other parties; (iv) review of the terms of the Valuer's engagement, in particular its scope of work, for the assessment of the Valuation Report; and (v) discussion with the Valuer regarding the bases, methodology and assumptions adopted in the Valuation Report.

a) The Valuer

We have conducted a telephone interview with the Valuer to enquire its experience in valuing similar property interests in Hong Kong. We noted that the Valuer had acted as the valuer for a wide range of public companies listed in Hong Kong for similar transactions. In addition, we understand that Mr. Vincent Cheung ("**Mr. Cheung**"), the Managing Director of the Valuer and the signor of the Valuation Report, is a fellow of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors, a Registered Professional Surveyor (General Practice) in Hong Kong, a member of China Institute of Real Estate Appraisers and Agents, a RICS Registered Valuer. He has over 25 years' experience in valuation of fixed and intangible assets of this magnitude and nature in the subject region. As such, we are of the view that the Valuer and Mr. Cheung are qualified, experienced and competent in performing the valuation of the Property.

We have also enquired with the Valuer as to its independence from the Company and the parties and were given to understand that the Valuer is an independent third party of the Company and its connected persons. The Valuer confirmed to us that it was not aware of any relationship or interest between itself and the Company or any other parties that would reasonably be considered to affect its independence to act as an independent valuer for the Company. Apart from normal professional fees payable to it in connection with its engagement for the valuation, the Valuer confirmed that no arrangements exist whereby it will receive any fee or benefit from the Company and its associates. Given the above, we are of the view that the Valuer is independent from the Company in respect of the valuation of the Property.

Furthermore, we have reviewed the terms of engagement of the Valuer, in particular to its scope of work. We noted that its scope of work is appropriate to form the opinion required to be given and there are no limitations on the scope of work which might adversely impact on the degree of assurance given by the Valuer in the Valuation Report. We have also performed work as required under note (1)(d) to the Listing Rule 13.80 in relation to the Valuer and its work as regards the valuation of the Property.

b) Valuation basis

As stated in the Valuation Report, the valuation is conducted in compliance with Chapter 5 of the Listing Rules and the HKIS Valuation Standards 2020 published by the Hong Kong Institute of Surveyors. Based on our discussion with the Valuer, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal basis and assumptions used in arriving at the valuation of the Property. The Valuer has carried out inspections, made relevant enquiries and searches for the purpose of the valuation of the Property. We have reviewed and discussed with the Valuer the basis and assumptions adopted in arriving at the value of the Property. Taking into consideration of the nature of the Property and that the valuation is conducted in accordance with the aforesaid requirements, we consider that the basis and assumptions adopted by the Valuer for determining the market value of the Property are appropriate.

c) Valuation methodology

As disclosed in the Valuation Report, the Valuer adopts market approach in valuing the Property.

According to our discussion with the Valuer, valuations of completed properties are normally conducted in market approach and income approach. We understand that given data on comparable premises/properties in the Hong Kong property market are mostly publicly available, the Valuer considered the adoption of the market approach as the most appropriate as it would provide a more objective result. In fact, the market approach is universally considered as the most accepted valuation approach for valuing most forms of properties. Given that Hong Kong has an active and well-publicised property market and that there already exists sufficient samples of comparable premises/properties available for analysis, we are of the view that these comparable premises/properties provide good and objective benchmarks for the valuation of the Property. Accordingly, we agree with the Valuer that the market approach is appropriate for the valuation of the Property.

On the other hand, we are advised by the Valuer that the income approach is less appropriate for the valuation of the Property as it is subject to substantial assumptions and estimations, mainly including discount rate, occupancy rate, rental income and its growth rate. Moreover, the recent revistalisation of the Property may bring additional maintenance cost to the Target Group which may cast further uncertainty on its net cash flow, and thus the valuation result. Therefore, we concur with the view of the Valuer that income approach is less appropriate for the valuation of the Property.

The Property mainly comprises office and retail units. As stated in the Valuation Report, during the course of the valuation of the Property under the market approach, the Valuer has considered and analysed the sale comparables of office and retail units in the vicinity. Four office sale comparables (the "**Office Comparables**") and three retail sale comparables (the "**Retail Comparables**") (collectively, the "**Comparables**") are adopted as they are considered relevant to the Property in terms of physical and locational attributes.

The following table sets forth the details of the Office Comparables:

	Office Comparable 1	**Office Comparable 2**	**Office Comparable 3**	**Office Comparable 4**
Development	One Vista Summit	One Vista Summit	One Vista Summit	Tuen Mun Central Square
Address	1-3 San Hop Lane	1-3 San Hop Lane	1-3 San Hop Lane	22 Hoi Wing Road
District	Tuen Mun	Tuen Mun	Tuen Mun	Tuen Mun
Year of completion	2019	2019	2019	1999
Floor	21/F	17/F	15/F	23/F
Unit	Unit 11	Unit 7	Unit 7	Unit 1
Saleable area (sq. ft.)	349	368	368	505
Nature	Agreement for Sale and Purchase	Agreement for Sale and Purchase	Agreement for Sale and Purchase	Agreement for Sale and Purchase
Date of instrument	30 Nov 2022	23 Aug 2022	1 Aug 2022	15 Jun 2022
Consideration (HK$)	3,980,000	4,708,000	4,353,200	4,460,000
Saleable unit rate (HK$/sq. ft.)	11,389	12,798	11,834	8,832

The following table sets forth the details of the Retail Comparables:

	Retail Comparable 1	Retail Comparable 2	Retail Comparable 3
Development	Golden Court	Rich Building	Hip Pont Building
Address	50 Yan Oi Tong Circuit	6 Tsing Min Path	21 Tseng Choi Street
District	Tuen Mun	Tuen Mun	Tuen Mun
Year of completion	1978	1981	1982
Floor	G/F	G/F	G/F
Unit	Shop D	Shop 14	Shop 16
Saleable area (sq. ft.)	495	483	331
Nature	Agreement for Sale and Purchase	Agreement for Sale and Purchase	Agreement for Sale and Purchase
Date of instrument	4 Nov 2022	25 Aug 2022	10 Jan 2022
Consideration (HK$)	9,000,000	10,000,000	6,280,000
Saleable unit rate (HK$/sq. ft.)	18,182	20,704	18,973

Based on the above tables, the Comparables are located in the same area as the Property. The Office Comparables have saleable areas ranging from approximately 349 sq. ft. to approximately 505 sq. ft., whereas the Retail Comparables have saleable areas ranging from approximately 331 sq. ft. to approximately 495 sq. ft.. The unit rates of the adopted Office Comparables and Retail Comparables range from HK$8,832 to HK$12,798 per sq. ft. and HK$18,182 to HK$20,704 per sq. ft. on the saleable area basis respectively.

The unit rates adopted in the valuation are within the range of the unit rates of the relevant Comparables after due adjustment in terms of different attributes such as saleable area, floor level, location and building age. The adopted unit rates are HK$8,892 per sq. ft. for the benchmark office units and HK$19,897 per sq. ft. for the benchmark retail units on the basis of saleable area. We understand that the Valuer had multiplied the respective analysed unit rate for the Property with their respective size of area, and reached the aggregate appraised value of the Property of HK$1,160.0 million as at 23 December 2022.

Through our discussion with the Valuer, we also understand that data and information about the Comparables were mostly obtained from online public domains, which included the websites of the Land Registry, the Buildings Department and Rating and Valuation Department. As confirmed by the Valuer, the Comparables represent an exhaustive list to the best of their knowledge. Accordingly, we considered that the selection of the Comparables used in the valuation of the Property is fair and reasonable.

d) Valuation assumptions

According to the Valuation Report, the valuation of the Property was made on the assumption that the seller sells the Property in the market without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which could serve to affect the values of the Property. In addition, the Valuer assumed that no allowance has been made for any charges, mortgages or amounts owing on the property interest nor for any expenses or taxation may be incurred in effecting a sale. Unless otherwise stated, it is also assumed that the Property is free of legal complications and encumbrances, restrictions, and outgoings of an onerous nature that could affect its value. In this regard, we noted from the Valuer that these assumptions are commonly adopted in the valuation of properties. Given that we consider it objective and appropriate to appraise the Property the same way as other similar properties on the open market, and that nothing material has come to our attention, we are of the view that these valuation assumptions are fair and reasonable.

Conclusion

Given that (i) the Property represents the only property interests of the Target Group and hence the valuation of the Target Group is mostly determined by the appraised value of the Property, and that we consider the Valuation Report an appropriate reference for determining the valuation of the Property upon our review; (ii) the consideration of the Sale Loan is equal to the face value of the Sale Loan on a dollar-for-dollar basis; and (iii) the adjustments of the consideration by reference to the Completion Accounts shall reflect the changes of the net asset value of the Target Group (excluding the Property and the liabilities) as at the Completion Date, we consider that the consideration for the Disposal as determined with reference to the fair market value is fair and reasonable.

6.2. Settlement of consideration

Pursuant to the Sale and Purchase Agreement, the consideration for the Disposal shall be settled by the Purchaser by cash transfer to the designated bank account of the Vendor or such other method as mutually agreed by the Vendor and Purchaser upon Completion. As both (i) the transfer of the ownership title of the Sale Share and Sale Loan from the Vendor to the Purchaser; and (ii) the cash transfer of the consideration from the Purchaser to the Vendor's designated account shall both take place on the Completion Date, we are of the view that the payment term is fair and reasonable.

7. Possible financial effects of the Disposal

As at the Latest Practicable Date, the Target Company and the Property Company were indirectly wholly-owned by the Company. Immediately after Completion, the Target Group will cease to be subsidiary of the Company and the Company will cease to have any equity interest in the Target Group.

The financial effects of the Disposal on the Group's earnings, working capital and net asset value are set out below. However, it should be noted that the analysis below is for illustrative purposes only and does not purport to represent how the financial position of the Group would be upon Completion.

7.1. Earnings

As disclosed in the Letter from the Board, the Target Group recorded unaudited pro forma combined loss after taxation of approximately HK$18.2 million for FY2021/22. Upon Completion, the Target Group would cease to be subsidiaries of the Company and their financial information would no longer be consolidated into the Company's consolidated financial statements. As stated in the Letter from the Board, the Property has appreciated by approximately HK$882.6 million against its total investment cost of approximately HK$277.4 million (including the acquisition cost and the cost of revitalisation exercise). The Disposal enables the Group to realise the cumulative appreciation in the value of the Property approximately threefold since its initial acquisition.

7.2. Working capital

The net proceeds from the Disposal will be applied for future business development of the Group and as working capital. As at 30 September 2022, the Group had cash, bank balances and short-term bank deposits of approximately HK$1,568.4 million and net current assets of approximately HK$1,422.2 million. After the consideration of approximately HK$1,137.3 million (subject to adjustments), both the cash flow and financial position of the Group are expected to improve.

7.3. Net asset value

As the Property has been accounted for as an investment property based on fair market valuation, it is estimated that the Group would not record any gain or loss from the Disposal before any related expenses. Such estimation is calculated based on the consideration of approximately HK$1,137.3 million (subject to adjustments), which is equal to the unaudited combined net asset value of the Target Group attributable to the Company, and the Sale Loan with reference to the Management Accounts. However, as abovementioned, the Property has appreciated by approximately HK$882.6 million over the years. The Disposal enables the Group to realise the cumulative appreciation in the value of the Property, reflecting the substantial increase in net asset value of the Group since the initial acquisition of the Property.

Shareholders should note that the actual amount of gain or loss on the Disposal to be recorded by the Company (if any) will be subject to review by the auditors of the Company.

RECOMMENDATION

Based on the above, we consider that the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the Sale and Purchase Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Independent Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully
For and on behalf of
Octal Capital Limited

Alan Fung	**Wong Wai Leung**
Managing Director	*Executive Director*

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 28 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Mr. Wong Wai Leung has been a responsible officer of Type 1 (dealing in securities), Type 6 (advising on corporate finance) regulated activities since 2008 and is also a responsible officer of Type 9 (asset management) regulated activities. Mr. Wong has accumulated decades of experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Listing Rules and the Takeovers Code.