中國通海企業融資有限公司
CHINA TONGHAI CAPITAL LIMITED
於香港註冊成立之有限公司 Incorporated in Hong Kong with limited liability

香港中環皇后大道中29號華人行18樓
18/F China Building, 29 Queen's Road Central, Hong Kong
Tel: (852) 3184-8600 | Fax: (852) 2111-9032
www.tonghaicapital.com | www.tonghaifinancial.com

中國通海金融
TONGHAI FINANCIAL

25 February 2019

To the Independent Board Committee

Dear Sir or Madam,

**PROPOSAL FOR THE PRIVATISATION OF
HOPEWELL HOLDINGS LIMITED
BY PETRUS HK CO LIMITED BY WAY OF
A SCHEME OF ARRANGEMENT
UNDER SECTION 673 OF THE COMPANIES ORDINANCE**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee in connection with the Proposal, details of which are set out in the scheme document dated 25 February 2019 jointly issued by the Company and the Offeror in relation to the Proposal, of which this letter forms part. Terms used in this letter shall have the same meaning as defined in this Scheme Document unless the context otherwise requires.

The Independent Board Committee consists of all independent non-executive Directors, namely Ms. Linda Lai Chuen Loke, Mr. Sunny Tan, Dr. Gordon Yen, Mr. Ahito Nakamura and Mr. Yuk Keung Ip. The Independent Board Committee has been established to advise the Scheme Shareholders as to (i) whether the terms of the Proposal are fair and reasonable; and (ii) whether to vote in favour of the relevant resolutions to be proposed at the Court Meeting and the EGM to approve and implement the Proposal and the Scheme. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee in such regard.

We are not associated with the Company, the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. Apart from normal professional fees paid or payable to us in connection with this engagement, no other arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered eligible to give an independent advice to the Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in this Scheme Document; (ii) the information supplied by the Directors and the management of the Group; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) 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 Scheme Document were true, accurate and complete in all 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 Scheme Document are true at the time they were made and continue to be true 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 Scheme Document 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 Scheme Document 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 respects at the time they were made and continued to be so until the Latest Practicable Date.

The Scheme Shareholders will be informed by the Company and us as soon as practicable if there is any material change to the information disclosed in this Scheme Document during the offer period, in which case we will consider whether it is necessary to revise our opinion and inform the Independent Board Committee and the Scheme 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 Scheme Document 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 or any of their respective subsidiaries and associates.

PRINCIPAL TERMS AND CONDITIONS OF THE PROPOSAL

Subject to the fulfilment or waiver (as applicable) of the Conditions, the proposed privatisation of the Company will be implemented by way of the Scheme.

(a) Principal terms of the Scheme

Subject to the Scheme becoming effective, the Scheme Shareholders will receive from the Offeror the following Cancellation Price for the cancellation of the Scheme Shares:

For each Scheme Share .... HK$38.80 in cash

On the basis of the Cancellation Price of HK$38.80 per Scheme Share and 547,845,931 Scheme Shares in issue as at the Latest Practicable Date, the amount of cash payable to the Scheme Shareholders under the Proposal would be approximately HK$21,256.4 million.

Based on the Cancellation Price and the number of Shares in issue as at the Latest Practicable Date, the Proposal valued the Company at approximately HK$33,702.5 million.

The Scheme Shareholders should note that as stated in the "*Letter from the Board*" in this Scheme Document, the Cancellation Price will not be increased and the Offeror does not reserve the right to do so. If the Scheme is not approved or the Proposal otherwise lapses, neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive. The Offeror has indicated that it has no intention to seek such consent.

(b) Conditions of the Proposal

The Proposal is, and the Scheme will become effective and binding on the Company and all the Scheme Shareholders, subject to the fulfilment or waiver (as applicable) of, among other things, the following Conditions:

(i) the Scheme being approved by the Disinterested Shareholders representing at least 75% of the voting rights of the Disinterested Shareholders present and voting (the "**75% Approval Test**"), in person or by proxy, at the Court Meeting, with votes cast against the Scheme at the Court Meeting not exceeding 10% of the total voting rights attached to all disinterested Shares (the "**10% Objection Test**") (as respectively defined in Note 6 to Rule 2 of the Takeovers Code and section 674(3) of the Companies Ordinance);

(ii) the passing of a special resolution by the Shareholders at the EGM (and otherwise in accordance with the procedural requirements of section 564 of the Companies Ordinance) to approve and give effect to the Scheme, including the approval of the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares and the issue to the Offeror of such number of new Shares as is equal to the number of the Scheme Shares cancelled and extinguished;

(iii) the sanction of the Scheme (with or without modification) under section 673 of the Companies Ordinance and the confirmation of the reduction of the share capital of the Company involved in the Scheme under section 229 of the Companies Ordinance by the High Court and the registration of a copy of the order of the High Court by the Registrar of Companies under the Companies Ordinance; and

(iv) the compliance with the procedural requirements of sections 230 and 231 and sections 673 and 674 of the Companies Ordinance in relation to the reduction of the share capital of the Company and the Scheme, respectively.

For details of other Conditions, please refer to the section headed "*5. Conditions of the Proposal*" in the Explanatory Statement in this Scheme Document.

The Offeror reserves the right to waive all or any of the Conditions (except for the Conditions in paragraphs (i) to (iv) above) in whole or in part. The Company does not have the right to waive any of the Conditions. All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the Proposal will lapse.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Proposal if the circumstances which give rise to the right to invoke such Condition(s) are of material significance to the Offeror in the context of the Proposal.

(c) Expected timetable of the Proposal

The indicative timetable for the Proposal is set out in "*Expected Timetable*" in this Scheme Document. Based on the indicative timetable, the Scheme Shareholders will receive the cash payment under the Proposal in May 2019 if the Scheme becomes effective. Further announcement will be made by the Offeror and the Company if there is any change to the timetable.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Proposal, we have taken into account the following principal factors and reasons:

1. Background information of the Group

The Group is principally engaged in property development, property investment, investments in power plants, hotel ownership and management, restaurant operations and food catering. The Company has been listed on the Stock Exchange since 1972.

(a) Disposal of interests in HHI

Prior to completion of the disposal of 66.69% equity interests in HHI to an independent third party on 4 April 2018, the Group also engaged in toll road investment. The consideration for the HHI Disposal was approximately HK$9,865.38 million. As stated in the Company's circular dated 22 January 2018, the intended use of the net proceeds of approximately HK$9,000 million was as follows:

(i) as to approximately HK$1,740 million, or approximately 19.3% of the net proceeds, was paid as a special dividend to the then Shareholders;

(ii) as to HK$5,000 million, or approximately 55.6% of the net proceeds, was earmarked for financing part of the development costs of Hopewell Centre II, Hill Side Terrace Cluster and 153-167 Queen's Road East (collectively, the "**Wan Chai Projects**"); and

(iii) the remaining balance of HK$2,260 million, or approximately 25.1% of the net proceeds, might be used to partly fund any new potential investment opportunities which may arise in both Hong Kong and the PRC or it may be used to strengthen the Group's general working capital and cash flow position in the event that such investment opportunities have not yet been identified.

(b) Principal activities of the Group

Set out below summarises the principal activities of the Group for the two years ended 30 June 2018 and the six months ended 30 September 2018. The revenues stated below include sales of assets classified as held for sale, treasury income and the Group's share of revenue of joint ventures, which are excluded from the turnover as presented in the consolidated statement of profit or loss and other comprehensive income of the Company. For further details, please refer to the section headed "*4. Financial information of the Group – (b) Financial performance*" below.

(i) Property investment and development

Following the HHI Disposal, the property investment and property development businesses are the major profit contributors of the Group, accounting for approximately 94.3%, 90.6% and 80.8% of the earnings before interest and tax ("**EBIT**") of the Group from continuing operations for the two years ended 30 June 2018 and the six months ended 30 September 2018, respectively.

For the two years ended 30 June 2018 and the six months ended 30 September 2018, the revenue from the property investment business accounted for approximately 27.8%, 32.4% and 41.7% of total revenue from continuing operations, and the EBIT from the property investment business accounted for approximately 60.3%, 67.4% and 83.2% of total EBIT from continuing operations, respectively. Rental income derived from office, retail and residential properties accounted for approximately 71.8%, 71.1% and 69.8% of total revenue from the Group's property investment business for the same periods, respectively.

For the two years ended 30 June 2018 and the six months ended 30 September 2018, the revenue from the property development business accounted for approximately 38.9%, 22.0% and 0.1% of total revenue from continuing operations, respectively. EBIT from the property development business accounted for approximately 34.1% and 23.2% of total EBIT from continuing operations for the two years ended 30 June 2018, respectively. For the six months ended 30 September 2018, the property development business incurred a loss before interest and tax of approximately HK$11 million.

As disclosed in the interim report of the Company for the three months ended 30 September 2018 (the "**2019 Interim Report**"), the aggregate carrying value of properties under the property investment and property development businesses (comprising completed investment properties, properties under development, properties for development and stock of properties) was about HK$43.2 billion as at 30 September 2018, which accounted for approximately 77.3% of the total assets of the Group as at 30 September 2018.

The investment properties of the Group mainly consist of several properties in Wan Chai including Hopewell Centre, GardenEast, QRE Plaza and certain commercial units, restaurant and carparking spaces at Wu Chung House as well as Kowloonbay International Trade & Exhibition Centre ("**KITEC**") in Kowloon Bay and Panda Place in Tsuen Wan.

The properties under/for development primarily include the Wan Chai Projects whereas the stock of properties comprise Hopewell New Town.

(ii) Hospitality business

For the two years ended 30 June 2018 and the six months ended 30 September 2018, the Group's hotel operations, restaurant and catering operations accounted for approximately 11.3%, 14.7% and 16.2% of total revenue from continuing operations, and approximately 7.5%, 10.8% and 8.2% of total EBIT from continuing operations, respectively.

(iii) Power plant investment

For the two years ended 30 June 2018 and the six months ended 30 September 2018, the Group's power plant investment contributed approximately 20.2%, 27.8% and 34.5% of total revenue from continuing operations, and approximately 2.5%, 0.3% and 3.0% of total EBIT from continuing operations, respectively.

(iv) Toll road investment

Prior to the HHI Disposal, toll road investment was a major business segment of the Group. For the two years ended 30 June 2018, the revenue from toll road investment accounted for approximately 37.4% and 35.2% of total revenue, and EBIT from toll road investment accounted for approximately 36.1% and 36.6% of total EBIT, respectively.

(c) Geographical split of the Group's operations

The Group's hotel operations, restaurant and catering activities are carried out in Hong Kong. The Group's property investment and development activities are carried out in Hong Kong and the PRC, whereas its power plant investment is located in the PRC. For the year ended 30 June 2018, the Group derived approximately 62.9% and 37.1% of its revenue from continuing operations from Hong Kong and the PRC, respectively.

2. Reasons for and benefits of the Proposal

As set out in the Explanatory Statement, the Proposal represents an opportunity for the Scheme Shareholders to realise their investments in the Shares for cash at a price significantly above the prevailing market prices prior to the publication of the Joint Announcement without having to suffer any illiquidity discount and settlement risk.

The Cancellation Price represents a premium of approximately 46.7% over the closing price of HK$26.45 per Share on the Last Trading Date. During the period from 2 January 2009 to the Last Trading Date, being approximately 10 years, the lowest and highest adjusted closing prices[1] per Share were approximately HK$17.10 (on 22 November 2011) and HK$32.21 (on 15 February 2013), respectively. The Cancellation Price represents premiums of approximately 126.9% and 20.5% over the lowest and highest adjusted closing prices, respectively, during the period. Based on our analyses set out in the section headed "*7. Evaluation of the Cancellation Price – (a) Share price performance*" below, the Cancellation Price represents substantial premiums to the then Share prices prior to the issue of the Joint Announcement.

It was stated in the Explanatory Statement that the liquidity of the Shares has been at a low level over a long period of time. During the one-year period ended on and including the Last Trading Date, the average daily trading volume was 729,219 Shares, representing only approximately 0.08% of the total issued Shares. Given the thin liquidity of the Shares as illustrated in our analyses set out in the section headed "*6. Trading volume of the Shares*" below, we concur with the Directors that the Proposal allows the Scheme Shareholders to dispose of their Shares, particularly for those Scheme Shareholders holding a significant number of Shares, without having to suffer significant illiquidity discount or adversely affecting the market prices of the Shares.

---

1 Such lowest and highest closing prices have been adjusted for abnormal cash dividends based on adjustment methods adopted by Bloomberg.

As stated in the Explanatory Statement, the Group has been investing substantial resources in its properties under/for development including the Wan Chai Projects. Among these developments, the total investments of Hopewell Centre II and 153-167 Queen's Road East are estimated to be around HK$10 billion and HK$1.2 billion, respectively, as disclosed in the 2019 Interim Report. The target completion date of the construction work of Hopewell Centre II is end of 2021. As advised by the Group, as at 30 November 2018, the construction cost to be expended for the development of Hopewell Centre II was estimated to be approximately HK$5 billion. It is expected that 153-167 Queen's Road East will commence operation in 2022. As disclosed in the 2019 Interim Report, the estimated remaining capital expenditure of 153-167 Queen's Road East was approximately HK$460 million. The development of Hill Side Terrace Cluster was still in the planning stage as at the Latest Practicable Date. These projects will not generate revenue in the near term while requiring intensive capital investment in the next few years. Hopewell Centre II will be developed into a conference hotel and a retail property whereas 153-167 Queen's Road East will be developed into a commercial property.

Excluding the book value of Hopewell Centre II, the aggregate value of completed investment properties, properties under development, properties for development and stock of properties was approximately HK$35.8 billion as at 30 September 2018 based on the 2019 Interim Report. The investment of Hopewell Centre II is estimated to be around HK$10 billion, equivalent to about 28% of the aggregate value of the aforesaid properties. According to the Valuation Report (as defined below), the market value of Hopewell Centre II in existing state as at 30 November 2018 was approximately HK$9.4 billion, representing approximately 16.9% of the total market value of the property interests attributable to the Shareholders of approximately HK$55.7 billion as at 30 November 2018. Given that the value of Hopewell Centre II is material, the future operating performance of Hopewell Centre II would affect the financial results of the Group. As stated in the Explanatory Statement, the Wan Chai Projects including Hopewell Centre II will take time before reaching steady rental and operating performances post property completion and opening. There are uncertainties on whether the expected value of Hopewell Centre II will be reflected in future Share prices, given the Shares were traded at discounts to the NAV of the Group per Share for a prolonged period as illustrated in the section headed "7. *Evaluation of the Cancellation Price – (d) Comparison of Share prices with NAV of the Group per Share*" below.

Based on the aforesaid, we consider that the Proposal provides an opportunity for the Scheme Shareholders to dispose of their Shares at a price significantly above the then market prices prior to the issue of the Joint Announcement and without facing the uncertainties of future Share price movements that would be affected, to a certain extent, by the future operating performance and/or value of the properties currently under/for development.

3. Industry overview and outlook

(a) Hong Kong

(i) Economic growth

The Group's operations in Hong Kong, namely property investment and property development businesses as well as its hotel, restaurant and catering operations, accounted for approximately 69.2% of the Group's revenue from continuing operations for the year ended 30 June 2018. Accordingly, the Group's financial performance is affected by the local economic activities to a certain extent. The following table sets out Hong Kong's (1) real gross domestic product ("**GDP**") growth; (2) growth in private consumption expenditure in real terms; and (3) retail sales growth, for the years/quarters indicated:

				2018				
Year-on-year (YoY) growth	**2015**	**2016**	**2017**	**Q1**	**Q2**	**Q3**	**Q4**	**Full year**
Real GDP	2.4%	2.2%	3.8%	4.6%	3.5%	*2.9%	N/A	N/A
Private consumption expenditure in real terms	4.8%	2.0%	5.5%	8.8%	6.0%	*5.2%	N/A	N/A
Retail sales	-3.7%	-8.1%	2.2%	14.4%	12.3%	6.5%	*2.4%	*8.8%

Source: Census and Statistics Department
* *Provisional figure*
N/A: not available

As shown in the table above, Hong Kong economy as measured by the real GDP recorded a YoY growth rate of 3.8% in 2017, which was higher than those of 2.4% and 2.2% in 2015 and 2016, respectively. The YoY real GDP growth in the first quarter of 2018 further increased to 4.6%. The YoY real GDP growth rates were 3.5% and 2.9% in the second and third quarters of 2018, respectively. According to the Third Quarter Economic Report 2018 published by the Hong Kong government on 16 November 2018, it forecast that the economic growth for 2018 full year would be 3.2%. Based on the real GDP growth rates in the first three quarters of 2018 and 2018 full year forecast, Hong Kong economy continued to grow though at a slower rate.

Private consumption expenditure in real terms exhibited a robust growth rate of 8.8% in the first quarter of 2018 and recorded growth rates of 6.0% and 5.2% in the second and third quarters of 2018, respectively.

In 2015 and 2016, Hong Kong's retail sales recorded negative growth rates of 3.7% and 8.1%, respectively, indicating that the retail sales were in contraction. The retails sales YoY growth rate bounced to 2.2% in 2017 and increased substantially to 8.8% in 2018.

(ii) Commercial leasing

Rental income derived from office and retail properties accounts for a majority of total revenue from the Group's property investment business. The table below sets out (1) the rental index for private office; (2) the rental index for private retail; and (3) the vacancy rate for Grade A offices, for the years indicated:

Commercial leasing market	**2015**	**2016**	**2017**	**2018**
Rental index – private office (1999 = 100)	226.7	232.3	241.8	*252.0
Rental index – private retail (1999 = 100)	182.5	178.6	182.5	*187.0
Vacancy rate for Grade A offices	2.9%	4.5%	5.1%	4.2%

Source: Rating and Valuation Department and Jones Lang LaSalle IP, Inc.
* *Provisional figures*

The rental indices for private office increased by about 2.5%, 4.1% and 4.2% in 2016, 2017 and 2018, respectively, as compared to the previous year. This indicated a stable growth of rents for private office in 2018.

The rental indices for private retail dropped by about 2.1% in 2016 and increased by about 2.2% and 2.5% in 2017 and 2018, respectively, as compared to the previous year. This showed that the growth of rents for private retail was stable in 2018.

The vacancy rate for Grade A offices was 4.2% in 2018, a drop from 5.1% in 2017, indicating the sustained leasing demand.

(iii) Hospitality

The table below sets out (1) the growth in the numbers of visitor arrivals and overnight visitor arrivals; (2) the hotel room occupancy rates and average achieved hotel room rates; and (3) the number of hotels and hotel rooms, for the years indicated, which correlate to the operating performance of the Group's hospitality business:

	2015	**2016**	**2017**	**2018**
Number of visitor arrivals (YoY growth)	-2.5%	-4.5%	3.2%	11.4%
Number of overnight visitor arrivals (YoY growth)	-3.9%	-0.5%	5.0%	4.9%
Hotel room occupancy rate *(Notes 1 and 2)*	86%	87%	89%	*91%
Average achieved hotel room rate (HK$) *(Notes 1 and 3)*	1,337	1,287	1,288	*1,375

		Year end		
(Note 1)	**2015**	**2016**	**2017**	**2018**
Number of hotels	253	263	277	291
Number of hotel rooms	73,846	74,868	78,935	81,465
– YoY growth	1.5%	1.4%	5.4%	3.2%

		Year end		
Estimated figures *(Note 4)*	**2019e**	**2020e**	**2021e**	**2022e**
Number of hotels	319	326	327	330
Number of hotel rooms	87,051	90,029	90,489	91,190
– YoY growth	6.9%	3.4%	0.5%	0.8%

*Source: Hong Kong Tourism Board ("**HKTB**")*
* *Provisional figures*

Notes:

1. *Hotels refer to high tariff A hotels, high tariff B hotels, medium tariff hotels and other unclassified hotels.*

2. *Based on daily rooms occupied against daily rooms available for sales of responded hotels to HKTB monthly hotel room occupancy survey. Rooms under repair or being refurnished are excluded.*

3. *Refers to the average of achieved room rate of responded hotels to HKTB monthly hotel room occupancy survey. Achieved room rate excluded government tax and all non-room related components such as food and beverage, laundry, airport transfer and service charges, which have been built into the room rate.*

4. *Based on information provided by respective developers/architects of individual hotel projects that had been approved by the Building Authority known as at 30 September 2018. Hotel projects that have been approved by the Building Authority, but developers/ architects do not disclose specific information on planned completion date are excluded.*

The number of visitors registered growth in 2017 after two consecutive years of decline. In 2018, the number of visitor arrivals grew significantly at 11.4% whereas the number of overnight visitor arrivals grew moderately at 4.9%, as compared to 2017.

Despite the growth in the number of hotel rooms, the hotel room occupancy rate and average achieved hotel room rate increased to 91% and HK$1,375 in 2018, from 89% and HK$1,288 in 2017, respectively. Based on the information released by the HKTB, the number of hotel rooms will attain a higher growth in 2019 and remain above 90,000 at the end of 2020 to 2022.

The Hong Kong-Zhuhai-Macao Bridge and the Guangzhou-Shenzhen-Hong Kong Express Rail Link are expected to boost visitor arrivals which will provide support to the hospitality and retail businesses in Hong Kong.

(iv) Outlook

Various key domestic economic data including the YoY growth in real GDP, private consumption expenditure in real terms and retail sales in 2018 as well as the growth in rental indices and the number of overnight visitor arrivals in 2018 indicated an overall stable growth operating environment to the commercial leasing and hospitality sectors in Hong Kong. We also noted that the potential impacts of various external and internal headwinds on the pace of growth of Hong Kong economy have begun to surface in the third quarter of 2018, as evidenced by the lower growth rates in real GDP, private consumption expenditure in real terms and retail sales which may in turn affect the growth of the commercial leasing sector as well as the hospitality sector in Hong Kong if the trend continues.

External environment

The US-China trade war has weighted on global economic sentiment and activities. In October 2018, the International Monetary Fund (the "**IMF**") revised its 2018 and 2019 global economic growth forecast to 3.7%, as compared to 3.9% it had forecast in July 2018, and considered that there had been increased downside risks to global economic outlook. In January 2019, IMF further revised its 2019 global economic growth forecast to 3.5%.

Various trade talks have been held between the US and China to seek to reduce trade tensions. Positive momentum has been shown. It is uncertain whether the US and China can reach a trade deal during the 90-day truce, which expires on 1 March 2019. If the US and China eventually resolve the trade disputes, this will remove the uncertainties on global economy which may arise as a result of the US-China trade war. Nevertheless, if the results of the trade talks are negative or not all issues are resolved, the global economy may be adversely affected.

Local environment

The local business sentiment has been affected by external uncertainties, in particular the US-China trade war and the US interest rate hikes. In late September 2018, major commercial banks in Hong Kong raised their best lending rates for the first time in 12 years after the US Federal Reserve (the "**Fed**") raised the target range of its policy rate. On 20 December 2018, the Hong Kong Monetary Authority raised the base lending rate by 25 basis points for the fourth time in 2018, following the Fed's monetary policy decision.

While the latest key economic data showed growth momentum and the local economy is expected to be supported by, among other things, the strategic development of the Guangdong-Hong Kong-Macao Greater Bay Area and the enhanced transportation infrastructure including the Hong Kong-Zhuhai-Macao Bridge and the Guangzhou-Shenzhen-Hong Kong Express Rail Link in the long run, the US-China trade war and the potential US interest rate rises may affect the growth of the local economy. If Hong Kong economy grows at a slower rate, this may affect the businesses of the tenants of the Group's office and retail properties which may impact the operating performance of the Group's investment properties in Hong Kong.

(b) China

(i) Economic growth

The Group's PRC property development business is affected by the PRC economy. The table below sets out the PRC's real GDP growth for the years indicated:

YoY growth	**2015**	**2016**	**2017**	**2018**
Real GDP	6.9%	6.7%	6.8%	6.6%

Source: National Bureau of Statistics of China

The PRC's real GDP grew at 6.6% YoY in 2018, a slowdown in growth compared to the previous three years. In view of the slowdown of the economic growth and the impact of the US-China trade war, on 4 January 2019, the People's Bank of China announced a cut in banks' reserve requirement ratio, an example of economic stimulus measure implemented by the PRC government, which was the first in 2019 and the fifth in a year. The National Development and Reform Commission also plans to roll out incentives to stimulate consumer spending in vehicles and home appliances as part of a wider effort to stabilise economic growth.

(ii) Overview and outlook of the residential property market in Guangzhou, the PRC

Hopewell New Town is located in Huadu district, Guangzhou, the PRC. It is the only residential property project of the Group that is available for sale. Accordingly, the Group's revenue in the near term will be affected by the future sales recognition of such property project. Property prices and sales schedules will be principally affected by the general condition of the residential property market in Guangzhou, the PRC.

As disclosed in the annual report of the Company for the year ended 30 June 2018 (the "**2018 Annual Report**") and the 2019 Interim Report, the project was adversely affected by the tightening policies in the PRC property market. According to a report issued by Savills, an international real estate services provider, in relation to Guangzhou residential property market on 15 November 2018, the Guangzhou residential property market was operating in a tightening public policy environment as the relevant governmental authorities underwent a property market inspection campaign. Meanwhile, while investment and housing demands remain robust, mortgage loan approvals continue to be affected by the buying and mortgage curbs. Savills expected that the Guangzhou residential property market would leap into another consolidation cycles, with more pressure on those small-to-medium scale developers in the short-to-medium term.

4. **Financial information of the Group**

(a) Financial position

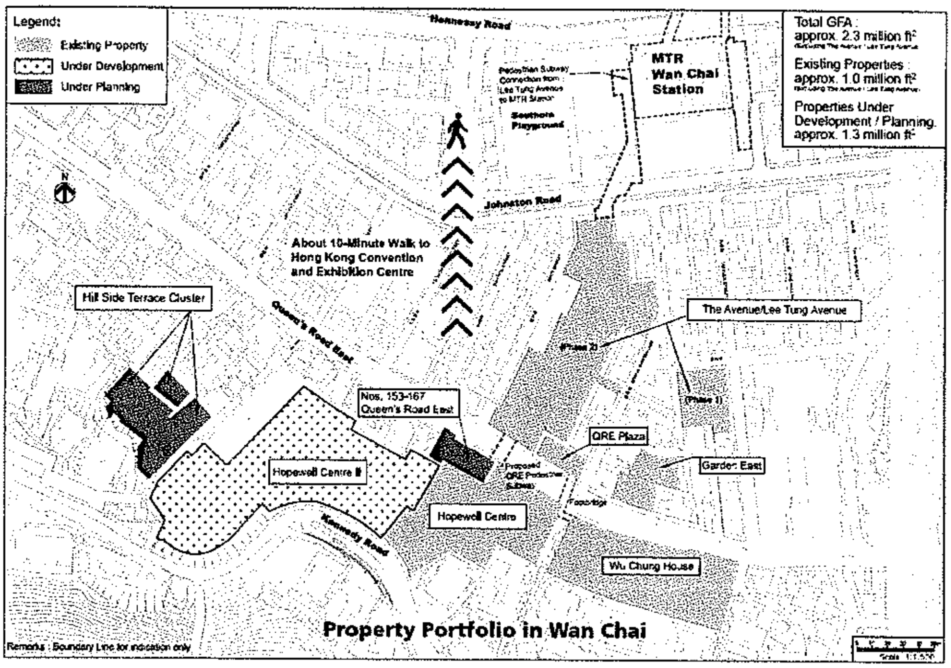
The following table sets out the consolidated statement of financial position of the Company as at 30 June 2017, 30 June 2018 and 30 September 2018, as extracted from the 2018 Annual Report and the 2019 Interim Report:

		As at 30 September	**As at 30 June**	
		2018	**2018**	**2017**
		HK$'000	*HK$'000*	*HK$'000*
		(unaudited)	*(audited)*	*(audited)*
Non-current assets				
Completed investment properties	*(i)*	33,253,800	32,947,300	30,318,946
Property, plant and equipment ("**PPE**")	*(ii)*	753,495	767,299	700,246
Properties under development				
Commercial portion of Hopewell Centre II (investment properties)	*(iii)*	4,778,550	4,753,887	4,645,923
Hotel portion of Hopewell Centre II (PPE)	*(iii)*	2,686,346	2,654,217	2,537,700
QRE project (investment properties)	*(iii)*	1,124,495	1,119,900	776,930
Properties for development	*(iv)*	838,343	838,203	1,156,903
Interests in joint ventures				
Expressway projects		–	–	6,149,912
Power plant project	*(vii)*	1,085,044	1,110,554	1,143,386
Property development project	*(v)*	736,310	732,239	662,353
Interests in associates		39,076	38,660	38,548
Other assets		3,000	3,000	8,513
Total non-current assets		45,298,459	44,965,259	48,139,360
Current assets				
Inventories		8,561	7,998	8,070
Stock of properties	*(vi)*			
Under development		498,226	489,036	304,766
Completed		57,968	60,309	128,455
Trade and other receivables		49,024	41,429	37,132
Deposits and prepayments		141,223	133,863	149,303
Amount due from a joint venture		175,306	175,306	305,306
Bank balances and cash		9,675,426	10,364,439	4,575,902
Assets classified as held for sale (Broadwood Twelve)		–	–	292,100
Total current assets		10,605,734	11,272,380	5,801,034

	As at 30 September 2018	As at 30 June 2018	As at 30 June 2017
	HK$'000	*HK$'000*	*HK$'000*
	(unaudited)	*(audited)*	*(audited)*
Current liabilities			
Trade and other payables	619,790	639,423	511,957
Rental and other deposits	400,293	386,278	546,299
Tax liabilities	414,851	404,599	317,148
Bank borrowings	–	–	1,150,000
Liabilities associated with assets classified as held for sale	–	–	4,300
Total current liabilities	1,434,934	1,430,300	2,529,704
Non-current liabilities			
Deferred tax liabilities	528,031	516,784	549,897
Other liabilities	53,966	53,966	53,966
Bank borrowings	1,400,000	1,400,000	1,200,000
Total non-current liabilities	1,981,997	1,970,750	1,803,863
Equity attributable to the Shareholders	52,303,414	52,647,227	47,246,064
Non-controlling interests	183,848	189,362	2,360,763
Total equity	52,487,262	52,836,589	49,606,827
NAV of the Group per Share (HK$)	60.2	60.6	54.3

As shown in the above table, the major assets of the Group are properties held by it. As at 30 September 2018, the aggregate carrying value of completed investment properties, properties under development, properties for development and stock of properties was approximately HK$43.2 billion, of which (i) approximately 76.9% was completed investment properties which generate recurring rental income for the Group; (ii) approximately 21.8% was properties under development and properties for development which will not generate income for the Group in the near term; and (iii) approximately 0.1% was stock of completed properties which are available for sales.

The Group's properties are principally located in Wan Chai, Hong Kong. Set out below is the map showing the Group's property portfolio in Wan Chai:



Source: 2019 Interim Report

(i) Investment properties

Completed investment properties, with a carrying value of approximately HK$33,253.8 million as at 30 September 2018, mainly included office, retail and residential properties. The investment properties are (1) Hopewell Centre; (2) KITEC; (3) GardenEast; (4) QRE Plaza; (5) four commercial units, one restaurant unit and 80 carparking spaces at Wu Chung House; and (6) the shopping arcade and various carparking spaces of Panda Hotel.

Investment properties under development, with a carrying value of approximately HK$5,903.0 million as at 30 September 2018, comprised the commercial portion of Hopewell Centre II and 153-167 Queen's Road East.

The Group's accounting policies stated that investment properties, which include completed investment properties and investment properties under development, are stated at fair values in the consolidated statement of financial position.

(ii) Property, plant and equipment

Property, plant and equipment, including the property of Panda Hotel and the self-occupied portion of Hopewell Centre, are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any, in the consolidated statement of financial position. The carrying value of property, plant and equipment as at 30 September 2018 was approximately HK$753.5 million.

(iii) Properties under development

Properties under development as at 30 September 2018 comprised investment properties under development as described above and the hotel portion of Hopewell Centre II which was stated at cost according to the Group's accounting policies.

Information of Hopewell Centre II is briefly summarised as follows:

Hopewell Centre II

Location	:	Wan Chai, Hong Kong
Total gross floor area	:	Around 101,600 square metres ("**sq.m.**")
Nature of development	:	Primarily a conference hotel with approximately 1,024 guest rooms (hotel area of around 76,800 sq.m.), a retail area of around 24,800 sq.m. and a green park
Number of storeys	:	52 storeys
Estimated total investment	:	Around HK$10 billion (including land premium of HK$3,726 million and an estimated investment cost for a road improvement scheme and parks)
Status	:	Under construction (site formation and foundation works in progress)
Target completion of construction	:	End of 2021
Appraised value as at 30 November 2018	:	Approximately HK$9.4 billion

Source: 2019 Interim Report and Valuation Report (as defined below)

The history of the Hopewell Centre II project can be traced back to 1994 when the Company initiated the plan of Hopewell Centre II and obtained the approval from the Town Planning Board for the hotel development of Hopewell Centre II (the "**1994 Scheme**") as well as the approval for the general building plan of the 1994 Scheme. In January 2004, being approximately 10 years after the 1994 Scheme, the Company completed acquisition of all private properties within the Hopewell Centre II site boundary. In November 2008, the Company revised the development scale of Hopewell Centre II by reducing the storeys of the building from 93 to about 55. In October 2012, the Company took possession of the Hopewell Centre II site after agreeing on the land premium for land exchange with the government. The site formation work has commenced since late 2012. The road improvement road at the junction of Queen's Road East and Kennedy Road started in December 2015. In August 2017, the Town Planning Board approved the revised scheme of Hopewell Centre II to enhance the pedestrian connectivity in Wan Chai South. As at the Latest Practicable Date, the site formation and foundation works of Hopewell Centre II were still in progress.

For further details of Hopewell Centre II, please refer to the 2019 Interim Report or its website at http://www.hopewellcentre2.com/eng/.

Information of 153-167 Queen's Road East is briefly summarised as follows:

153-167 Queen's Road East

Location	:	Wan Chai, Hong Kong
Estimated development gross floor area	:	Around 90,000 square feet
Proposed use	:	Commercial
Estimated total investment	:	Around HK$1.2 billion
Status	:	Demolition works were completed
Target commencement of operation	:	2022
Appraised value as at 30 November 2018	:	Approximately HK$1.1 billion

Source: 2019 Interim Report and Valuation Report (as defined below)

(iv) Properties for development

Properties for development represents properties acquired for future development of which the development plan is yet to be fixed. Major properties for development include Hill Side Terrace Cluster comprising 1-3 Hill Side Terrace, 1A Hill Side Terrace, Nam Koo Terrace, Miu Kang Terrace and Schooner Street Site. These properties are measured under cost model according to the Group's accounting policies.

(v) Interests in joint ventures – property development project

This represents the Group's 50% interest in a joint venture company between the Group and Sino Land Company Limited. The property held by such joint venture company is Lee Tung Avenue in Wan Chai.

(vi) Stock of properties

Stock of properties are completed properties and properties under development for sale, comprising Hopewell New Town in Huadu district, Guangzhou, the PRC. These properties are stated at the lower of cost and net realisable value according to the Group's accounting policies.

Hopewell New Town is a composite development consisting of residential, commercial and recreational facilities. The project is partly developed and partly under construction. Hopewell New Town is the only residential property project of the Group that is available for sale. The remaining portion of the land is held for future development. Up to 30 September 2018, approximately 483,900 sq.m., or 44% of the total plot ratio gross floor area, of Hopewell New Town was sold and booked. In December 2018, the Group resumed selling certain residential units by pre-sale.

Information of Hopewell New Town (excluding properties sold and the property occupied by the Group) is briefly summarised as follows:

Hopewell New Town

		Unsold portions of Phases 1A, 1B, 2, 3, 4A and 4B	**Phases 5A and 6**	**Phases 5B, 7, 8, 9, 10, 11, 12, E1 and E2**
Location	:	Huadu district, Guangzhou, the PRC		
Gross floor area (sq.m.)	:			
Residential		343.19	127,022.60	302,825
Retail		12,746.60	938.60	97,586
Carparking space		20,118.94	47,395.70	273,304
Hotel		–	–	15,486
Office		–	–	47,563
Total		33,208.73	*175,356.90	*736,764
Total estimated construction cost (excluding land cost)	:	–	RMB594 million	Not available
Construction cost (excluding land cost) expended as at 30 November 2018	:	–	RMB196 million	Not available
Status	:	Completed	Under construction	Vacant land pending development
Target completion of construction	:	–	By phases in between 2019 and 2020	Not available
Appraised value attributable to the Shareholders as at 30 November 2018	:	Approximately RMB0.5 billion	Approximately RMB2.0 billion	Approximately RMB1.5 billion

Source: Valuation Report (as defined below)

* *Planned gross floor area*

(vii) Interests in joint ventures – power plant project

The Group's only power plant investment is Shenzhen Energy Hopewell Power (Heyuan) Co., Ltd. ("**Heyuan JV**"), a joint venture company established with a PRC enterprise, for the joint development of a power plant in Heyuan City of Guangdong Province, the PRC, for an operation period of 30 years from 14 September 2007. The Company has 35% effective interest in Heyuan JV and is entitled to 40% of the results from the operation of the power plant through a non-wholly owned subsidiary.

(viii) Capital expenditures

As disclosed in the 2019 Interim Report, the Group's total commitment in respect of development costs of its projects, which has been contracted for but not provided, amounted to approximately HK$654.3 million, comprising approximately HK$281 million in relation to Hopewell Centre II and approximately HK$311.9 million in relation to Hopewell New Town.

In respect of the development of Hopewell Centre II, the total investment is estimated to be around HK$10 billion. According to the 2019 Interim Report, up to 30 June 2018, around HK$4.9 billion (including land premium of around HK$3.7 billion) of capital expenditure was incurred. For the three years ending 31 March 2021 and beyond, it is expected that an additional capital expenditure of approximately HK$5 billion will be incurred. As disclosed in the 2019 Interim Report, the development of Hopewell Centre II will be financed by the Group's internal resources and/or external bank borrowings. Given that HK$5 billion of the proceeds from the HHI Disposal has been earmarked for financing part of the development of the Wan Chai Projects, we consider that the Group has the capability to finance the remaining development costs of Hopewell Centre II principally by its internal resources.

In respect of the development of 153-167 Queen's Road East, the total investment is estimated to be approximately HK$1.2 billion. The remaining capital expenditure is estimated to be approximately HK$460 million.

The capital expenditure plan for Hill Side Terrace Cluster has not yet been determined as its development plan has yet to be fixed.

(ix) Borrowings and indebtedness position

As at 30 September 2018, the Group had bank balances and cash and bank borrowings of approximately HK$9,675.4 million and HK$1,400 million, respectively, resulting in a net cash position. As at 30 September 2018, the Group's available banking facilities amounted to approximately HK$3,340 million which included undrawn bank overdrafts and uncommitted banking facilities of approximately HK$540 million. Based on the aforesaid, we consider that the Group has strong financial capability to meet its capital commitments and development needs in the near term.

(b) ***Financial performance***

The following table sets out information of the consolidated statements of profit or loss and other comprehensive income of the Group for the two years ended 30 June 2018 and the six months ended 30 September 2017 and 2018, as extracted from the 2018 Annual Report and the 2019 Interim Report:

	For the six months ended 30 September *(Note 1)*		**For the year ended 30 June**	
	2018	**2017**	**2018**	**2017**
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*
	(unaudited)	*(unaudited)*	*(audited)*	*(restated)*
Continuing operations				
Turnover	815	1,023	1,984	2,360
Cost of sales and services	(317)	(368)	(695)	(944)
Gross profit	498	655	1,289	1,416
Profit before taxation	1,537	1,553	3,719	1,889
Income tax expense	(67)	(163)	(273)	(344)
Profit for the year/period from continuing operations	1,470	1,390	3,446	1,545
Discontinued operation (Expressway projects)				
Gain on disposal of HHI after taxation	5,120	–	5,120	–
Profit for the year/period from toll road investment	8	431	637	678
Profit for the year/period from discontinued operation	5,128	431	5,757	678
Profit for the year/period	6,598	1,821	9,203	2,223
Profit attributable to the Shareholders				
Continuing operations	1,468	1,385	3,439	1,521
Discontinued operation	5,125	278	5,530	440
	6,593	1,663	8,969	1,961
Earnings per Share (HK$)				
Continuing operations	1.69	1.59	3.95	1.75
Dividend per Share (HK$)	0.30	N/A	3.43	1.75

The following table sets out further information in respect of the Group's financial performance for the two years ended 30 June 2018 and the six months ended 30 September 2017 and 2018, as set out in the 2018 Annual Report and the 2019 Interim Report:

	For the six months ended 30 September *(Note 1)*		**For the year ended 30 June**	
	2018	**2017**	**2018**	**2017**
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*
	(unaudited)	*(unaudited)*	*(audited)*	*(restated)*
Continuing operations				
Revenue *(Note 2)*	1,430	1,950	3,628	4,127
Property investment	597	576	1,176	1,149
Hotel, restaurant and catering operation	231	194	534	465
Property development	1	686	799	1,605
Power plant	494	453	1,009	833
Treasury income	107	41	110	75
EBIT *(Note 3)*	464	606	1,172	1,274
Property investment	386	370	790	768
Hotel, restaurant and catering operation	38	26	127	96
Property development	(11)	224	272	434
Power plant	14	1	4	32
Treasury income	107	41	110	75
Others	(70)	(56)	(131)	(131)
Discontinued operation				
Toll road investment				
Revenue *(Note 2)*	24	1,304	1,974	2,463
EBIT *(Note 3)*	8	462	678	720
Continuing and discontinued operations				
Profit attributable to the Shareholders before fair value gain of completed investment properties	5,514	709	6,405	1,334
Less: Net gain on disposal of HHI (net of tax)	(5,120)	–	(5,120)	–
Core profit attributable to the Shareholders	394	709	1,285	1,334

Notes:

1. *As set out in the announcement of the Company dated 8 May 2018, the Board resolved to change the financial year end date from 30 June to 31 March following the publication of the audited consolidated financial statements of the Company for the year ended 30 June 2018.*

The financial information for the six months ended 30 September 2018 (with comparative figures) is presented to facilitate a better understanding of the Group's operating results in the first half-year period of 2018/2019 when applying the new financial year end date.

2. *Segment revenue included the turnover as presented in consolidated statement of profit or loss and other comprehensive income, sales of assets classified as held for sale, treasury income of the Group (mainly interest income from bank balances) and the Group's attributable share of revenue of joint ventures.*

3. *Represented EBIT of the Group plus net profits (after interest and tax) shared from joint ventures.*

(i) Revenue

Revenue of the Group is mainly derived from (1) property investment; (2) hotel, restaurant and catering operation; (3) property development; and (4) power plant investments and operation.

(1) Property investment

Revenue from property investment business mainly represents office rental income, retail rental income as well as air conditioning and management fee, which accounted for approximately 36.3%, 28.5% and 14.3% of the revenue for the property investment business for the year ended 30 June 2018. Office rental income and retail rental income remained the main revenue sources for the property investment business for the six months ended 30 September 2018.

Hopewell Centre and KITEC are two major investment properties of the Group, in terms of revenue contribution and appraised value. As stated in the 2018 Annual Report, rental income derived from Hopewell Centre, the office portion of KITEC, the convention, exhibition and entertainment business of KITEC, Panda Place, QRE Plaza and GardenEast was approximately HK$476 million, HK$137 million, HK$70 million, HK$65 million, HK$40 million and HK$77 million, representing approximately 40.5%, 11.6%, 6.0%, 5.5%, 3.4% and 6.5% of the revenue of the property investment business, for the year ended 30 June 2018.

Average occupancy rates for the Group's completed investment properties remained at high levels for the five years ended 30 June 2018 and the six months ended 30 September 2018, as set out below:

	Average occupancy rate					
	Year ended 30 June					Six months ended 30 September
	2014	**2015**	**2016**	**2017**	**2018**	**2018**
Hopewell Centre	96%	95%	93%	89%	92%	96%
KITEC Office	96%	96%	96%	94%	90%	93%
KITEC E-Max	85%	88%	90%	80%	77%	80%
Panda Place	97%	95%	96%	98%	97%	98%
QRE Plaza	94%	91%	100%	96%	98%	99%
Lee Tung Avenue*	–	–	96%	96%	95%	98%
GardenEast (apartments)	95%	94%	82%	93%	91%	93%

Source: 2015-2018 annual reports of the Company and the 2019 Interim Report

* *The Group has 50% interest in the joint venture*

Hopewell Centre

As stated in the 2019 Interim Report, the occupancy rate of the office portion of Hopewell Centre reached 100% subsequent to the new lease signed with a publicly-listed international insurance company, AIA Group, in the second quarter of 2018 and that of the retail portion of Hopewell Centre was 95% as at 30 September 2018.

As disclosed in the 2019 Interim Report, the Group expects the spot office rent will rise at a milder pace given the uncertainty in the economic environment, but rent rises for Hopewell Centre by phases when Hopewell Centre II's site formation and foundation works complete and Hopewell Centre II opens whereby the surroundings in Wan Chai will be further upgraded. Accordingly, we consider that the operating performance of Hopewell Centre will remain stable and without significant rental uplift before the opening of Hopewell Centre II.

KITEC Office

The average occupancy rate of KITEC's office portion was 93% for the six months ended 30 September 2018, up from 90% for the year ended 30 June 2018.

As disclosed in the 2019 Interim Report, with new leases signed with ViuTV and the Registration and Electoral Office in the fourth quarter of 2017 and March 2018, respectively, the Group expects a mild growth in rental income for the year ending 31 March 2019, despite the keen competition of office rental market in Kowloon East. Moreover, demand for KITEC's office space is expected to be driven by the increased traffic flows resulting from the construction of the Central Kowloon Route linking Yau Ma Tei with Kowloon Bay and the Kai Tak area which is expected to be commissioned in 2025 as well as the Shatin to Central Link which is expected to be commissioned in 2019 and 2021 in two stages, according to Highways Department of the Hong Kong Government. The Group expects a rental uplift when Kowloon East becomes more developed as a business district in the long term. Based on the development plans of the aforementioned infrastructure and the Kai Tak area residential and recreational developments, we consider that the operating performance of KITEC Office will remain stable in the short term.

KITEC E-Max

E-Max is an entertainment-driven shopping arcade that includes a live house (a music showcase venue), the Metroplex (a multi-cinema complex) and Star Hall (a performance showcase venue). The average occupancy rate of E-Max was 80% for the six months ended 30 September 2018, up from 77% for the year ended 30 June 2018. The relatively low occupancy rate of E-Max for the year ended 30 June 2018 was primarily due to the vacation of tenants in the first quarter of 2017 for the expansion of the rental area before leasing out to new tenants from July 2018.

As disclosed in the 2019 Interim Report, the Group has optimised and refined the tenant mix at E-Max since 2014 along with the opening of the Metroplex, including, among other things, (a) expansion of the retail area in the second quarter of 2017 and introduction of a number of sporting and fashion brands since July 2018, including New Balance, Royal Sporting House, Dr. Martens, Descente, Munsingwear and Le Coq Sportif; and (b) the proposed opening of a classical indoor amusement park, "The Wonderful World of Whimsy".

Overall performance

For the two years ended 30 June 2018 and the six months ended 30 September 2018, the revenue from property investment business accounted for approximately 27.8%, 32.4% and 41.7% of total revenue from continuing operations, and the EBIT from property investment accounted for approximately 60.3%, 67.4% and 83.2% of total EBIT from continuing operations, respectively. For the same periods, office rental revenue recorded a growth whereas retail rental revenue was at the same level as the previous year or period.

For the year ended 30 June 2018, the revenue and EBIT for the Group's property investment business increased by approximately 2.3% and 2.9%, respectively, as compared to the year ended 30 June 2017, primarily attributable to the rise in office rental income as new tenants moved in Hopewell Centre as mentioned above.

For the six months ended 30 September 2018, the revenue and EBIT for the Group's property investment business grew by approximately 3.6% and 4.3%, respectively, as compared to the corresponding period in 2017, mainly attributable to the rise in office rental income as new tenants moved in Hopewell Centre and new leases signed for KITEC as mentioned above.

(2) Hotel, restaurant and catering operation

The Group's hospitality business comprises operations of Panda Hotel and restaurant and catering services of KITEC.

For the two years ended 30 June 2018 and the six months ended 30 September 2018, the revenue from hotel, restaurant and catering operation accounted for approximately 11.3%, 14.7% and 16.2% of total revenue from continuing operations, and the EBIT from hotel, restaurant and catering operation accounted for approximately 7.5%, 10.8% and 8.2% of total EBIT from continuing operations, respectively.

For the year ended 30 June 2018, the revenue and EBIT for the Group's hospitality business increased by approximately 14.8% and 32.3%, respectively, as compared to the same period in the previous year, mainly due to (a) the increase in room revenue resulting from the increase in average room rate while the average occupancy rate remaining at high level; and (b) the increase in food and beverage revenue primarily attributable to the increase in corporate and social banquet events as well as more wedding banquet businesses generated from the new venue, The Glass Pavilion in KITEC.

As a result, the revenue and EBIT for the Group's hospitality business increased by approximately 19.1% and 46.2%, respectively, for the six months ended 30 September 2018 as compared to the corresponding period in 2017.

The average occupancy rate of Panda Hotel was 96% for the six months ended 30 September 2018, similar to the level of 97% for the year ended 30 June 2018. As disclosed in the 2019 Interim Report, the Group was cautiously optimistic about the outlook of the hotel industry in Hong Kong despite the gradual recovery of the industry.

(3) Property development

For the two years ended 30 June 2018 and the six months ended 30 September 2018, revenue from property development accounted for approximately 38.9%, 22.0% and 0.1% of total revenue from continuing operations, respectively. EBIT from property development accounted for approximately 34.1% and 23.2% of total EBIT from continuing operations for the two years ended 30 June 2018, respectively. For the six months ended 30 September 2018, the property development business incurred a loss before interest and tax of approximately HK$11 million.

For the year ended 30 June 2018, the revenue and EBIT for the Group's property development business decreased by approximately 50.2% and 37.3%, respectively, as compared to the previous year, mainly attributable to the decrease in sales recognition of the properties of Hopewell New Town given the tightening policies in the PRC property market, and the residential units of The Avenue located in Wan Chai, Hong Kong.

For the six months ended 30 September 2018, as a result of the tightening policies in the PRC property market, no residential sales were launched and all the revenue from the PRC property development was generated from car park sales of Hopewell New Town.

Up to 30 September 2018, approximately 483,900 sq.m., or 44% of the total plot ratio gross floor area, of Hopewell New Town was sold and booked. All residential units of The Avenue and Broadwood Twelve were sold as at 31 December 2017 and 30 June 2018, respectively.

(4) Power plant investments and operation

For the two years ended 30 June 2018 and the six months ended 30 September 2018, the EBIT from power plant investments and operation accounted for approximately 2.5%, 0.3% and 3.0% of total EBIT from continuing operations, respectively. As disclosed in the 2019 Interim Report, the Group expected that the power plant operation would continue to provide it with stable cash flow contributions.

(ii) Gross profit margin

For the two years ended 30 June 2018 and the six months ended 30 September 2018, gross profit margins of the Group were approximately 60.0%, 65.0% and 61.1%, respectively.

(iii) Gain on disposal of discontinued operation

Following completion of the HHI Disposal on 4 April 2018, the Group is no longer engaged in toll road business. The consolidated results of the toll road investment business were presented and restated as a discontinued operation in the

Group's financial statements. The consideration for the HHI Disposal was approximately HK$9,865.38 million. The Group recorded a post-tax net gain on the HHI Disposal of approximately HK$5,119.9 million, which was recognised as a one-off gain for the year ended 30 June 2018 and the six months ended 30 September 2018.

(iv) Profit and core profit attributable to the Shareholders

As a result of the post-tax net gain on the HHI Disposal, the profit attributable to the Shareholders before fair value gain of completed investment properties increased from approximately HK$1,334 million for the year ended 30 June 2017 to approximately HK$6,405 million for the year ended 30 June 2018 and increased from approximately HK$709 million for the six months ended 30 September 2017 to approximately HK$5,514 million for the six months ended 30 September 2018.

Taking into account the post-tax net gain on the HHI Disposal and the fair value gain of completed investment properties, the profit attributable to the Shareholders increased significantly (a) from approximately HK$1,961.3 million for the year ended 30 June 2017 to approximately HK$8,969.5 million for the year ended 30 June 2018; and (b) from approximately HK$1,662.7 million for the six months ended 30 September 2017 to approximately HK$6,592.8 million for the six months ended 30 September 2018.

Excluding the post-tax net gain on the HHI Disposal and the fair value gain of completed investment properties, the core profit attributable to the Shareholders amounted to approximately HK$1,285 million and HK$394 million for the year ended 30 June 2018 and the six months ended 30 September 2018, respectively. The declines were mainly attributable to the decrease in toll road business's contribution following the HHI Disposal and the decrease in profit recognised for the sale of residential properties including Hopewell New Town, Broadwood Twelve and The Avenue.

(v) Dividend paid to the Shareholders

The total dividend declared for the year ended 30 June 2018 was HK$3.43 per Share, comprising (a) the first interim dividend of HK$0.55 per Share; (b) the second interim dividend of HK$0.88 per Share in lieu of final dividend; and (c) the special interim dividend of HK$2.00 per Share attributable to the HHI Disposal. The first interim dividend declared in respect of the year ending 31 March 2019 was HK$0.30 per Share.

Excluding the special interim dividend, the dividends for the year ended 30 June 2018 represents a payout ratio of 97% of the Group's core profit attributable to the Shareholders. As stated in the 2018 Annual Report, the Board intended that in the years before Hopewell Centre II opens, barring unforeseen circumstances, 90% to 100% of the core profit on a full year basis was targeted to be distributed as dividends to the Shareholders.

The dividend yields, as represented by the second interim dividend of HK$0.88 per Share for the year ended 30 June 2018, the first interim dividend of HK$0.30 for the year ending 31 March 2019 and the closing price of the Shares on the Last Trading Date of HK$26.45 per Share and the Cancellation Price of HK$38.80 per Scheme Share, were approximately 4.5% and 3.0%, respectively.

*(c) **Overall comments***

The revenue and EBIT of the Group are to a large extent driven by its property investment and property development businesses. For the year ended 30 June 2018 and the six months ended 30 September 2018, despite moderate growth in revenue and EBIT generated from property investment and hotel, restaurant and catering operation businesses, the core profit attributable to the Shareholders dropped by approximately 3.7% and 44.4%, respectively, as compared to the previous year or period. The decreases were mainly attributable to the decrease in profit from sale of properties and the decrease in profit generated from the toll road business following the HHI Disposal in April 2018.

Around HK$5 billion of the net proceeds from the HHI Disposal has been earmarked for financing the Wan Chai Projects, which will not generate immediate return until commencement of the operations.

(i) Property investment

For the property investment business, other than KITEC E-Max's average occupancy rate of 80%, other investment properties held by the Group recorded average occupancy rates of over 90% for the six months ended 30 September 2018. Hopewell Centre and KITEC are major investment properties of the Group.

Hopewell Centre

The occupancy rate of the office portion of Hopewell Centre reached 100% in the second quarter of 2018 and that of the retail portion of Hopewell Centre was 95% as at 30 September 2018. Given the high occupancy rates, the revenue growth of Hopewell Centre will be largely dependent on rental uplift in the future. As stated in the 2019 Interim Report, the spot office rent was expected to rise mildly given the uncertainty in the economic environment and the rental uplift for Hopewell Centre was expected to occur by phases when Hopewell Centre II's site formation and foundation works complete and Hopewell Centre II opens whereby the surroundings in Wan Chai would be further upgraded. Accordingly, we consider that the operating performance of Hopewell Centre will remain stable and without significant rental uplift before the opening of Hopewell Centre II.

KITEC

Regarding KITEC, as disclosed in the 2019 Interim Report, while the Group considers there is keen competition of office rental market in Kowloon East and expects a mild growth in rental income from the office portion for the year ending 31 March 2019, given the recent new leases signed, there is growth potential in the retail portion (i.e. E-Max) driven by the increase in footfall resulting from a number of initiatives taken by the Group in optimising the tenant mix since 2014.

While KITEC E-Max represents a growth potential for the Group with the average occupancy rate of 80% for the six months ended 30 September 2018, we consider that the growth of the Group's overall property investment business may be limited in the near term given the high occupancy rates of other investment properties in general and the lack of new investment properties before opening of 153-167 Queen's Road East and Hopewell Centre II.

Hopewell Centre II

The planning and development of Hopewell Centre II have been a prolonged process which can be traced back to 1994. Given the total investment of Hopewell Centre II is estimated to be around HK$10 billion, Hopewell Centre II will be one of the major investment properties and hotel properties of the Group. The total planned gross floor area of Hopewell Centre II is around 101,600 sq.m., equivalent to approximately 30.7% of the total gross floor area of the completed investment properties and hotel property of the Group (including property interests held by joint venture but excluding carparking spaces) as at 30 June 2018. Based on the 2019 Interim Report, the formation and foundation works of Hopewell Centre II are targeted to complete in 2019. The target date of completion of the construction work of Hopewell Centre II is end of 2021. Following completion of the construction work, the Group will carry out renovation works. There are risks associated with this mega size development project, in particular, completion of the construction according to the schedule and budget.

The operating results of Hopewell Centre II would affect the core profit of the Group in the future. Hopewell Centre II is still in a preliminary stage of development. Based on the construction schedule, Hopewell Centre II will only generate revenue for the Group after 2021. As stated in the Explanatory Statement, Hopewell Centre II takes time before reaching steady rental and operating performances post property completion and opening. As such, there are uncertainties in the financial performance of the Group in the medium to longer term relating to the performance of Hopewell Centre II, which in turn may affect the Share prices and the amount of dividend payments in the future. Furthermore, it is difficult to estimate the extent of impact of the earning potential and/or the value of Hopewell Centre II on future Share prices.

(ii) Property development

For the property development business, the Group did not sell any residential unit for the six months ended 30 September 2018 due to the tightening measures in the PRC property market. As at 30 September 2018, save for Hopewell New Town in Guangzhou, the residential units of the Group's other properties held for sale including The Avenue and Broadwood Twelve were all sold.

As shown above, the decline of core profit attributable to the Shareholders by approximately HK$315 million or 44.4% from HK$709 million for the six months ended 30 September 2017 to approximately HK$394 million for the six months ended 30 September 2018 was mainly attributable to the decrease in EBIT of the property development business by approximately HK$235 million. As such, the recognition of property sales of Hopewell New Centre would affect the Group's financial results and therefore the amount of dividend payments in the near future.

5. Valuation of the property interests and Adjusted NAV of the Group

(a) Valuation of the property interests

The valuation of the Group's property interests as at 30 November 2018 was conducted by Cushman & Wakefield Limited (the "**Valuer**"), an independent valuer.

We have conducted an interview with the Valuer to enquire its experience in valuing similar property interests in Hong Kong and the PRC and its independence. We have also 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 set out in Appendix II to this Scheme Document (the "**Valuation Report**"). The non-disclosure of the addresses and individual valuations of certain properties in the Valuation Report will not affect our analysis and recommendation in respect of the Proposal.

The Valuer confirmed that it has performed site visits to each of the properties set out in the Valuation Report. We have also performed site visits to the Group's properties located in Wan Chai including Hopewell Centre II and also Hopewell New Town in the PRC. We have also discussed with the management of the Group to understand the latest status as well as the development and funding plans of the Wan Chai Projects.

As set out in the Valuation Report, the total market value of the property interests in existing state attributable to the Shareholders as at 30 November 2018 was approximately HK$55.7 billion, as set out below:

		Market value of the property interest in existing state attributable to the Shareholders *HK$' million*	Proportion of total
Completed investment properties (including other properties in PPE)	(i)	34,985	62.8%
Hotel property (PPE)	(ii)	3,285	5.9%
Properties under/for development	(iii)	11,950	21.4%
Properties held by joint venture/ associate	(iv)	888	1.6%
Stock of properties	(v)	4,599	8.3%
Total		55,707	100.0%

(i) The aggregate market value of completed investment properties (including other properties in PPE), which generate recurring revenue for the Group, was approximately HK$35.0 billion, representing approximately 62.8% of the total appraised value (the "**Appraised Value**") of the property interests attributable to the Shareholders as at 30 November 2018.

Completed investment properties mainly comprise office, retail and residential properties. The properties are (1) Hopewell Centre; (2) KITEC; (3) GardenEast; (4) QRE Plaza; (5) four commercial units, one restaurant unit and 80 carparking spaces at Wu Chung House; and (6) the shopping arcade and various carparking spaces of Panda Hotel. These properties were mainly valued at, using income capitalisation method (the "**Income Method**"), by capitalising the rental income derived from the existing tenancies with due provision for the reversionary income potential of the properties and making reference to lettings within the subject property as well as other relevant comparable rental evidences and comparable sales transactions.

(ii) The hotel portion of Panda Hotel was valued at approximately HK$3.3 billion as at 30 November 2018, representing approximately 5.9% of the Appraised Value. It was valued by direct comparison method (the "**Direct Comparison Method**") by making reference to comparable sales transactions as available in the market subject to appropriate adjustments including but not limited to location, accessibility, age, quality, size, time, configuration and other relevant factors.

(iii) Properties under/for development, mainly comprising Hopewell Centre II, 153-167 Queen's Road East and Hill Side Terrace Cluster, were valued at approximately HK$12.0 billion as at 30 November 2018, representing approximately 21.4% of the Appraised Value.

In arriving the valuation of the properties, the Valuer has taken into consideration of the gross development value (market value as if completed), the development costs incurred and the costs that will be incurred to complete the proposed developments. The gross development value was assessed using the Direct Comparison Method and taking into account comparable sales transactions as available in the market subject to appropriate adjustments including but not limited to location, accessibility, age, quality, size, time, configuration and other relevant factors.

(iv) This represents the property interests held by the Group's joint venture and associate and attributable to the Shareholders, which were valued by either (1) the Income Method; or (2) the Direct Comparison Method.

(v) Stock of properties, comprising Hopewell New Town in the PRC, were valued at approximately HK$4.6 billion as at 30 November 2018, representing approximately 8.3% of the Appraised Value.

Hopewell New Town principally consists of properties for sale, properties under development and properties for future development. These properties were valued by the Direct Comparison Method. The value of the properties under development was arrived after taking into account the development costs incurred and to be incurred to complete the proposed development.

As stated in the Valuation Report, the valuation is conducted in compliance with the standards and guidelines set out in the HKIS Valuation Standards 2017 published by the Hong Kong Institute of Surveyors, Rule 11 of the Takeovers Code and Chapter 5 and Practice Note 12 of the Listing Rules. We have reviewed and discussed the property valuation with the Valuer regarding the methodology, basis and assumptions adopted in arriving at the value of the property interests. In particular, we have discussed with the Valuer to assess whether the approaches are appropriate for each type of properties stated above. We have also reviewed the valuation methodologies adopted for different types of properties of certain property companies and noted that the methodologies adopted in the Valuation Report are usual. Completed investment properties, the commercial portion of Hopewell Centre II and 153-167 Queen's Road East were stated at fair values in the consolidated statement of financial position as at 30 September 2018. We noted that the valuation methodologies adopted in appraising these properties as at 30 November 2018 in the Valuation Report were consistent with those applied for the valuation of the properties as at 30 September 2018 as disclosed in the 2019 Interim Report. Taking into consideration of the nature of the properties and that the valuation is conducted in accordance with the aforesaid requirements, we consider that the methodologies and basis adopted by the Valuer for determining the value of the property interests are appropriate.

(b) Adjusted NAV of the Group

The unaudited consolidated financial statements of the Company as at 30 September 2018 are incorporated in Appendix I to this Scheme Document and extracted in the section headed "*4. Financial information of the Group*" above. The net assets attributable to the Shareholders as at 30 September 2018 were approximately HK$52,303.4 million (or approximately HK$60.2 per Share).

As disclosed in the 2019 Interim Report, the adjusted shareholders' equity on a per Share basis was approximately HK$66.2 as at 30 September 2018, which was based on the unaudited NAV of the Group adjusted by the underlying market value of the Group's hotel properties (comprising Panda Hotel and the hotel portion of Hopewell Centre II) as at 30 September 2018.

Some of the property interests of the Group were stated at cost basis in accordance with Hong Kong Financial Reporting Standards. Given that the amount of these property interests were included in the aforesaid two methods of computation, we consider that the appraised value of all properties interests held by the Group is more appropriate to assess the net asset backing of the Group. For this purpose, we have reviewed the Adjusted NAV of the Group, based on the unaudited consolidated financial statements of the Company as at 30 September 2018 and the adjustments as set out in the table below, which include the revaluation surplus arising from property valuation, net of estimated deferred tax:

	HK$'million
Unaudited NAV of the Group as at 30 September 2018	52,303
Adjustments:	
– Revaluation surplus arising from the valuation of property interests attributable to the Shareholders as at 30 November 2018 *(Note 1)*	10,829
– Deferred tax on attributable revaluation surplus *(Note 2)*	(3,764)
– First interim dividend for the year ending 31 March 2019 of HK$0.30 per Share paid on 23 November 2018	(260)
Adjusted NAV of the Group	59,108
Adjusted NAV of the Group per Share (HK$) *(Note 3)*	**68.05**
Cancellation Price per Scheme Share (HK$)	**38.80**
Discount to Adjusted NAV of the Group per Share	**43.0%**

Notes:

1. *Represented the revaluation surplus (the "**Revaluation Surplus**") arising from the excess of the market value of the property interests held by the Group (including joint venture and associate) in existing state attributable to the Shareholders of approximately HK$55,707 million as at 30 November 2018, as appraised by the Valuer, over their corresponding book values attributable to the Shareholders of approximately HK$44,878 million as at 30 November 2018, after adjusting for relevant interests not attributable to the Group. Among the total revaluation surplus, approximately HK$6,676 million and HK$4,153 million were attributable to the Group's properties located in Hong Kong and the PRC, respectively.*

2. *Represents deferred tax (the "**Deferred Tax**") on temporary differences between the market values of the property interests and the corresponding tax base used in computation of taxable profit, except that no deferred tax is provided for investment properties located in Hong Kong as the market value of such properties are presumed to be recovered through sale. Deferred tax is calculated at tax rates of 16.5% for Hong Kong profits tax and 25% for PRC corporate income tax, while land appreciation tax is estimated at progressive rates ranging from 30% to 60% of appreciation value with certain allowable deductions according to the relevant PRC tax laws and regulations. Among the Deferred Tax, approximately HK$1,037 million and HK$2,727 million were attributable to the Group's properties located in Hong Kong (comprising hotel properties and own-used portions of investment properties) and the PRC, respectively.*

3. *Based on 868,620,621 Shares in issue as at the Latest Practicable Date.*

As shown above, the Cancellation Price of HK$38.80 per Scheme Share represents a discount of approximately 43.0% to the Adjusted NAV of the Group of approximately HK$68.05 per Share. We have reviewed the computation of the Adjusted NAV prepared by the management and discussed the computation in respect of the Revaluation Surplus and the Deferred Tax with the Company's auditors. We therefore consider that the calculation of the Adjusted NAV of the Group to be appropriate. Further analysis in this regard is set out in the section headed "7. *Evaluation of the Cancellation Price – (e) Privatisation Precedents*" below.

6. Trading volume 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 issued Shares and the public float during the period from 1 January 2017 to the Latest Practicable Date:

	Average daily trading volume	**Approximately % of average daily trading volume to the total issued Shares** *(Note 1)*	**Approximately % of average daily trading volume to the public float** *(Note 2)*
2017			
January	460,851	0.05	0.08
February	771,137	0.09	0.14
March	529,150	0.06	0.09
April	355,563	0.04	0.06
May	275,387	0.03	0.05
June	282,682	0.03	0.05
July	225,266	0.03	0.04
August	452,421	0.05	0.08
September	416,287	0.05	0.07
October	342,826	0.04	0.06
November	349,476	0.04	0.06
December	748,992	0.09	0.13
2017 average	**434,170**	**0.05**	**0.08**

	Average daily trading volume	Approximately % of average daily trading volume to the total issued Shares *(Note 1)*	Approximately % of average daily trading volume to the public float *(Note 2)*
2018			
January	1,686,234	0.19	0.30
February	908,785	0.10	0.16
March	515,119	0.06	0.09
April	990,342	0.11	0.18
May	653,001	0.08	0.12
June	419,957	0.05	0.07
July	362,304	0.04	0.06
August	381,693	0.04	0.07
September	859,454	0.10	0.15
October	601,090	0.07	0.11
November	664,356	0.08	0.12
December	3,934,251	0.45	0.70
2018 average	**998,049**	**0.11**	**0.18**
2019			
January	1,745,086	0.20	0.31
From 1 February to the Latest Practicable Date	1,654,315	0.19	0.30

Source: Bloomberg

Notes:

1. *Based on the number of total issued Shares as at each month end or the Latest Practicable Date.*

2. *Based on the number of Shares held by the public as at each month end or the Latest Practicable Date as extracted from Bloomberg.*

As illustrated above, the average daily trading volume of the Shares during the above period represented approximately 0.03% to 0.45% of the total issued Shares and approximately 0.04% to 0.70% of the issued Shares held by the public. We consider that the relatively high daily trading volumes in January and December 2018 were primarily attributable to the announcement of the HHI Disposal in December 2017, the declaration of a special conditional dividend of HK$2.00 per Share in January 2018 and the Proposal in December 2018. Since the publication of the Joint Announcement, there has been a surge in trading volume of the Shares, reflecting the market reaction to the Proposal.

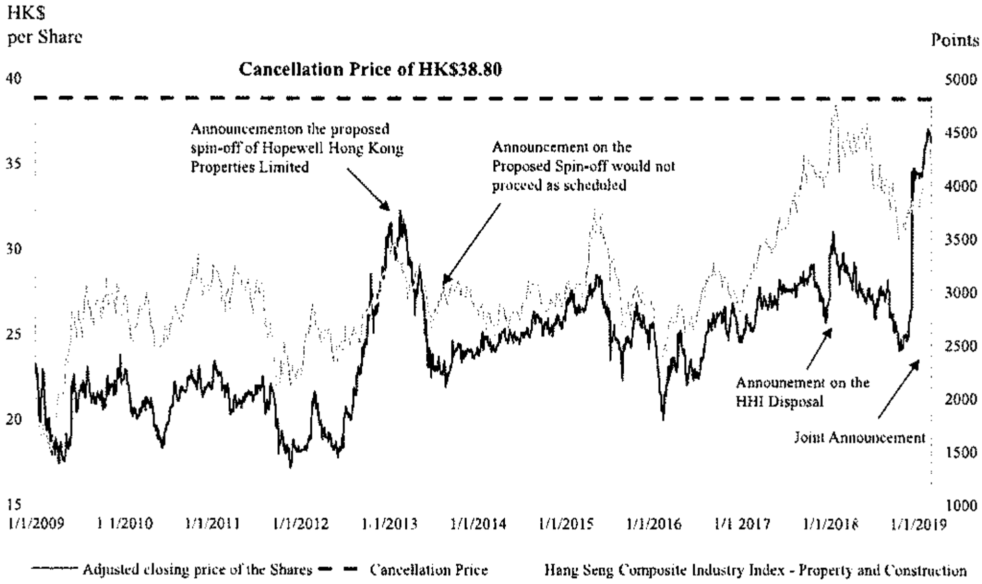
As illustrated in the above table, the trading of the Shares was not active. Given the thin liquidity of the Shares, it may be difficult for the Scheme Shareholders to dispose of a significant number of Shares without exerting downward pressure on the Share prices. The Proposal represents an opportunity for the Scheme Shareholders to exit at the fixed Cancellation Price which is substantially above the market prices prior to the issue of the Joint Announcement.

7. Evaluation of the Cancellation Price

(a) Share price performance

Set out below are the charts showing (i) the movements of daily adjusted closing prices of the Shares and the Hang Seng Composite Industry Index – Property and Construction (the "**Industry Index**") (chart 1); and (ii) the comparison of the performance of the Share prices with the Industry Index (chart 2), from 2 January 2009 up to the Latest Practicable date (the "**Review Period**"), being approximately 10 years:

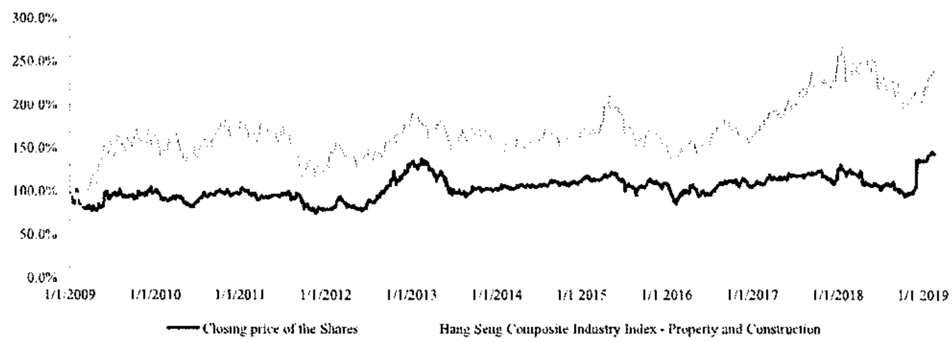
Chart 1: Adjusted Share prices and the Industry Index



Source: Bloomberg

Note: For comparison with the Cancellation Price, the Share prices in chart 1 are adjusted for abnormal cash dividends based on adjustment methods adopted by Bloomberg.

Chart 2: Comparison of performance of Share prices with the Industry Index



Source: Bloomberg

Note: For comparison with the Industry Index, unadjusted Share prices extracted from Bloomberg are used in chart 2.

As shown in chart 1 above, the Shares were traded below the Cancellation Price at all times during the Review Period. Chart 2 above illustrates the performance of the Shares compared to that of the Industry Index. The performance of the Shares generally lagged behind the Industry Index during the Review Period. The following discussion is based on the adjusted Share prices.

The closing prices of the Shares on 2 January 2009, the beginning of the period reviewed, and the Last Trading Date were HK$23.23 and HK$26.45, respectively. During the period from 2 January 2009 to 29 June 2012, the Shares were traded between HK$17.10 and HK$23.77 per Share. Subsequent to the announcement of the proposed spin-off (the "**Proposed Spin-off**") of Hopewell Hong Kong Properties Limited on the Main Board of the Stock Exchange on 8 February 2013, the Shares closed at a high of HK$32.21 on 15 February 2013. Then the Share price declined and further reached a low of HK$21.89 on 22 August 2013 after the Company announced that the Proposed Spin-off would not proceed as originally scheduled on 13 June 2013. The closing prices of the Shares fluctuated between HK$19.96 and HK$31.01 during the period from 23 August 2013 to the Last Trading Date, generally in line with the trend of the Industry Index. After publication of the announcement on the HHI Disposal on 29 December 2017, the Shares closed at HK$29.70 on 2 January 2018, representing a 10.0% increment from HK$26.99 on 29 December 2017.

From 2 January 2009 to the Last Trading Date (the "**Pre-Announcement Period**"), the Industry Index reached the highest of 4,801.58 points on 26 January 2018, from 1,492.46 points on 2 March 2009. The Industry Index was then on a downward trend and dropped to 3,807.64 points on the Last Trading Date, representing a decrease of approximately 20.7% from the peak. During the Pre-Announcement Period, the Industry Index increased by approximately 102.5% while the closing prices of the Shares increased by approximately 13.8%.

During the Pre-Announcement Period, the highest closing price of the Shares was HK$32.21 on 15 February 2013 (about six years ago), which represented a discount of approximately 17.0% to the Cancellation Price. The lowest closing price of the Shares during the Pre-Announcement Period was HK$17.10 on 22 November 2011, which represented a discount of approximately 55.9% to the Cancellation Price.

The Share price closed at HK$26.45 on the Last Trading Date and surged by approximately 30.6% to HK$34.55 on 6 December 2018, being the first trading day following the Joint Announcement. From 6 December 2018 to the Latest Practicable Date, the Shares were traded between HK$32.90 and HK$37.05, representing discounts between 4.5% and 15.2% to the Cancellation Price, with an average of HK$35.11. The Shares closed at HK$36.30 as at the Latest Practicable Date.

We are of the view that the aforesaid surge in Share prices was driven by the announcement of the Proposal, in particular, the Cancellation Price of HK$38.80 per Scheme Share. The Scheme Shareholders should note that the Shares were traded substantially below the Cancellation Price of HK$38.80 during the Pre-Announcement Period and the prevailing Share prices may not be sustained if the Scheme is not approved or the Proposal otherwise lapses.

The Cancellation Price of HK$38.80 per Scheme Share represents:

- a premium of approximately 46.7% over the closing price of HK$26.45 per Share as quoted on the Stock Exchange on the Last Trading Date;
- a premium of approximately 55.5% over the average closing price of approximately HK$24.95 per Share as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Date;
- a premium of approximately 54.1% over the average closing price of approximately HK$25.18 per Share as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Date;
- a premium of approximately 49.6% over the average closing price of approximately HK$25.93 per Share as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Date;
- a premium of approximately 45.1% over the average closing price of approximately HK$26.74 per Share as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Date;
- a premium of approximately 41.3% over the average closing price of approximately HK$27.45 per Share as quoted on the Stock Exchange for the 360 trading days up to and including the Last Trading Date; and
- a premium of approximately 6.9% over the closing price of HK$36.30 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

(b) Comparable Companies

In assessing the fairness and reasonableness of the Cancellation Price, we have identified an exhaustive list of companies listed on the Stock Exchange which (i) are principally engaged in property investment and development and generated over 50% of their revenue from Hong Kong in their respective latest financial years; and (ii) have market capitalisation ranging from HK$10 billion to HK$80 billion on the Last Trading Date. Based on these criteria, we identified seven companies. Among these companies, Wang On Properties Limited is excluded for comparison purpose due to the reasons stated below. We consider that the remaining six companies (the "**Comparable Companies**") are representative and appropriate for comparison purpose as they are all engaged in the same sector as the Group does and have the majority of the revenue derived from Hong Kong.

The table below illustrates (i) the price-to-earnings multiples ("**P/E**"); (ii) the price-to-book multiples ("**P/B**"); and (iii) the premium over/discount to NAV per share, of the Comparable Companies based on their respective NAV per share as derived from their respective latest published financial statements and the closing share prices of the Comparable Companies on the Last Trading Date:

Companies (stock code)	**Market capitalisation on the Last Trading Date** *(HK$'million)*	**P/E** *(times)*	**P/B** *(times)*	**Premium/ (discount) of share price over/(to) NAV per share**
Hang Lung Properties Limited (101)	71,243.86	7.94	0.52	(48.2%)
Tsim Sha Tsui Properties Limited (247)	47,165.70	6.24	0.64	(36.3%)
Hysan Development Company Limited (14)	39,138.91	6.63	0.54	(45.5%)
Kerry Properties Limited (683)	39,071.80	3.92	0.40	(59.8%)
Hang Lung Group Limited (10)	29,547.12	4.96	0.35	(65.5%)
Chinese Estates Holdings Limited (127)	16,787.05	21.47	0.56	(43.9%)
Wang On Properties Limited (1243) *(Note 1)*	15,048.00	10.34	3.34	233.6%
Comparable Companies:	**High**	21.47	0.64	(65.5%)
	Low	3.92	0.35	(36.3%)
	Average	8.53	0.50	(49.9%)
	Median	6.44	0.53	(46.9%)
The Company (54)	**22,975.02**	**9.82** *(Note 2)*	**0.64** *(Note 3)*	**(35.6%)**

Source: Bloomberg

Notes:

1. *The shares of Wang On Properties Limited were traded at an exceptionally high P/B (i.e. 3.34 times) and the share price of which represented a substantial premium over its NAV per share (i.e. 233.6%). Among the seven companies identified, only Wang On Properties Limited was traded at a premium over its NAV per share on the Last Trading Date. Accordingly, we consider it is an outlier and is excluded in the analysis.*

2. *Based on the Cancellation Price of HK$38.80 per Scheme Share and the earnings per Share from continuing operations of HK$3.95 per Share for the year ended 30 June 2018 as extracted from the 2018 Annual Report.*

3. *Based on the Cancellation Price of HK$38.80 per Scheme Share and the unaudited NAV of the Group per Share of HK$60.2 as at 30 September 2018.*

The P/E as implied by the Cancellation Price was 9.82 times which was higher than the average and median of those of the Comparable Companies on the Last Trading Date.

The P/B as implied by the Cancellation Price was 0.64 times which was the same as the highest P/B of the Comparable Companies on the Last Trading Date. The Cancellation Price represents a discount of approximately 35.6% to the unaudited NAV of the Group per Share as at 30 September 2018, which is lower than the average and median of 49.9% and 46.9% discounts of the Comparable Companies, respectively. The adjusted NAV of the Comparable Companies that are supported by independent valuation are not available from public source. As such, no comparison of P/B based on the Adjusted NAV of the Group and those of the Comparable Companies can be performed.

(c) ***Dividend yield***

Based on the first interim dividend of HK$0.30 per Share for the year ending 31 March 2019 and the second interim dividend of HK$0.88 per Share in lieu of final dividend for the year ended 30 June 2018, the dividend yields as implied by the closing Share price on the Last Trading Date of HK$26.45 per Share and the Cancellation Price of HK$38.80 per Scheme Share were approximately 4.5% and 3.0%, respectively. We have compared the above dividend yields to those of the Comparable Companies and the Hang Seng REIT Index ("**HSREIT**"), a benchmark that tracks the performance of real estate investment trusts ("**REITs**") listed in Hong Kong, on the Last Trading Date, as illustrated below:

Companies (stock code)		**Dividend yield**
Hang Lung Properties Limited (101)		4.7%
Tsim Sha Tsui Properties Limited (247)		2.0%
Hysan Development Company Limited (14)		3.7%
Kerry Properties Limited (683)		4.8%
Hang Lung Group Limited (10)		3.7%
Chinese Estates Holdings Limited (127)		1.3%
	High	4.8%
	Low	1.3%
	Average	3.4%
	Median	3.7%
HSREIT		5.8%
The Company (54)		
– based on closing price on the Last Trading Date		**4.5%**
– based on the Cancellation Price		**3.0%**

Source: Bloomberg and website of the Stock Exchange

Note: The above dividend yields are calculated based on the total dividends per share in the preceding twelve months (excluding any special dividend) and the closing share prices of the Comparable Companies on the Last Trading Date.

As shown above, the dividend yields of the Comparable Companies ranged from approximately 1.3% to approximately 4.8%, with an average and median of approximately 3.4% and 3.7%, respectively, and the dividend yield of HSREIT was approximately 5.8%. The dividend yields of the Company as implied by the closing Share price on the Last Trading Date and the Cancellation Price were approximately 4.5% and 3.0%, respectively, which were within the range of the Comparable Companies but lower than that of HSREIT.

If the Scheme becomes effective and the Proposal is implemented, the Scheme Shareholders who place a high priority on dividend income would have the opportunity to re-invest the proceeds in similar companies that have higher historical dividend yields or REITs listed in Hong Kong which generally have higher dividend yields.

(d) Comparison of Share prices with NAV of the Group per Share

We have compared the closing Share prices, for a period of approximately three years prior to the Last Trading Date, against the then latest NAV of the Group per Share, as stated in the relevant annual or interim results announcements of the Company, as follows:

Period *(Note 1)*	**NAV of the Group per Share** *(Note 2)*	**Closing Share price** *(Note 3)* **Low**	**High**	**Discount to NAV of the Group per Share** **Highest**	**Lowest**
25/02/2016 – 23/08/2016	52.8	23.80	28.00	(54.9%)	(47.0%)
24/08/2016 – 24/01/2017	53.5	26.60	29.10	(50.3%)	(45.6%)
25/01/2017 – 16/08/2017	53.4	27.25	30.60	(49.0%)	(42.7%)
17/08/2017 – 13/02/2018	54.3	27.45	33.15	(49.4%)	(39.0%)
14/02/2018 – 22/08/2018	55.9	25.90	31.85	(53.7%)	(43.0%)
23/08/2018 – 31/10/2018	60.6	24.00	28.20	(60.4%)	(53.5%)
01/11/2018 – Last Trading Date	60.2	24.55	26.45	(59.2%)	(56.1%)
			Range	**(60.4%)**	**(39.0%)**

Discount of the Cancellation Price to the NAV per Share as at 30 September 2018	**(35.6%)**

Source: Bloomberg and the website of the Stock Exchange

Notes:

1. *Each period commenced from the time after the Company released its annual or interim results announcement.*

2. *Extracted from the Company's annual or interim results announcements.*

3. *Unadjusted closing Share prices are extracted from Bloomberg.*

As shown in the table above, the Shares were traded at discounts to the underlying NAV of the Group per Share at all times from 25 February 2016 to the Last Trading Date, being a period of approximately three years, with discounts ranging from approximately 39.0% to approximately 60.4%, indicating that the Shareholders could not realise their investments in the Shares at the entire underlying NAV of the Group per Share on the market. The approximately 35.6% discount of the Cancellation Price to the unaudited NAV of the Group per Share of approximately HK$60.2 as at 30 September 2018 is lower than the historical discounts of the market prices to the NAV of the Group per Share as set out above and as shown in the case of the Comparable Companies set out in the section headed "*7. Evaluation of the Cancellation Price – (b) Comparable Companies*" above. The adjusted NAV of the Group for the indicated periods prior to the Last Trading Date are not available as no full valuation of all properties was carried out.

(e) Privatisation Precedents

We have, on an exhaustive basis, reviewed a list of privatisation precedents involving property companies listed on the Stock Exchange announced since 1 January 2009, approximately ten years prior to the date of the Joint Announcement, and up to the Latest Practicable Date (the "**Privatisation Precedents**") which were either (i) successful; or (ii) failed solely under the Headcount Test (as defined below) but met both of the 75% Approval Test and the 10% Objection Test, which are the tests applicable to the Proposal, as identified from the website of the Stock Exchange. Some of the Privatisation Precedents failed solely because the requirement for the approval by the majority in the number of members present and voting at the scheme meeting (the "**Headcount Test**") could not be met. The Headcount Test is not applicable to the Proposal. As such, we consider that all of the Privatisation Precedents are appropriate for comparison purpose.

The table below illustrates the premiums/discounts of the offer/cancellation prices offered by the Privatisation Precedents over/to the prevailing share prices prior to the issue of the relevant privatisation announcements as well as the adjusted NAV per share of the Privatisation Precedents:

Date of initial announcement	Company (stock code)	Principal activities	Offer/ cancellation price *(HK$)*	Premium of offer/ cancellation price over the share price on the last trading day prior to announcement of privatisation	Premium of offer/ cancellation price over 30-day average share price prior to announcement of privatisation	Premium of offer/ cancellation price over 90-day average share price prior to announcement of privatisation	Premium of offer/ cancellation price over 180-day average share price prior to announcement of privatisation	Premium/ (discount) of offer/ cancellation price over/(to) adjusted NAV per share	Results
20 March 2017	Goldin Properties Holdings Limited (283) ("**Goldin Properties**")	Property development, property investment and operation of hotel and polo club	9.0	36.8%	33.9%	36.6%	49.5%	28.6%	Successful
30 March 2016	Dalian Wanda Commercial Properties Co Ltd (3699) ("**Dalian Wanda**")	Property leasing and management, development and sales of properties	52.8	36.1%	50.2%	32.7%	16.0%	(10.8%)	Successful
6 January 2016	New World China Land Limited (917) ("**NWCL**")	Property arm of New World Development Company Limited in the PRC and is one of the large-scale national developers in the PRC	7.8	25.6%	40.8%	53.8%	56.9%	(29.4%)	Successful
13 March 2014	NWCL	Property arm of New World Development Company Limited in the PRC and is one of the large-scale national developers in the PRC	6.8	32.3%	53.7%	64.1%	78.0%	(32.5%)	Not approved under the Headcount Test but 99.84% votes in favour in terms of number of shares

Date of initial announcement	Company (stock code)	Principal activities	Offer/ cancellation price *(HK$)*	Premium of offer/ cancellation price over the share price on the last trading day prior to announcement of privatisation	Premium of offer/ cancellation price over 30-day average share price prior to announcement of privatisation	Premium of offer/ cancellation price over 90-day average share price prior to announcement of privatisation	Premium of offer/ cancellation price over 180-day average share price prior to announcement of privatisation	Premium/ (discount) of offer/ cancellation price over/(to) adjusted NAV per share	Results
21 November 2013	Glorious Property Holdings Ltd (845) ("**Glorious Properties**")	Development and sale of high-quality properties in key economic cities in the PRC	1.8	45.2%	56.5%	53.8%	44.0%	(40.1%)	Not approved under the Headcount Test but 96.92% votes in favour in terms of number of shares
20 January 2011	Shanghai Forte Land Co Ltd (2337) ("**Shanghai Forte**")	Development and sale of high quality commercial and residential properties in the PRC	3.5	25.4%	34.3%	43.0%	52.4%	(26.2%)	Successful
27 April 2010	Wheelock Properties Limited (49) ("**Wheelock**")	Properties development and letting	13.0	143.9%	162.1%	162.1%	155.4%	(12.1%)	Successful
		Privatisation Precedents	**High**	143.9%	162.1%	162.1%	155.4%	28.6%	
			Low	25.4%	33.9%	32.7%	16.0%	(40.1%)	
			Average	49.3%	61.6%	63.7%	64.6%	(17.5%)	
			Median	36.1%	50.2%	53.8%	52.4%	(26.2%)	
			The Proposal	**46.7%**	**55.5%**	**49.6%**	**45.1%**	**(43.0%)**	

Source: Scheme documents, circulars and Bloomberg

As shown in the table above, all the offer/cancellation prices of the Privatisation Precedents represent premiums over the then prevailing market prices of the relevant shares prior to the initial announcement of the privatisation over the last trading day/ periods indicated.

The premiums as represented by the offer/cancellation prices over the closing prices or average closing prices of the Privatisation Precedents for (i) the last trading days prior to the issue of the initial announcement of the privatisation proposals ranged from approximately 25.4% to 143.9% with an average of approximately 49.3%; (ii) 30 trading days prior to initial announcement of the privatisation proposals ranged from approximately 33.9% to 162.1% with an average of approximately 61.6%; (iii) 90 trading days prior to initial announcement of the privatisation proposals ranged from approximately 32.7% to 162.1% with an average of approximately 63.7%; and (iv) 180 trading days prior to initial announcement of the privatisation proposals ranged from approximately 16.0% to 155.4% with an average of approximately 64.6%.

The premiums as represented by the Cancellation Price were approximately 46.7%, 55.5%, 49.6% and 45.1% over the closing price on the Last Trading Date, and the average closing prices for the periods of 30, 90 and 180 trading days up to and including the Last Trading Date, respectively, which are within the ranges of those of the Privatisation Precedents. We consider that both privatisation proposals of NWCL are separate, which, together with Glorious Properties, are relevant to our analysis given they all met the 75% Approval Test and the 10% Objection Test which are the tests applicable to the Proposal.

As shown in the table above, other than Goldin Properties, the offer/cancellation prices offered by the Privatisation Precedents ranged from a discount of approximately 10.8% to approximately 40.1% to the adjusted NAV per share of the respective companies. The Cancellation Price of HK$38.80 per Scheme Share represents a discount of approximately 43.0% to the Adjusted NAV of the Group of HK$68.05 per Share, which is above the highest discount of approximately 40.1% among the Privatisation Precedents. Further analyses in this regard are set out in the sections headed "*7. Evaluation of the Cancellation Price – (d) Comparison of Share prices with NAV of the Group per Share*" above and "*7. Evaluation of the Cancellation Price – (f) Comparison of share prices with NAV per share of the Privatisation Precedents*" below.

(f) Comparison of share prices with NAV per share of the Privatisation Precedents

We have considered the premiums/discounts of the closing share prices over/to the then latest consolidated NAV per share of the Privatisation Precedents for a period of approximately three years prior to the initial announcement of the respective proposed privatisations (the "**Three Years' Review Period**"), as set out below:

Company	Period *(Note 1)*	Premium/(discount) of closing share *(Note 2)* price over/(to) NAV attributable to equity shareholders per share			Distribution of comparison of closing share prices *(Note 2)* with NAV attributable to equity shareholders per share during the Three Years' Review Period			
		(Highest discount)	Average premium/ (discount)	Highest premium/ (lowest discount)	Over 60.4% discount	39.0% discount to 60.4% discount *(Note 3)*	At par to below 39.0% discount	At premium
					(% of trading days)			
Goldin Properties	26/11/2013 – 20/03/2017	(38.8%)	30.0%	489.1%	–	–	42.2%	57.8%
Dalian Wanda	23/12/2014 *(Note 4)* – 30/03/2016	(26.6%)	19.4%	80.9%	–	–	18.4%	81.6%
NWCL	17/06/2014 *(Note 5)* – 05/01/2016	(43.5%)	(28.8%)	(10.9%)	–	1.3%	98.7%	–
NWCL	28/02/2011 – 13/03/2014	(78.6%)	(50.4%)	(23.1%)	22.8%	52.1%	25.1%	–
Glorious Property	30/08/2010 – 21/11/2013	(62.8%)	(27.8%)	91.9%	10.7%	52.7%	10.7%	25.9%
Shanghai Forte	28/08/2007 – 20/01/2011	(61.0%)	12.4%	282.9%	0.5%	16.3%	48.3%	34.9%
Wheelock	13/12/2006 – 27/04/2010	(83.3%)	(42.1%)	4.8%	21.2%	39.2%	35.3%	4.3%
The Company	**25/02/2016 – the Last Trading Date**	**(60.4%)**	**(48.6%)**	**(39.0%)**	**–**	**100.0%**	**–**	**–**

Source: Bloomberg and the website of the Stock Exchange

Notes:

1. *Represented a period of approximately three years prior to the date of initial announcement of the respective privatisations unless otherwise specified in notes below.*

2. *Calculated based on the unadjusted closing share prices extracted from Bloomberg.*

3. *The range of discounts to the NAV of the Group per Share during the Three Years' Review Period.*

4. *Listing date of the shares.*

5. *First trading day of the shares after the announcement of the lapse of the previous privatisation proposal of NWCL (the "**NWCL First Proposal**") on 16 June 2014. The NWCL First Proposal was announced on 14 March 2014. The share prices of NWCL during the period from 14 March 2014 to 16 June 2014 were affected by the NWCL First Proposal. The second privatisation proposal of NWCL (the "**NWCL Second Proposal**") was announced on 6 January 2016 after the lapse of the NWCL First Proposal.*

As shown in the section headed "*7. Evaluation of the Cancellation Price – (e) Privatisation Precedents*" above, the discount of the Cancellation Price to the Adjusted NAV of the Group per Share of approximately 43.0% is the closest to that of Glorious Property of approximately 40.1%. It should be noted that the Shares were traded at discounts to the underlying NAV of the Group per Share at all times from 25 February 2016 to the Last Trading Date, being a period of approximately three years, with discounts ranging from approximately 39.0% to approximately 60.4%. While shares of Glorious Property were sometimes traded at higher discounts to the underlying NAV per share (i.e. approximately 10.7% of the trading days in the Three Years' Review Period) than the Shares, they were traded at lower discounts to, or at premiums over, the underlying NAV per share than the Shares for a longer time (i.e. approximately 36.6% of the trading days during the Three Years' Review Period).

Of the seven Privatisation Precedents, the shares of five companies were sometimes traded at premiums over the NAV per share during the Three Years' Review Period. Among these five companies, the shares of Goldin Properties and Dalian Wanda were not traded more than 39.0% discounts to the underlying NAV per share during the periods indicated and most of the time were traded at premiums. It is noted that the offer price of Goldin Properties represented approximately 28.6% premium over its adjusted NAV per share whereas the offer price of Dalian Wanda represented the lowest discount of approximately 10.8% discount to the adjusted NAV per share among the Privatisation Precedents. For the remaining three companies, the percentages of the trading days in the Three Years' Review Period during which the shares were traded at discounts of below 39.0% to, or at premiums over, the underlying NAV per share were higher than those during which the shares were traded at over 60.4% discount.

As shown in the table above, prior to the initial announcement of the respective privatisations, only the shares of the Company and NWCL (for both NWCL First Proposal and NWCL Second Proposal) were at all times traded at discounts to their respective NAV per share during the periods indicated. Although shares of NWCL were sometimes traded at higher discounts to the underlying NAV per share than the Shares, they were traded at lower discounts to the underlying NAV per share than the Shares for a longer time.

As illustrated in the above analysis, the comparison of the discount of the Cancellation Price to the Adjusted NAV of the Group per Share to those of the Privatisation Precedents shall not be the only factor to determine the fairness and reasonableness of the Cancellation Price in terms of value of asset backing. The historical premiums and/or discounts of share prices over/to the NAV per share shall also be taken into consideration in the assessment. The Shares were traded at discounts to the NAV of the Group per Share at all times during the Three Years' Review Period of the Company (from 25 February 2016 to the Last Trading Date) whereas the shares of the companies under the Privatisation Precedents were sometimes traded at lower discounts to, or at premiums over, the respective underlying NAV per share during the Three Years' Review Period.

It should be noted that Share price is the market consensus of the valuation of the Company. Scheme Shareholders can only realise their investments in the Shares through disposals of the Shares but not by way of disposal of any portion of the underlying net assets of the Group.

(g) ***Overall comments***

Taking into consideration of the following:

(i) the adjusted closing prices of the Shares were below the Cancellation Price at all times during the review period of around 10 years;

(ii) the Cancellation Price represents a discount of approximately 35.6% to the unaudited NAV of the Group per Share as at 30 September 2018, which is lower than the average discount of 49.9% of the Comparable Companies;

(iii) the P/E as implied by the Cancellation Price was 9.82 times which was higher than the average and median of those of the Comparable Companies on the Last Trading Date;

(iv) the premiums as represented by the Cancellation Price were approximately 46.7%, 55.5%, 49.6% and 45.1% over the closing price on the Last Trading Date, and the average closing prices for the periods of 30, 90 and 180 trading days up to and including the Last Trading Date, respectively, which are within the ranges of those of the Privatisation Precedents; and

(v) the Cancellation Price of HK$38.80 per Scheme Share represents a discount of approximately 43.0% to the Adjusted NAV of the Group of HK$68.05 per Share, which is above the highest discount of approximately 40.1% among the Privatisation Precedents. Nevertheless, as illustrated above, the comparison of the discount of the Cancellation Price to the Adjusted NAV of the Group per Share to those of the Privatisation Precedents shall not be the only factor to determine the fairness and reasonableness of the Cancellation Price in terms of value of asset backing. It should be noted that the Shares were traded at discounts to the NAV of the Group per Share at all times during the review period of about three years, with discounts ranging from approximately 39.0% to approximately 60.4%,

we consider that the Cancellation Price to be fair and reasonable.

RECOMMENDATION

In arriving at our recommendation in respect of the Proposal, we have considered the principal factors and reasons as discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- *the Proposal represents an opportunity for the Scheme Shareholders to realise their investments in the Shares at substantial premiums over the then Share prices prior to the issue of the Joint Announcement without suffering illiquidity discount*

  The premiums as represented by the Cancellation Price were approximately 46.7%, 55.5%, 49.6% and 45.1% over the closing price on the Last Trading Date, and the average closing prices for the periods of 30, 90 and 180 trading days up to and including the Last Trading Date, respectively.

  The closing price of the Shares on the Last Trading Date was HK$26.45 and surged by approximately 30.6% to HK$34.55 on 6 December 2018, being the first trading day following the issue of the Joint Announcement. Such increase in Share price was driven by the announcement of the Proposal, in particular, the Cancellation Price of HK$38.80 per Scheme Share. From 6 December 2018 to the Latest Practicable Date, the average closing price of the Shares was approximately HK$35.11 per Share. The Share price closed at HK$36.30 on the Latest Practicable Date.

  The prevailing Share prices may not be sustained if the Scheme is not approved or the Proposal otherwise lapses.

  The average daily trading volume per month between 1 January 2017 and the Latest Practicable Date ranged from 225,266 Shares to 3,934,251 Shares, representing approximately 0.04% to 0.70% of the Shares held by the public. Given the thin liquidity of the Shares, it may be difficult for the Scheme Shareholders to dispose of a significant number of Shares without exerting downward pressure on the Share prices;

- *the Proposal represents an opportunity for the Scheme Shareholders to realise their investments in the Shares without facing the uncertainties of future Share price movements that would be affected, to a certain extent, by the future operating performance and/or value of the properties currently under/for development*

  Among the properties currently under/for development, Hopewell Centre II is the largest project in terms of size of investment. Given that the total investment of Hopewell Centre II is estimated to be about HK$10 billion, Hopewell Centre II will be one of the major investment properties and hotel properties of the Group following its completion. Hopewell Centre II is still in a preliminary stage of development. For the three years ending 31 March 2021 and beyond, it is expected that an additional capital expenditure of approximately HK$5 billion will be incurred. The construction work is expected to be completed in end of 2021 and the renovation work will be carried out thereafter. There are risks associated with this mega size development project, in particular, completion of the construction work in accordance with its schedule and budget.

The operating results of Hopewell Centre II would affect the core profit of the Group in the future. Hopewell Centre II will only generate revenue for the Group after 2021. As such, there are uncertainties in the financial performance of the Group in the medium to longer term relating to the performance of Hopewell Centre II, which in turn may affect the Share prices and the amount of dividend payments in the future. Furthermore, it is difficult to estimate the extent of impact of the value of Hopewell Centre II on future Share prices, given that the Shares have been traded at discounts to the NAV of the Group per Share for a prolonged period;

- *the operating performance of the Group's property investment and property development businesses in the near term*

  The property investment and property development businesses are major profit contributors of the Group.

  Though KITEC E-Max with an average occupancy rate of 80% for the six months ended 30 September 2018 may represent a growth potential for the Group, the revenue growth of the property investment business may be limited due to the average occupancy rates of other investment properties were all above 90% for the six months ended 30 September 2018 and the lack of new investment properties prior to the opening of 153-167 Queen's Road East and Hopewell Centre II.

  The US-China trade war and the potential US interest rate rises may affect the local economic growth in the short term. If the economy grows at a slower rate, this may affect the businesses of the tenants of the Group's office and retail properties which may impact the operating performance of the Group's investment properties.

  Other than Hopewell New Town in the PRC, the Group does not have any residential property development project that is available for sale. Therefore, the financial results of the Group's property development business will be solely affected by recognition of properties sales of Hopewell New Town before completion of new property development projects in the future.

  Based on the 2018 Annual Report and the 2019 Interim Report, it is noted that the Group's recognition of sales of properties significantly affected the core profit attributable to the Shareholders and that the sales of properties of Hopewell New Town were affected by the tightening policies on the property sector in the PRC. The fluctuation of recognition of sales of properties of Hopewell New Town would affect the financial results of the Group in the near term;

- *the Proposal provides an opportunity for the Scheme Shareholders to re-invest in shares of other property companies or REITs*

  The Industry Index generally outperformed the Share prices during the review period of about 10 years. The Scheme Shareholders who place a high priority on capital gain would have the opportunity to re-invest the proceeds from the Proposal in similar companies that have a better share price performance and higher trading liquidity.

  The Scheme Shareholders who place a high priority on dividend income would have the opportunity to re-invest the proceeds from the Proposal in similar companies that have higher historical dividend yields or REITs listed in Hong Kong which generally have higher dividend yields; and

- *the Cancellation Price is fair and reasonable*

  For evaluation of the Cancellation Price, we have taken into consideration of the following:

  (i) the adjusted closing prices of the Shares were below the Cancellation Price at all times during the review period of about 10 years;

  (ii) the Cancellation Price represents a discount of approximately 35.6% to the unaudited NAV of the Group per Share as at 30 September 2018, which is lower than the average discount of approximately 49.9% of the Comparable Companies;

  (iii) the P/E as implied by the Cancellation Price was 9.82 times which was higher than the average and median of those of the Comparable Companies on the Last Trading Date;

  (iv) the premiums as represented by the Cancellation Price were approximately 46.7%, 55.5%, 49.6% and 45.1% over the closing price on the Last Trading Date, and the average closing prices for the periods of 30, 90 and 180 trading days up to and including the Last Trading Date, respectively, which are within the ranges of those of the Privatisation Precedents; and

  (v) the Cancellation Price of HK$38.80 per Scheme Share represents a discount of approximately 43.0% to the Adjusted NAV of the Group of HK$68.05 per Share, which is above the highest discount of approximately 40.1% among the Privatisation Precedents. Nevertheless, the comparison of the discount of the Cancellation Price to the Adjusted NAV of the Group per Share to those of the Privatisation Precedents shall not be the only factor to determine the fairness and reasonableness of the Cancellation Price in terms of value of its asset backing. The historical premiums and/or discounts of share prices over/ to the NAV per share of the Privatisation Precedents and the Company shall also be considered in the assessment.

The Share price is the market consensus of the valuation of the Company. The Scheme Shareholders can only realise their investments in the Shares through disposals of the Shares but not by way of disposal of any portion of the underlying net assets of the Group. It should be noted that the Shares were traded at discounts to the NAV of the Group per Share at all times during the review period of about three years prior to the Last Trading Date, with discounts ranging from approximately 39.0% to approximately 60.4%. In other words, the Scheme Shareholders could not realise their investments in the Shares at the entire underlying NAV of the Group per Share on the market.

Based on the above, we consider that the terms of the Proposal are fair and reasonable so far as the Scheme Shareholders are concerned and accordingly advise the Independent Board Committee to recommend the Scheme Shareholders to vote in favour of the relevant resolutions to be proposed at the Court Meeting and the EGM to approve and implement the Proposal and the Scheme.

The Scheme Shareholders are reminded that as stated in the "*Letter from the Board*" in this Scheme Document, the Cancellation Price will not be increased and the Offeror does not reserve the right to do so, and if the Scheme is not approved or the Proposal otherwise lapses, neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive. The Offeror has indicated that it has no intention to seek such consent.

Yours faithfully,
For and on behalf of
China Tonghai Capital Limited

Noelle Hung — *Managing Director*
Larry Choi — *Director*

Ms. Noelle Hung is a licensed person and a responsible officer of China Tonghai Capital Limited registered with the Securities and Futures Commission to carry out type 6 (advising on corporate finance) regulated activity under the SFO. She has about 20 years of experience in corporate finance.

Mr. Larry Choi is a licensed person and a responsible officer of China Tonghai Capital Limited registered with the Securities and Futures Commission to carry out type 6 (advising on corporate finance) regulated activity under the SFO. He has about eight years of experience in corporate finance.