OSK Capital Hong Kong Limited
僑豐融資有限公司
Subsidiary of OSK Investment Bank Berhad, Malaysia

10 January 2011

The Subscription IBC, the Whitewash IBC and
the Independent Shareholders
SRE Group Limited

Dear Sirs,

CONNECTED TRANSACTION RELATING TO THE SUBSCRIPTION OF NEW SHARES AND APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Subscription IBC, the Whitewash IBC and the Independent Shareholders in connection with the Subscription and the Whitewash Waiver, details of which are set out in the circular of the Company dated 10 January 2011 (the "Circular") of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined in the Circular, unless the context requires otherwise.

On 9 December 2010, the Company entered into the Subscription Agreement with the Subscriber, whereby the Subscriber agreed to subscribe for 700,000,000 new Shares. The Subscriber, when the Subscription Agreement was entered into, was interested in approximately 34.64% of the issued share capital of the Company (including the Lent Shares) and was a controlling shareholder and thus a connected person of the Company under the Listing Rules. The Subscription constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A.

Following the allotment and issue of the 700,000,000 Subscription Shares, the aggregate shareholding interest of the Subscriber and the persons acting in concert with it will increase from approximately 35.23% of the existing issued share capital of the Company (including the Lent Shares) to approximately 45.76% of the issued share capital of the Company (including the Lent Shares) as enlarged by the Subscription Shares. As such, the Subscriber will be obliged to make a mandatory general offer for the Shares and other relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) of the Company not held by the Subscriber and the persons acting in concert with it under Rule 26 of the Takeovers Code unless the Whitewash Wavier is obtained from the Executive. The Subscriber has made an application to the Executive for the Whitewash Waiver from an obligation to make such a general offer under Rule 26 of the Takeovers Code. The Executive has indicated that it will grant to the Subscriber the Whitewash Waiver subject to the approval of the Independent Shareholders at the SGM.

The Subscriber, the persons acting in concert with it and its associates, including Mr. Shi Jian, Md. Si Xiao Dong, Mr. Li Yao Min, Mr. Yu Hai Sheng, Mr. Shi Jian Dong and Md. He Pei Pei, and those Shareholders who are involved or interested in the Subscription and the Whitewash Wavier will abstain from voting at the SGM in respect of the resolutions approving the Subscription, the issue of the Subscription Shares and the Whitewash Waiver.

Under the Listing Rules, the Subscription IBC comprising all the independent non-executive Directors, namely Mr. Jiang Xie Fu, Mr. E Hock Yap and Mr. Zhuo Fumin, has been established to give advice and recommendation to the Independent Shareholders in respect of the Subscription. Under the Takeovers Code, the Whitewash IBC comprising a non-executive Directors, namely Mr. Jin Bing Rong, and all the independent non-executive Directors has been established to give advice and recommendation to the Independent Shareholders in respect of the Subscription and the Whitewash Waiver.

OSK Capital Hong Kong Limited has been appointed as the independent financial adviser to advise the Subscription IBC, the Whitewash IBC and the Independent Shareholders as to whether the terms of the Subscription, including the issue and allotment of the Subscription Shares and the other transactions contemplated thereunder, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, and whether the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In formulating our opinion, we have relied upon the information, facts and representations contained in the Announcement, the Circular and those supplied or made available by the management of the Company to us. We have assumed that all such information, facts and representations were true and accurate in all respects at the time they were supplied or made and continue to be true and accurate at the date of the Circular and can be relied upon. We have no reason to doubt the truth, accuracy and completeness of such information and representations and have confirmed with the management of the Company that no material facts have been withheld or omitted from such information and representations.

We have taken all reasonable and necessary steps to comply with the requirements set out in Rule 13.80 of the Listing Rules. We consider that we have been provided with sufficient information to enable us to reach an informed view. We have not, however, conducted any independent verification of such information or any independent in-depth investigation into the business, affairs, financial position or prospects of the Group nor have we carried out any in-depth research on the Group, the Subscriber and their respective associates.

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PRINCIPAL FACTORS CONSIDERED

In formulating our opinion on the Subscription and the Whitewash Waiver, we have taken into consideration the following principal factors:

Information on the Group

Business of the Group

The Group is principally engaged in the real estate development, property leasing and hotel operations in the PRC. The Group also principally engages in large-scale new towns planning and development through its listed subsidiary, China New Town Development Company Limited ("CNTD"). The Group is a property developer in China, focusing primarily on developing residential and commercial properties in Shanghai and adjacent cities, as well as Liaoning province (such as Shenyang city), Hainan province (such as Haikou city) and Zhejiang province (such as Jiaxing city). We understand from the Company that it has been focusing on the development of middle to high-end residential and commercial properties in, among others places, Shanghai, Shenyang, the capital city of Liaoning province, and Haikou, the capital city of Hainan province and Jiaxing, one of the cities in Zhejiang province. As mentioned in the annual report for the year ended 31 December 2009, the Group has been gradually building more commercial properties such as office buildings, hotels and shopping malls, aiming at becoming a fully integrated trans-regional real estate developer.

Property development is the core business of the Group. As set out in the annual report for the year ended 31 December 2009, the Group's major projects for sale in (i) Shanghai included Albany Oasis Garden Phase II, Cedar Island Oasis Garden, Lake Malaren Garden, Rich Gate Sea View, Central-Ring Centre; (ii) Haikou, Haikou Bund Center; and (iii) Shenyang, Shenyang Yosemite Oasis Community which the Group sold gross floor area of 303,921 square metres, generating sales proceeds of HK$5.93 billion during the year. As set out in the interim report for the six months ended 30 June 2010, the Group owned 14 property development projects as at 30 June 2010, which are located at Shanghai, Wuxi, Shenyang and Haikou.

The Group's residential projects are typically large-scale developments in prime locations within cities, and these projects typically incorporate a variety of comprehensive amenities and public facilities. The Group usually operates and manages such amenities and public facilities. Due to the scale of the projects, the projects would be developed in several phases over a number of years. Set out below is a table summarising the Group's property development projects as at 30 June 2010:

Project	Type	Location	Site Area (m^2)	Gross Floor Area (m^2)	Year of commencement	Expected year of completion of the whole project	% Holding
Long Island Oasis Garden/Cedar Island Oasis Garden	Residential	Songjiang District/ Southwest, Shanghai	471,000	579,531	2000	2010	98.75%
Oasis Central Ring Center	Mixed	Putou District/ Downtown, Shanghai	75,875	305,146	2002	2012	96.79%
Albany Oasis Garden	Mixed	Zhabei District/ Downtown, Shanghai	165,428	608,307	2005	2016	100%
Rich Gate Sea View	Mixed	Shangyang Town, Jinshan District/ Southwest, Shanghai	35,832	109,756	2008	2010	98.75%
Lake Malaren Golf Villa (Lake Malaren Garden)	Residential	Baoshan District/ Northeast, Shanghai	120,595	132,600	2008	2011	99%
Shenyang Yosemite Oasis Community	Residential	Dongling District/ Southeast Shenyang	425,732	497,086	2008	2013	100%
The Bund Center Haikou	Mixed	Longhua District/ Downtown, Haikou	227,273	921,918	2008	2015	79%
Cedar Villa Original	Residential	Baoshan District/ Northeast, Shanghai	96,786	116,210	2009	2011	98.75%
Shenyang Albany	Mixed	Heping District/ Downtown, Shenyang	158,536	955.668	2009	2017	70%
Rich Gate Mansion	Residential	Minhang District/ Southwest, Shanghai	103,164	18,054	2010	2011	27.70%

Project	Type	Location	Site Area (m^2)	Gross Floor Area (m^2)	Year of commencement	Expected year of completion of the whole project	% Holding
Wuxi Project	Residential	Wuxi New Area	48,620	71,405	2010	2011	98.75%
Shanghai Huangpu Bairun Project	Commercial, Residential	Huangpu District/ Downtown, Shanghai	23,040	40,645	2011	2013	50.36%
Qinhai Yuan	Residential, Commercial	Huangpu District/ Downtown, Shanghai	37,129	211,813	2011	2015	100%
Shanghai Pudong Project	Residential	Pudong District, Shanghai	58,178	48,288	Not started	–	98.75%

We understand from the Company that the Group finances its projects primarily through bank and other loans (such as loan notes and convertible debts) and internally generated cash flow, including proceeds from pre-sales of its properties.

As part of the Group's real estate development related activities in land infrastructure development and construction of ancillary public facilities are undertaken by its subsidiary, CNTD, which is listed on the Singapore Stock Exchange and the Stock Exchange. As at 31 December 2008, CNTD was a 32.03%-owned associate of the Company. With effect from 9 September 2009, CNTD was deemed as a subsidiary of the Company as a result of further acquisitions of CNTD shares by the Group and share repurchases by CNTD. The Company's shareholding interest in CNTD increased to 50.07% as at 31 December 2009. Accordingly, revenue from land infrastructure development generated by CNTD was consolidated and recorded as turnover in the Group's income statement since the year ended 31 December 2009.

Land infrastructure development involves planning and development of large-scale new town projects located in the suburban areas at major cities in the PRC. The development typically includes the design of the master plan of the new town, relocation and resettlement of incumbent residents and businesses, the clearing and preparation of the land and the installation of infrastructure. CNTD clears and prepares a majority of residential development plots so that they are suitable for sale by the relevant PRC land authorities to third-party residential property developers. As at 30 June 2010, CNTD had three land infrastructure projects namely (i) Shanghai Luodian New Town; (ii) Wuxi Hongshan New Town; and (iii) Shenyang Lixiang New Town, with total site areas of 35.48 square kilometres.

The Group also generated revenue from (i) the leasing of offices and commercial properties owned by the Group; and (ii) hotels operations.

Relocation projects

The Group has four property development projects in Shanghai and Shenyang which require relocation of existing residents – relocation projects. Under the applicable laws and local regulations, the property developer of a relocation project is subject to resettlement requirements and is required to compensate the owners or residents of those existing buildings on the land to be developed for relocation and resettlement.

We understand from the Company that it intends to apply the net proceeds from the Subscription for the Qinhai Yuan Development Project (located at Huangpu District/ Downtown, Shanghai) which is undertaken by a wholly-owned subsidiary of the Group, Shanghai Jinxin Real Estate Company Limited. The Group plans to develop a complex comprising high-end residential and commercial blocks. The Group entered into a State-owned land use rights grant contract on 23 August 2004 in respect of this project. Pursuant to the contract, the Group shall be granted the land use right of the relevant land subject to the Group completing the relocation of the existing residents and the subsequent demolition of the buildings (the "Relocation") on the land at its own cost. The Group has been extending with the approval of the relevant authority in the PRC the time allowed to complete the Relocation when necessary. The PRC legal adviser of the Company has opined that there is no legal impediment for the Group to obtain the land use right if the Group completes the Relocation lawfully meeting the relocation requirements of the relevant land use rights grant contract.

As set out in the interim report for the six months ended 30 June 2010, the Group's plan in respect of the Qinhai Yuan Development Project is as follows:

	Gross floor area *(sq.m.)*	**Saleable area** *(sq.m.)*	**Year of commencement**	**Expected year of completion of the whole project**
Residential Phase I	70,693	70,693	2011	2014
Residential Phase II	30,297	30,297	2012	2015
Commercial Phase I	41,939	41,939	2011	2014
Commercial Phase II	10,800	10,800	2012	2015
Facilities	58,084	–	2011	2015
	211,813	153,729		

Financial performance of the Group

As set out in the annual reports for the three years ended 31 December 2007, 2008 and 2009 and the interim reports for the six months ended 30 June 2009 and 2010, the Group's operations are categorised into the following segments:

(i) the property development segment develops and sells residential and commercial properties;

(ii) the land infrastructure development segment engages in land infrastructure development and construction of ancillary public facilities;

(iii) the property leasing segment engages in the leasing of offices and commercial properties owned by the Group which are classified as investment properties;

(iv) the hotel operations segment provides hotel accommodation, hotel catering and conference hall services; and

(v) the corporate and other operations.

The following are extracts from the annual reports for the years ended 31 December 2007, 2008 and 2009 and the interim reports for the six months ended 30 June 2009 and 2010.

	For the six months ended 30 June 2010 HK$'000 (Unaudited)	For the six months ended 30 June 2009 HK$'000 (Unaudited)	For the year ended 31 December 2009 HK$'000 (Audited)	For the year ended 31 December 2008 HK$'000 (Audited)	For the year ended 31 December 2007 HK$'000 (Audited)
Segment revenue					
Property development	1,579,548	237,376	1,552,399	3,515,811	3,209,511
Land infrastructure development	147,420	–	910,900	–	–
Property leasing	68,210	46,444	113,320	67,663	40,846
Hotels operations	125,485	62,293	159,196	96,886	39,030
Corporate and other operations	63,555	41,497	94,781	59,505	61,059
Total revenue	1,984,218	387,610	2,830,596	3,739,865	3,350,446
Gross profit	745,807	111,425	1,236,665	894,878	636,517
Profit attributable to shareholders	160,771	177,264	785,081	247,936	1,019,040
Dividends					
– total amount	–	–	158,571	–	96,000
– per share	–	–	HK$0.044	–	HK$0.035
Segment profit/(loss)					
Property development	530,399	14,001	253,150	852,599	555,733
Land infrastructure development	(48,258)	–	532,297	–	–
Property leasing	29,033	(5,507)	628,570	1,369,402	968,581
Hotel operations	(41,030)	(73,472)	(121,281)	(107,322)	(76,503)
Corporate and other operations	(61,274)	274,262	487,865	(135,619)	206,322
Total	408,870	209,284	1,780,601	1,979,060	1,654,133

For the three years ended 31 December 2007, 2008 and 2009, the Group recorded revenue of HK$3.35 billion, HK$3.74 billion and HK$2.83 billion respectively, representing an increase of 12% for the year ended 31 December 2008 and a decrease of 24% for the year ended 31 December 2009. We understand from the Company that the amount of properties pre-sold in the year ended 31 December 2008 decreased as a result of the global economic downturn in the second half of 2008. For the six months ended 30 June 2010, the Group recorded revenue of HK$1.98 billion, representing an increase of 412% when it is compared with the revenue of HK$387.6 million for the six months ended 30 June 2009. The increase in revenue for the period was mainly due to an increase in property sales. We understand from the Company that a substantial portion of the advances from properties

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pre-sold as at 31 December 2009 and 2008 were recognised as revenue during the year ended 31 December 2010 and 2009 respectively. The increase in revenue for the six months ended 30 June 2010 was mainly due to the increase in pre-sales of properties during the year ended 31 December 2009 when comparing with that during the year ended 31 December 2008. In addition, the increase in revenue for the six months ended 30 June 2010 was also attributable to the consolidation of CNTD into the Group's financial statements with effect from 9 September 2009, i.e. the Group's revenue for the six months ended 30 June 2009 did not include CNTD's revenue.

The property development segment accounted for 96%, 94%, 55% and 80% of the Group's total turnover for the three years ended 31 December 2007, 2008, 2009 and for the six months ended 30 June 2010 respectively.

For the year ended 31 December 2007, 2008, 2009 and the six months ended 30 June 2010, the Group's gross profit margin was 19%, 24%, 44% and 38% respectively. The increase in the Group's profit margin in 2009 was mainly due to the consolidation of CNTD's results (CNTD's gross profit margin was 60% for 2009). Other factors led to the increase in gross profit margin in 2008 and 2009 included (i) an increase in average property selling price; and (ii) the relatively low land cost of those properties sold.

For the year ended 31 December 2007, 2008, 2009 and the six months ended 30 June 2010, profit attributable to the shareholders amounted to HK$1,019 million, HK$247.9 million, HK$785.1 million and HK$160.8 million respectively. The fluctuation of the net profit level was mainly a result of, among other things, progress of the Group's projects and the sales of completed properties.

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Financial position of the Group

Set out below is a summary of the consolidated balance sheet of the Group as at 31 December 2007, 2008 and 2009 and 30 June 2010 as extracted from the respective annual reports and interim report.

	As at 30 June 2010	**As at 31 December 2009**	**As at 31 December 2008**	**As at 31 December 2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Audited)	(Audited)
ASSETS				
Non-current assets				
Property, plant and equipment	2,601,229	2,684,121	1,668,269	1,429,956
Completed investment properties	6,388,167	6,329,400	5,248,073	1,842,375
Investment properties under construction	330,124	193,879	–	–
Properties under development for long-term investment	–	–	–	880,124
Prepaid land lease payments	566,574	565,492	885,914	1,108,527
Goodwill	640,406	453,788	447,495	422,627
Interests in associates	66,979	87,807	530,402	972,668
Financial asset at fair value through profit and loss	82,210	–	–	–
Deferred tax assets	202,337	177,588	19,811	–
Non-current accounts receivable	98,822	106,365	–	–
Other non-current assets	338,858	362,935	279,042	63,159
	11,315,706	10,961,375	9,079,006	6,719,436
Current assets				
Prepaid land lease payments	9,424,874	7,954,454	6,654,264	5,554,483
Properties held or under development for sale	6,113,290	4,705,378	3,096,513	4,109,523
Land infrastructure under development for sale	4,534,050	4,353,169	–	–
Inventories	37,833	19,852	30,885	24,673
Amounts due from associates	1,839	1,825	138,968	11,048
Prepayments and other current assets	110,686	261,014	66,404	78,891
Other receivables	1,384,756	1,329,071	642,145	1,106,464
Accounts receivable	305,905	401,322	18,165	54,817
Prepaid income tax	–	83,820	5,303	23,837
Cash and bank balances	3,060,058	4,602,822	1,575,476	1,939,359
	24,973,291	23,712,727	12,228,123	12,903,095
Total assets	36,288,997	34,674,102	21,307,129	19,622,531

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	As at 30 June 2010 *HK$'000* (Unaudited)	As at 31 December 2009 *HK$'000* (Audited)	As at 31 December 2008 *HK$'000* (Audited)	As at 31 December 2007 *HK$'000* (Audited)
LIABILITIES				
Non-current liabilities				
Interest-bearing bank and other borrowings	8,951,020	5,942,549	3,045,114	2,629,211
Guaranteed senior notes	554,927	552,463	1,537,947	1,540,928
Deferred income from sale of golf club membership	628,890	639,041	–	–
Deferred tax liabilities	1,921,787	1,638,787	1,430,596	755,355
	12,056,624	8,772,840	6,013,657	4,925,494
Current liabilities				
Interest-bearing bank and other borrowings	649,884	1,589,958	1,495,640	1,164,570
Convertible bonds-host debts	316,284	312,219	62,008	35,363
Derivative financial liabilities	–	–	88,470	19,604
Advances received from the pre-sale of properties under development	4,952,860	4,943,649	1,171,996	2,392,775
Accounts payable	2,796,870	3,176,373	1,357,377	1,596,202
Other payables and accruals	2,332,343	2,339,360	2,241,817	2,072,911
Current income tax liabilities	1,352,257	1,428,561	983,491	831,880
Guaranteed senior notes, current portion	98,817	95,813	–	–
Deferred income arising from construction of ancillary public facilities	771,618	696,291	–	–
Amounts due to related companies	–	11,358	19,312	377
	13,270,933	14,593,582	7,420,111	8,113,682
Total liabilities	25,327,557	23,366,422	13,433,768	13,039,176
EQUITY				
Equity attributable to shareholders	8,280,133	8,191,741	6,472,585	5,799,886
Non-controlling interest	2,681,307	3,115,939	1,400,776	783,469
Total equity	10,961,440	11,307,680	7,873,361	6,583,355
Total equity and liabilities	36,288,997	34,674,102	21,307,129	19,622,531

The total assets amounted to HK$19.6 billion, HK$21.3 billion, HK$34.7 billion and HK$36.3 billion respectively as at 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010, representing an increase of 85% from 31 December 2007 to 30 June 2010.

As at 30 June 2010, the non-current assets comprised mainly properties, plants and equipment, and investment properties totaling HK$11.32 billion. The current assets, which comprised mainly prepaid land lease payments, properties held or under development for sale, land infrastructure under development for sale and cash and bank balances, totaling HK$25.0 billion as at 30 June 2010. The amount of cash and bank balances decreased from HK$4.6 billion as at 31 December 2009 to HK$3.1 billion as at 30 June 2010, representing a decrease of 33.5%. We understand from the Company that the cash outflow was mainly used to fund the development of different projects.

The total liabilities as at 31 December 2007, 31 December 2008, 31 December 2009 and 30 June 2010 amounted to HK$13.0 billion, HK$13.4 billion, HK$23.4 billion and HK$25.3 billion respectively, representing an increase of 95% from 31 December 2007 to 30 June 2010. As at 30 June 2010, the major liabilities comprised interest-bearing bank and other borrowings of HK$9.6 billion (including both non-current and current portions), advances received from the pre-sale of properties under development of HK$4.95 billion and accounts payable of HK$2.8 billion. The amount of interest-bearing bank and other borrowings increased substantially from HK$3.8 billion to HK$9.6 billion from 31 December 2007 to 30 June 2010, representing an increase of 153%. The increase in borrowings related to an increase in the Group's real estate developments; and the consolidation of CNTD in 2009 (CNTD had bank borrowings of HK$2.3 billion as at 30 June 2010).

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Set out below is the Group's unaudited debt and capital capitalisation as at 30 June 2010.

	As at 30 June 2010 *HK$'000* (Unaudited)
Short-term bank and other borrowings	649,884
Guaranteed notes – current	98,817
Convertible bonds	316,284
Long-term bank and other borrowings	8,951,020
Guaranteed notes – non-current	554,927
Total debts	**10,570,932**
Capital and reserves	
Issue capital and share premium	4,736,489
Other reserves	1,307,194
Retained earnings	2,236,450
Total capital and reserves	**8,280,133**
Total capitalisation	**18,851,065**

As at 31 December 2009, the gearing ratio of the Group amounted to 45% (2008: 51%), calculated on the basis of the net payables and borrowings (after deducting cash and bank balance of HK$4,603 million) over total capital (total equity plus net payables and borrowings). As at 30 June 2010, the gearing ratio of the Group further increased to 55%.

Based on the Company's indebtedness statement set out in Appendix I to the Circular, the total indebtedness of the Group increased to HK$11,410 million as at 31 October 2010. The increase as compared with the total indebtedness as at 30 June 2010 was mainly a result of an increase in long-term bank and other borrowings from HK$8,951 million as at 30 June 2010 to HK$9,905 million as at 31 October 2010. As at 31 October 2010, the Group also had total capital commitment of HK$18,447 million in respect of various business developments of the Group.

On 24 April 2006, the Company issued guaranteed senior notes maturing on 24 April 2013, with an aggregate principal amount of US$200 million and a fixed interest rate of 8.625% per annum (the "2013 Guaranteed Notes"), which are quoted on the Stock Exchange. As at the Latest Practicable Date, the yield to maturity of the 2013 Guaranteed Notes was 12.214%.

On 12 September 2008, CNTD issued senior secured guaranteed notes maturing on 12 September 2011, with an aggregate principal amount of RMB593.3 million and a fixed interest rate of 17.75% per annum (the "CNTD Guaranteed Notes").

As at 30 June 2010, the total outstanding balances of the guaranteed senior notes (including the 2013 Guaranteed Notes and the CNTD Guaranteed Notes) issued by the Group amounted to HK$653.7 million (including both non-current and current portions).

On 19 November 2010, CNTD repurchased all the outstanding CNTD Guaranteed Notes.

The convertible bonds-host debts on the Group's balance sheet represent the Convertible Bonds issued by the Company on 23 July 2009. The Convertible Bonds have an aggregate principal amount of RMB446.9 million with coupon interest rate of 6% per annum and are quoted on the Stock Exchange. The conversion price is HK$1.056 per Share, representing a conversion rate of 107,390.5304 Shares per each RMB100,000 of the Convertible Bonds. As at the Latest Practicable Date, the closing price per Share as quoted on the Stock Exchange was HK$0.82 and the yield to maturity of the Convertible Bonds was 5.586%. As compared to the 2013 Guaranteed Notes, the Convertible Bonds have a much lower yield as the Convertible Bonds are embedded with options to convert into new Shares. The Convertible Bonds are out of the money. As at 30 June 2010, the carrying value of the Convertible Bonds amounted to HK$316.3 million (not including the equity component of HK$179.4 million) and the fair value was HK$388.6 million.

We note that the Group's total indebtedness increased substantially from HK$6.1 billion to HK$10.6 billion from 31 December 2008 to 30 June 2010 to support the Group's business expansion. The interest expenses charged to the Group's income statement for the year ended 31 December 2008 and 2009 amounted to HK$11.1 million and HK$179.1 million respectively, representing a substantial increase of 1514%. The Group's interest expenses charged to the income statement for the six months ended 30 June 2009 and 2010 amounted to HK$12.8 million and HK$121.2 million respectively, representing a substantial increase of approximately 847%. The increase in the interest expenses was principally due to the increase in total interest-bearing borrowings as set out above.

The Group is a property developer in the PRC. In order to better understand the gearing position of the Group, based on the information from the Stock Exchange's website, we have identified 46 companies ("Comparable Companies") listed on the Main Board of the Stock Exchange as set out in the table below which are principally engaged in property development in the PRC (with turnover derived from property development in the PRC accounted for over 50% of the total turnover of the relevant Comparable Companies in their respective latest completed financial year) and examined the gearing ratios and the interest coverage ratios of the Comparable Companies. For the purpose of the comparison, the gearing ratios of the Comparable Companies are calculated on the same basis as that of the Group, i.e. net payables and borrowings (after deducting cash and bank balance) over total capital (total equity plus net payables and borrowings) based on information disclosed in their latest published financial information; and the interest coverage ratios of the Group and the Comparable Companies are calculated on the basis of earnings before interest and taxes over total interest expenses (including capitalised interests) based on information disclosed in their latest published annual results.

Table 1:

Stock code	Company	Gearing ratio %	Interest coverage ratio *times*	PER as at the Latest Practicable Date *(Note 1)* *times*	PBR as at the Latest Practicable Date *(Note 2)* *times*
169	Hengli Properties Development (Group) Limited	90.18%	1.77	46.34	4.35
1918	Sunac China Holdings Limited	78.53%	6.85	N/A	N/A
3900	Greentown China Holdings Limited	74.28%	1.20	13.88	1.77
1383	Hong Long Holdings Limited	65.41%	1.29	30.72	0.75
1124	Coastal Greenland Limited	62.41%	1.70	6.79	0.43
2337	Shanghai Forte Land Co., Ltd.	63.94%	1.78	12.87	1.00
2777	Guangzhou R&F Properties Co., Ltd.	59.73%	3.79	12.14	2.42
3333	Evergrande Real Estate Group Limited	56.97%	1.20	53.70	4.43
2868	Beijing Capital Land Ltd.	46.88%	4.00	9.47	1.24
337	SPG Land (Holdings) Limited	74.23%	4.77	5.86	1.14
1777	Fantasia Holdings Group Co., Limited	38.56%	4.39	12.74	1.71
119	Poly (Hong Kong) Investments Limited	49.56%	1.50	27.67	1.55
3377	Sino-Ocean Land Holdings Limited	45.85%	2.91	14.31	1.27
2118	Tian Shan Development (Holding) Limited	77.67%	1.64	N/A	N/A
813	Shimao Property Holdings Limited	49.70%	5.29	11.57	1.92
123	Yuexiu Property Company Limited	48.09%	3.30	N/A	1.28
960	Longfor Properties Co. Ltd.	67.15%	2.61	20.35	4.53
3383	Agile Property Holdings Limited	59.91%	5.70	22.79	2.88
817	Franshion Properties (China) Limited	36.02%	4.22	17.80	1.29
1638	Kaisa Group Holdings Ltd.	42.84%	2.10	17.89	2.09
1813	KWG Property Holding Limited	57.14%	2.80	23.35	1.86
845	Glorious Property Holdings Limited	38.77%	3.11	6.71	1.98
2007	Country Garden Holdings Company Limited	40.95%	3.54	21.34	2.30
588	Beijing North Star Company Limited	51.14%	4.09	4.31	0.60
1109	China Resources Land Limited	37.86%	10.21	17.03	1.89
846	Mingfa Group (International) Company Limited	58.18%	14.98	12.22	3.38
604	Shenzhen Investment Limited	37.01%	3.67	9.63	0.77
688	China Overseas Land & Investment Ltd.	41.94%	14.81	16.92	2.73
1966	China SCE Property Holdings Limited	30.94%	5.22	11.08	0.17
95	New Heritage Holdings Ltd.	18.37%	1.65	20.36	0.41
3883	China Aoyuan Property Group Limited	35.43%	3.10	10.64	0.73
755	Shanghai Zendai Property Limited	58.12%	5.06	7.32	0.81
535	Frasers Property (China) Limited	25.91%	8.23	7.36	0.71
1628	Yuzhou Properties Company Limited	38.95%	14.66	3.75	1.59
754	Hopson Development Holdings Limited	40.25%	7.95	2.50	0.51
272	Shui On Land Limited	37.45%	5.23	6.55	0.90

Stock code	Company	Gearing ratio %	Interest coverage ratio *times*	PER as at the Latest Practicable Date *(Note 1)* *times*	PBR as at the Latest Practicable Date *(Note 2)* *times*
410	SOHO China Limited	29.16%	16.68	8.86	1.85
917	New World China Land Limited	25.96%	4.88	6.13	0.48
672	Zhong An Real Estate Limited	29.89%	15.30	9.61	1.03
230	Minmetals Land Limited	(4.49%)	3.18	21.79	1.09
1238	Powerlong Real Estate Holdings Limited	14.50%	27.40	2.46	1.21
1224	C C Land Holdings Limited	25.09%	0.22	N/A	0.69
28	Tian An China Investments Company Limited	11.81%	12.02	8.40	0.79
1838	China Properties Group Limited	10.53%	46.49	0.51	0.14
258	Tomson Group Limited	(88.79%)	124.94	3.28	0.50
164	China Gamma Group Limited	48.33%	N/A	N/A	5.63
	Maximum	90.18%	124.94	53.70	5.63
	Minimum	(88.79%)	0.22	0.51	0.14
	Median	42.39%	4.09	11.57	1.25
	Average	42.14%	9.37	14.12	1.61
	Maximum(1)	90.18%	46.49		
	Minimum(1)	10.53%	0.22		
	Median(1)	44.35%	4.05		
	Average(1)	46.17%	6.74		
	The Group	55.00%	3.38	3.35	0.36
	The Subscription	N/A	N/A	3.31	0.35

(1) Excluding Minmetals Land Limited and Tomson Group Limited, which had a net cash position, for gearing ratio analysis and excluding Tomson Group Limited for interest coverage ratio analysis, which is considered to be an outlier.

Notes:

1. Data regarding the PERs of the Comparable Companies are sourced from Infocast as at the Latest Practicable Date.

2. Data regarding the PBRs of the Comparable Companies are sourced from Bloomberg as at the Latest Practicable Date.

3. The PER in relation to the Subscription is a fraction of which the numerator (the price) is HK$0.81, being the Subscription Price and the denominator (the earnings) is HK$0.2447, being the basic earnings per share attributable to ordinary equity holders for the year ended 31 December 2009.

4. The PBR in relation to the Subscription is a fraction of which the numerator (the price) is HK$0.81, being the Subscription Price and the denominator (the book value) is HK$2.2976, being the consolidated net assets value per share as at 30 June 2010.

As shown in the above table, the average gearing ratio of the Comparable Companies (excluding Minmetals Land Limited and Tomson Group Limited) is 46.17%. The Group's gearing ratio was 55% based on its interim report as at 30 June 2010 which falls in the upper range among the Comparable Companies. After the Subscription, the adjusted gearing ratio of the Group would decrease to 52.42%.

The interest coverage ratios of the Comparable Companies (excluding Tomson Group Limited) ranged from 0.22 times to 46.49 times with an average interest coverage ratio of 6.74 times. Although the Group has a relatively high gearing, it maintains a healthy interest coverage ratio. The Group's interest coverage ratio was 3.38 times based on its results for the year ended 31 December 2009. If the Group were to borrow further money at an interest equivalent to the prevailing yield of the 2013 Guaranteed Notes instead of the Subscription, the adjusted interest coverage ratio of the Group would decrease to 2.97 times.

Cash flow position

Set out below is a summary of the condensed consolidated cash flow statement of the Group for the year ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2009 and 2010 as extracted from the respective annual reports and interim reports.

	For the six months ended 30 June 2010	**For the six months ended 30 June 2009**	**For the year ended 31 December 2009**	**For the year ended 31 December 2008**	**For the year ended 31 December 2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Net cash (outflow)/inflow from operating activities	(3,119,920)	62,384	2,351,737	(1,055,775)	435,162
Net cash (outflow)/inflow from investing activities	(368,794)	(185,080)	(542,292)	(625,872)	(110,445)
Net cash inflow/(outflow) from financing activities	1,912,607	182,264	1,447,458	598,544	426,125
Net (decrease)/increase in cash and cash equivalents	(1,576,107)	59,568	3,256,903	(1,083,103)	750,842

For the year ended 31 December 2009, the Group had net cash inflow from operating activities of HK$2.4 billion. For the six months ended 30 June 2010, the Group had a net cash outflow of HK$3.1 billion in relation to its operating activities. We understand from the Company that it was mainly due to cash requirements to fund property development projects and a decrease in cash inflows from pre-sales of properties when comparing with the year ended 31 December 2009.

Prospects

As set out in the annual report for the year ended 31 December 2009, the PRC real estate market rebounded in 2009. At the beginning of 2009 after the global financial crisis, the PRC government continued its preferential policies for stimulating the market. In mid-2009, it increased land supply with a view to rectifying market order. Since the last quarter of 2009, the PRC government started to impose different requirements and measures, including among other things, requirements under the Notice on Adjusting the Business Tax Policy on Transfers of Residential Properties by Individuals issued by the Ministry of Finance, the Ministry of Land and Resources, the People's Bank of China, the Ministry of Supervision and the National Audit Office of the PRC on 18 November 2009 and the Notice on Further Strengthening the Income and Expenditures Management Relating to Land Grants issued by the Ministry of Finance on 22 December 2009, with a view to regulating the management of income and expenditure on land grants, curbing excessive increases in land prices and discouraging speculative activities in the secondary market and controlling soaring housing prices. As set out in the Group's interim report for the six months ended 30 June 2010, the rapid growth momentum in the PRC real estate market in the second half of 2009 extended into the first quarter of 2010. In 2010, the PRC government implemented further restrictive measures to curb the rising housing prices. Consequently, the amount of commodity properties sold in the PRC was moderated.

For the second half of 2010, the Company expects the market to slow down and become relatively stable.

Major risk factors about the Group's businesses

The Group is a regional property developer in the PRC as it is mainly focusing on three areas, namely Shanghai, Shenyang and Haikou. As a regional property developer with a high geographic land bank concentration, the Group's earnings and net asset value will be impacted negatively if the property market slows down and/or the performance of any one of these individual real estate markets declines. The prospect of the Qinhai Yuan Development Project is very much dependent on the performance of the property market in Shanghai at the time when the project is launched to the market.

Other major risk considerations in respect of the Group include:

(i) measures promulgated by the PRC government from time to time to rein in speculation which may affect investment sentiment towards the property market, particularly the high-end market;

(ii) volatility in property prices and sales volume which may adversely affect the Group's financial performance and earnings prospects;

(iii) execution risks relating to the Group's expansion plan as it seeks to expand beyond Shanghai and other major cities into property markets of new cities;

(iv) increases in interest rate which will increase the finance cost of the Group;

(v) increases in demolition and resettlement costs associated with redevelopment projects, including the Qinhai Yuan Development Project, which may adversely affect the prospect of the project; and

(vi) change in tax regime in the PRC which may increase the taxation expenses and adversely affect the cash flow position of the Group.

The prospect of the Qinhai Yuan Development Project may be adversely affected by the restrictive measures adopted from time to time by the PRC government to curtail the overheating of the real estate market. Continuing volatility in the Shanghai property market may also adversely affect the outcome of the Qinhai Yuan Development Project. We consider that the above are intrinsic risks that the Group has to face after it has decided to carry on the project. With additional funding from the Subscription, the Group will be able to progress with the timely development of the Qinhai Yuan Development Project and will be in a better position to manage the relevant risks, which shall be in the interests of the Company and its Shareholders as a whole.

Shanghai property market

Shanghai is a major city in the PRC. Real estate market of the city has been growing in tandem with the rapid development of the city's population and economy.

Based on the information published by the Shanghai municipal government, sales of commodity properties, including residential properties, office and commercial properties and others, increased from RMB55.5 billion in 2000 to RMB433.0 billion in 2009, representing a compound annual growth rate of 86.6%. The table below also sets out the changes in price level of Shanghai real estates from 2000 to 2009 as published by the Shanghai municipal government in its website.

REAL ESTATE LEASING AND LAND EXCHANGE PRICE INDEX
(based on price level at 2000 as 100)

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Price Index of Real Estate Leasing	**104.9**	**103.9**	**106.0**	**111.9**	**115.9**	**120.6**	**126.7**	**132.6**	**133.4**
Residential	107.4	107.4	108.7	110.1	113.7	116.4	123.9	129.2	129.6
Offices	98.6	97.9	103.0	110.1	117.2	121.6	127.1	134.2	135.5
Commercial and business housing	107.2	104.0	102.8	110.4	111.4	118.2	125.1	131.3	132.2
Other	–	–	–	–	133.7	135.1	137.2	137.2	137.2

According to an article published by the Shanghai government, during the first five months of 2010, properties in Shanghai in terms of area decreased by 26% as compared with the corresponding period in 2009. Although there was some reduction in selling prices with a view to promoting sales, the decrease was not significant. Investments in the property market in Shanghai continued to increase. During the first five months of 2010, investments in Shanghai residential properties increased by 46.8%, investments in Shanghai office buildings increased by 33%, investments in Shanghai commercial properties increased by 60% and investments in other properties increased by 8%.

The outlook for Shanghai's residential market will continue to depend on the timing and strength of future government policies. According to the new property controlling measures promulgated in October 2010, among others, residents and non-residents in Shanghai are only allowed to buy one residential property within a period of time. As a result, the overall transaction volume in the residential market is expected to decline while prices may also ease. Nevertheless, some investors can be expected to buy one higher-end residential property, as opposed to multiple cheaper lower end properties, in order to maximize their capital exposure to the residential market while complying with the "one-home" purchase restriction. This may result in support for the high end market.

Background of the Subscriber

The Subscriber is an investment holding company and has been the Group's controlling shareholder since 1999.

The shareholders of the Subscriber consist of Mr. Shi Jian (holding a 33% interest), Md. Si Xiao Dong (the spouse of Mr. Shi Jian, holding a 30% interest), Mr. Li Yao Min (holding a 5% interest), Mr. Yu Hai Sheng (holding a 5% interest), Mr. Shi Jian Dong (holding a 5% interest), Mr. Jiang Xu Dong (holding a 2% interest), Mr. Shi Pin Ren (holding a 1% interest), Mr. Yue Wai Leung Stan (holding a 2% interest), Ms. Gu Biya (holding a 1% interest), Ms. Song Yiqing (holding a 1% interest), Mr. Mao Yiping (holding a 1% interest), Mr. Yang Yonggang (holding a 1% interest), and other relatives of Mr. Shi Jian and/or Md. Si Xiao Dong (holding in an aggregate 8% interest), and unrelated parties comprising 4 long term employees of the Group, namely Mr. Wang Zi Xiong (holding a 2% interest), Mr. Huang Wei Lun (holding a 1% interest), Ms. Li Hua (holding a 1% interest) and Ms. Yin Lan (holding a 1% interest). Each of Mr. Shi Jian, Mr. Li Yao Min and Mr. Yue Wai Leung Stan is both a Director and a director of CNTD. Each of Mr. Yu Hai Sheng, Mr. Jiang Xu Dong and Mr. Shi Pin Ren is a Director. Each of Ms. Gu Biya, Ms. Song Yiqing, Mr. Mao Yiping and Mr. Yang Yonggang is a director of CNTD.

The Subscription reflects the long-term commitment and support of the Subscriber to the Company.

Reasons for and benefits of the Subscription

As set out in the letter from the Board to the Circular (the "Letter from the Board"), the Company intends to apply all the net proceeds of HK$562 million from the Subscription to the Qinhai Yuan Development Project. As stated above in the paragraph headed "Information on the Group – relocation projects", the Group shall bear the costs for the Relocation. The Group may only obtain the land use rights and commence construction work after completion of the Relocation. The PRC legal adviser of the Company has opined that there is no legal impediment for the Group to obtain the land use right of the relevant land if the Group completes the Relocation lawfully in accordance with the land use rights grant contract. With the funding from the Subscription, the Company targets to complete the Relocation by the end of 2012 and obtain the land use rights of the relevant land in the first half of 2013.

The Company has stated that the Directors have also considered a number of other financing options such as bank borrowings. As stated in the Letter from the Board, under the arrangement between the Group and the relevant land administration of Shanghai in respect of the Qinhai Yuan Development Project, the relevant land use rights (and other title certificates) will only be granted to the Group after completion of the Relocation and in the absence of which, it will not be plausible for the Group to apply/arrange for bank loans from local banks in the PRC with terms and amount which are meaningful to Group or terms which match the pay-back period of the Qinhai Yuan Development Project, not to mention the fact that it is presently difficult for property developers in the PRC to obtain bank financing due to the PRC government's policies in curbing monetary supply in the PRC, especially the recent tightening credit policies for property development loans. The Company is also of the view that, even if additional bank loans were made available, the gearing of the Group would be increased and additional finance charges would be incurred.

Based on the estimation made by the management of the Company (after consultation with the relevant authority in the PRC responsible for relocation compensations to the residents) on (i) the number of existing residents and (ii) the average compensation for relocating the different types of residents resided on the land parcel underlying the Qinhai Yuan Development Project, it is expected that the outstanding cost relating to the initial stage of the Relocation will amount to no less than HK$1.3 billion. According to the Company, subject to the requirements of the land use rights grant contract (which the Group has been getting extensions from the relevant authority in respect of the completion of the Relocation) there is no fixed payment schedule or any regulatory, governmental or contractual requirements by which the Group has to abide in respect of the timing of making compensation payments in connection with the Relocation. The progress of the development of the Relocation is dependent on the funds available to the Group. As such if there is new funding available to the Group, the Group would be able to accelerate the timetable for the Relocation.

The Group has informed us that its current cash and bank balances may not be sufficient to accommodate the outstanding amount payable for the Relocation, the capital commitment of the Group's other property and new town development projects and other loan repayment plans and obligations, in order for the Group to carry out the Relocation as planned. The Company is of the view that the additional working capital from the Subscription, will not only enhance the Group's ability in meeting its financial needs in respect of the Relocation, but will also accelerate the Group's overall progress of the Relocation, which will in turn mitigate the risks of the potential increase in the Relocation costs resulted from the growth of the PRC's property market and shorten the investment period of the Qinhai Yuan Development Project. The Subscription will help ensure the Group being able to finance the Relocation and thus the development of the Qinhai Yuan Development Project and the overall earnings prospect of the Group.

The Group engages in property development business which requires intensive capital inputs. We have reviewed and discussed with the Company the cash flow requirements and projections of the Group (excluding CNTD, which is a separately listed company on the Main Board of the Stock Exchange and the Singapore Stock Exchange, and its subsidiaries) for the year ending 31 December 2011 and the expected costs of development of the Relocation and the cash inflow and outflow requirements and estimates of the other projects as assessed internally by the Group, other loan repayment plans and obligations and capital commitment. Based on the projections we understand that it is necessary for the Group to raise additional funding for the Relocation and other various projects based on the Group's development plans. Without the Subscription, the Relocation and thus the Qinhai Yuan Development Project may not be able to progress as planned.

Having considered the information from the Company and our review and analysis mentioned above, we agree with the Directors' view that the Subscription helps the Group raise funds for the Relocation in its ordinary and usual course of business whilst the Group will still require additional funding to complete the whole Relocation work which is in the interests of the Company and its Shareholders.

Principal terms of the Subscription

Under the Subscription Agreement, the Subscriber agreed to subscribe for 700,000,000 new Shares, representing approximately 19.42% of the existing issued share capital of the Company and approximately 16.26% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares as at the Latest Practicable Date, at HK$0.81 per Subscription Share. Upon completion of the Subscription, the Subscriber will be interested in approximately 45.27% of the issued share capital of the Company including the Shares that it currently holds and the Subscription Shares.

The Subscription Shares, when issued and fully paid, will rank pari passu in all respects among themselves and with all the Shares in issue at the date of allotment and issue of the Subscription Shares, including the right to any dividends or distributions made or declared on or after the date of allotment and issue of the Subscription Shares.

Subscription Price

We note that the Subscription Price was arrived at after arm's length negotiation between the Company and the Subscriber with reference to, among others, the recent trading prices of the Shares on the Stock Exchange. The Subscription Price of HK$0.81 per Subscription Share represents:

(i) a premium of 6.58% over the closing price of HK$0.76 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of 4.92% over the average closing price of HK$0.772 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;

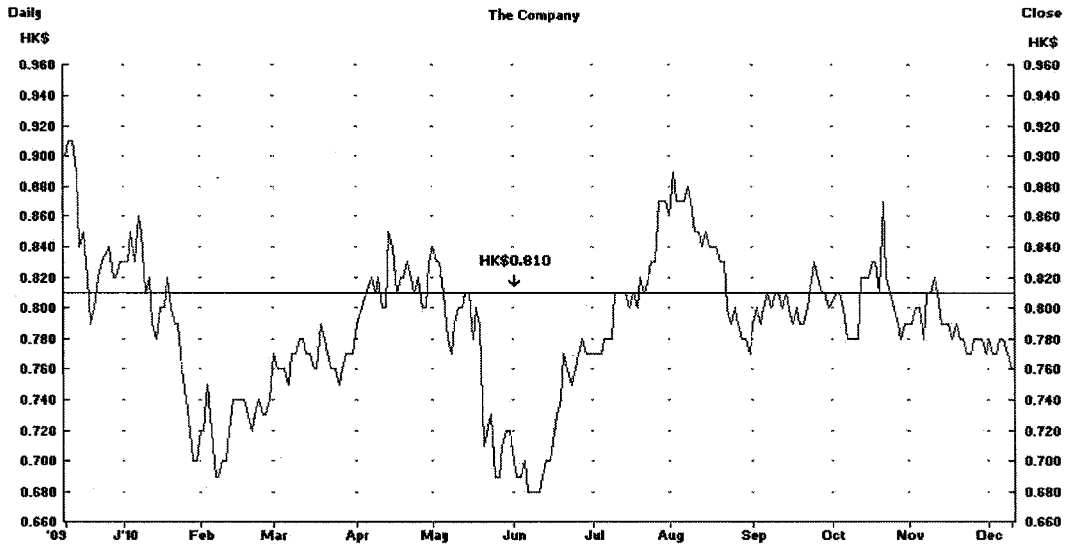
(iii) a premium of 4.65% over the average closing price of HK$0.774 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day; and

(iv) a discount of 1.22% to the closing price of HK$0.82 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The premium of the Subscription Price over the prevailing price of the Shares before the issue of the Announcement demonstrates the support of the Subscriber to the Company.

On 10 December 2010, the trading day immediately after the date of the Announcement, the closing price per Share increased to HK$0.79, representing an increase of 3.95%, whilst the Hang Seng Index dropped by 9 points on the same date.

The chart below illustrates the daily closing prices of the Shares during the 12-month period prior to the date of the Subscription Agreement (the "Past 12-Month Period"):



Source: Infocast

During the Past 12-Month Period, the closing price of the Shares ranged from HK$0.68 per Share to HK$0.91 per Share with an average closing price of HK$0.79 per Share. The Subscription Price falls in the upper part of the price range during the Past 12-month Period.

We consider that recent trading prices prior to the entering into of the Subscription Agreement should be a primary factor of price determination. Taking into account that the Subscription Price of HK$0.81 represents a premium over the recent closing prices of the Shares, we consider that the Subscription Price is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

For the purpose of providing further references to the Subscription IBC, the Whitewash IBC and the Independent Shareholders, we also set out below information on the pricing of other share placement and subscription transactions.

Based on the information available from the Stock Exchange's website, we set out below information on the pricing of all those transactions involving subscription of shares (excluding transactions involving asset acquisitions and/or disposals and companies under debt restructuring) and whitewash waiver applications as announced by companies listed on the Main Board or GEM of the Stock Exchange in the last two years prior to the date of the Subscription Agreement ("Comparable Transactions") as set out in the table below.

According to the announcements of the Comparable Transactions, issue prices of new shares were determined with reference to, among other things, trading price of the relevant shares prior to the agreements.

Table 2:

Announcement date	Stock code	Company		Issue price (HK$)	Premium/ (discount) to closing price immediately prior to announcement	Premium/ (discount) to 5 days average closing price	Premium/ (discount) to 10 days average closing price
16-Apr-09	193	Capital Estate Limited		0.025	(28.57%)	(20.38%)	(16.67%)
30-Apr-09	925	Peaktop International Holdings Limited		0.15	(50.00%)	(35.34%)	(31.19%)
7-Aug-09	717	Emperor Capital Group Limited		0.42	(4.55%)	(6.87%)	(6.46%)
22-Jun-10	94	Omnicorp Limited		1.82	1.68%	1.11%	(0.55%)
24-Aug-10	2362	Macau Investment Holdings Limited		0.28	(63.20%)	(62.20%)	(57.60%)
			Maximum		1.68%	1.11%	(0.55%)
			Minimum		(63.20%)	(62.20%)	(57.60%)
			Average		(28.93%)	(24.74%)	(22.49%)
		The Subscription		0.81	6.58%	4.92%	4.65%

The premium/discount of which the issue prices of the Comparable Transactions represented over/to (i) the closing price immediately prior to announcement ranged from a premium of 1.68% to a discount of 63.2% with an average of a discount of 28.93%; (ii) the 5 days average closing price ranged from a premium of 1.11% to a discount of 62.2% with an average of 24.74%; and (iii) the 10 days average closing price ranged from a discount of 0.55% to a discount of 57.6% with an average of a discount of 22.49%. As compared with the Comparable Transactions, the Subscription Price represents a relatively significant premium over the recent trading prices of Shares.

Based on the information available from the Stock Exchange's website, we also set out below information on the pricing of all the share placements as announced by companies listed on the Main Board or GEM of the Stock Exchange in the 30 days prior to the date of the Subscription Agreement as set out in the table below.

Table 3:

Announcement Date	Stock code	Company	Issue price (HK$)	% holding of existing public shareholder before share placement	% holding of existing public shareholder after share placement	Dilution effect	Premium/ (discount) to closing price	Premium/ (discount) to 5 days average closing price	Premium/ (discount) to 10 days average closing price	Commission
10-Nov-10	1141	Beijing Yu Sheng Tang Pharmaceutical Group Limited	0.32	85.31%	64.56%	24.32%	(5.88%)	7.74%	14.70%	2.50%
12-Nov-10	802	RCG Holdings Limited	4	52.56%	50.73%	3.48%	(5.88%)	(6.54%)	(5.88%)	N/A
15-Nov-10	8150	Seamless Green China (Holdings) Limited	0.62	53.88%	47.43%	11.97%	(19.48%)	(19.90%)	(17.11%)[1]	2.50%
15-Nov-10	1062	New Capital International Investment Limited	0.4	79.28%	28.32%	64.28%	(71.22%)	(69.70%)	(67.37%)[1]	N/A
16-Nov-10	721	China Financial International Investments Limited	0.15	60.88%	50.74%	16.66%	(16.67%)	(12.18%)	(8.65%)[1]	N/A
18-Nov-10	8228	National Arts Holdings Limited	1.1	76.33%	40.88%	46.44%	(15.40%)	(11.30%)	(5.20%)	2.50%
19-Nov-10	8019	Hao Wen Holdings Limited	0.126	84.81%	70.70%	16.64%	(19.75%)	0.00%	1.61%	2.75%
19-Nov-10	438	IRICO Group Electronics Company Limited	1.26	25.00%	23.91%	4.36%	(7.35%)	(8.70%)	(16.64%)[1]	2.50%
22-Nov-10	398	Oriental Watch Holdings Limited	4.38	66.22%	59.17%	10.65%	(12.00%)	(7.80%)	(4.47%)[1]	2.75%
23-Nov-10	471	CMMB Vision Holdings Limited	0.11	76.34%	75.39%	1.24%	3.77%	0.00%	(2.65%)	N/A
23-Nov-10	197	Heng Tai Consumables Group Limited	1.15	81.64%	71.82%	12.03%	(14.81%)	(14.81%)	(16.67%)[1]	1.50%
23-Nov-10	73	Asian Citrus Holdings Limited	8.88	49.92%	41.54%	16.79%	(17.78%)	(11.20%)	(12.94%)	2.25%
23-Nov-10	8083	SYSCAN Technology Holdings Limited	0.32	66.35%	53.23%	19.77%	(11.11%)	(12.09%)[1]	(11.06%)[1]	4.00%
24-Nov-10	1227	National Investments Fund Limited	0.386	84.81%	65.46%	22.82%	(17.00%)	(19.40%)	(18.70%)	3.50%
24-Nov-10	953	Meike International Holdings Limited	1.89	35.61%	30.92%	13.17%	(9.13%)	(4.26%)	(1.92%)[1]	2.50%
24-Nov-10	188	SW Kingway Capital Holdings Limited	0.238	25.41%	23.10%	9.09%	(10.20%)	(7.50%)	(3.84%)[1]	2.50%
26-Nov-10	2312	China Financial Leasing Group Limited	0.095	98.91%	86.02%	13.03%	(15.18%)	(19.22%)	(19.90%)[1]	2.50%
29-Nov-10	395	Sino Dragon New Energy Holdings Limited	0.498	69.56%	65.55%	5.76%	(19.68%)	(12.32%)	(7.61%)[1]	1.50%
29-Nov-10	8176	China AU Group Holdings Limited	0.375	60.89%	54.32%	10.79%	0.00%	(0.80%)	(3.40%)	N/A
30-Nov-10	767	Pacific Plywood Holdings Limited	0.105	81.52%	67.94%	16.66%	(0.94%)	5.00%	2.94%[1]	2.50%
1-Dec-10	8128	China Ground Source Energy Limited	0.3184	76.93%	68.18%	11.37%	(16.20%)	(20.00%)[1]	(18.15%)	N/A
1-Dec-10	2324	Capital VC Limited	0.35	82.36%	68.63%	16.67%	(11.39%)	(11.84%)	(12.50%)[1]	N/A
1-Dec-10	590	Luk Fook Holdings (International) Limited	23.15	46.28%	42.02%	9.20%	(11.98%)	(12.61%)	(10.20%)	N/A

OSK

Announcement Date	Stock code	Company	Issue price (HK$)	% holding of existing public shareholder before share placement	% holding of existing public shareholder after share placement	Dilution effect	Premium/ (discount) to closing price	Premium/ (discount) to 5 days average closing price	Premium/ (discount) to 10 days average closing price	Commission
1-Dec-10	1198	Royal Furniture Holdings Limited	3.03	55.16%	48.64%	11.82%	(8.73%)	(6.19%)	(4.42%)	N/A
2-Dec-10	223	Sino Resources Group Limited	0.35	48.77%	40.64%	16.67%	(19.54%)	(15.66%)	(13.79%)	1.50%
2-Dec-10	3989	New Environmental Energy Holdings Limited	0.50	77.37%	64.47%	16.67%	(36.70%)	(40.33%)	(32.80%)	2.50%
3-Dec-10	3318	China Flavors and Fragrances Company Limited	1.92	40.38%	40.33%	0.12%	0.00%	(0.41%)[1]	(0.16%)[1]	N/A
3-Dec-10	8250	China Natural Investment Company Limited	0.165	100.00%	45.31%	54.69%	(3.51%)	(10.03%)	(16.96%)[1]	3.50%
7-Dec-10	646	Yardway Group Limited	0.4335	46.27%	43.53%	5.92%	(18.21%)	(15.99%)	(24.08%)[1]	N/A
7-Dec-10	309	Lo's Enviro-Pro Holdings Limited	0.70	90.07%	82.69%	8.19%	(7.89%)	(11.84%)	(10.37%)	2.50%
7-Dec-10	290	China Fortune Group Limited	0.20	47.16%	36.30%	23.03%	(50.62%)	(49.87%)	(49.56%)[1]	N/A
8-Dec-10	290	China Fortune Group Limited	0.328	47.16%	40.37%	14.40%	(19.01%)	(18.00%)	(17.38%)[1]	1.50%
8-Dec-10	39	Bio-Dynamic Group Limited	1.15	63.91%	62.24%	2.61%	(17.27%)	(15.57%)	(89.50%)[1]	1.50%
8-Dec-10	8065	Sino Haijing Holdings Limited	0.87	26.67%	22.39%	16.05%	(13.00%)	(10.68%)	(3.01%)	2.00%
8-Dec-10	8079	B.A.L. Holdings Limited	0.257	99.81%	83.25%	16.59%	(19.69%)	(9.51%)	(9.19%)[1]	2.00%
8-Dec-10	8071	China Metal Resources Holdings Limited	0.20	72.05%	60.04%	16.67%	(9.09%)	(8.26%)	(4.63%)	N/A
8-Dec-10	491	See Corporation Limited	0.18	77.27%	64.43%	16.62%	(17.43%)	(10.98%)	(11.59%)[1]	2.50%
				Maximum		64.28%	3.77%	7.74%	14.70%	4.00%
				Minimum		0.12%	(71.22%)	(69.70%)	(89.50%)	1.50%
				Average		16.14%	(15.30%)	(13.32%)	(14.41%)	2.41%

Note:

1. No such information was disclosed in the relevant announcements. We have calculated such information based on the historical share prices of the relevant companies.

Whilst the pricing of a share placement is affected by many different factors, such as the principal businesses of the issuer, the management of the issuer, the fund raising amount and purposes, the timing of the issue and the market environment, 34 out of the above 37 share placement transactions, the issue prices of which were priced at a discount to the closing prices on the date prior to their respective announcements, 2 out which were priced at the closing prices on the date prior to their respective announcements and only one of which was priced at a premium. We believe that this should give us a general indication as to the pricing consideration of the share placements. As compared with the pricing of the above share placement exercises, the Subscription Price also represents a relatively high premium over the recent trading share prices.

Among the above share placement transactions, the share placement of China Ground Source Energy Limited was a subscription of new shares in the company by a connected person. We believe that when determining the pricing of a share placement, whether the subscriber is a connected person (for the purpose of the Listing Rules) should not be a consideration. The issue price of a share placement on normal commercial terms should not be affected whether the subscriber is a connected person of the issuer or an independent third party.

The price earnings ratio ("PER") and price to book ratio ("PBR") of a company are affected by many company specific factors, as well as industry and market factors. As a general reference, we have also considered the reasonableness of the Subscription Price by reference to the PERs and the PBRs of the Comparable Companies as set out in Table 1. As shown in Table 1, the PERs of the Comparable Companies ranged from 0.51 times to 53.7 times with an average PER of 14.12 times; and the PBRs of the Comparable Companies ranged from 0.14 times to 5.63 times with an average PBR of 1.61 times.

Based on the Subscription Price, the consolidated profit attributable to the equity holders for the year ended 31 December 2009 and the consolidated net asset value as at 30 June 2010, the PER and the PBR based on the Subscription Price are 3.31 times and 0.35 times respectively; whilst the Group's trading PER and PBR are 3.35 times and 0.36 times respectively as at the Latest Practicable Date. The PERs and the PBRs of the Company based on the Subscription Price and the closing price as at the Latest Practicable Date fall within those of the Comparable Companies.

Lock-up undertaking

The Subscriber has undertaken to the Company that during the period commencing from the Completion Date and ending on the date which is twelve months from the Completion Date, it shall not, and shall procure that the relevant registered holder(s) and its associates and companies controlled by it and any nominee or trustee holding in trust for it shall not, without the prior written consent of the Company:

(i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of the Subscription Shares;

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Subscription Shares, whether any of the foregoing transactions is to be settled by delivery of the Subscription Shares or such other securities, in cash or otherwise;

(iii) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (i) or (ii) above; or

(iv) announce any intention to enter into or effect any of the transactions referred to in paragraphs (i), (ii) or (iii) above.

We consider that a lock-up arrangement demonstrates the support of the Subscriber to the Group and is favourable to the other Shareholders.

Other financing alternatives

We understand from the Company that it had considered various financing alternatives for raising additional fund, including new bank and other loans, a rights issue or an open offer, etc. for the Relocation. The Group can only obtain the land use rights certificate, construction land planning permit, construction work planning permit and construction work commencement permit (the "Four Certificates") for the Qinhai Yuan Development Project after completion of the Relocation. According to the "Notice of the People's Bank of China on Regulating Real Estate Financing Business" issued by People's Bank of China on 19 June 2001, housing development loans shall be offered to residential projects with the Four Certificates.

On 22 July 2006, the China Banking Regulatory Commission promulgated a Notice on Further Strengthening the Administration of Real Estate Credit. The notice, among other things, prohibits the provision of loans to real estate developers whose own capital is less than 35% of the total capital required for the projects (not including affordable housing), or who have not obtained the Four Certificates, etc. In view of the above regulations, we understand that these have made the Group difficult to seek bank financing for the Relocation at favourable terms.

Apart from bank borrowings, issue of loan notes could be another possible means of debt financing. However, debt financing will cause the gearing and interest coverage ratio to deteriorate. The yield to maturity of the Company's existing loan notes, the 2013 Guaranteed Notes, was 12.214% as at the Latest Practicable Date representing an expected cost of debt capital of 9.161% (after tax shielding) whilst the dividend yield of the Company is only 5.366% (source: Infocast). Based on the above regulatory limitations on bank borrowings and the expected borrowing costs of other debt financing with reference to cost of capital based on the Group's existing loan notes as well as the current dividend yield of the Company's Shares as described above, we consider that it is reasonable to expect that equity financing shall represent a more favourable source of financing as compared with debt financing.

Apart from debt financing, common means of equity financing include rights issues and open offers. However, rights issues or open offers often involve a higher discount to the market price, whilst the Subscription Price represents a premium over the three benchmark prices. Moreover, rights issues or open offers may incur higher costs to the Group including underwriting commissions, as a typical rights issue or open offer would have to be fully underwritten. The additional cost may not be favourable to the Group and the Independent Shareholders, whereas no fees are payable to the Subscriber connected with the Subscription. If the Company were to raise the funding by way of a rights issue or open offer underwritten by the Subscriber, in addition to the present procedures applicable to the Subscription that the Company has to go through, there will involve an extra offer period of at least 10 business days which will further delay the time when the funds could be made available to the Group.

For the purpose of assessing the costs of other financing alternatives to the Group, based on information available from the Stock Exchange's website, we have analysed all the rights issues and open offers of shares (excluding companies under debt restructuring and companies listed as investments companies under the Listing Rules) as announced by companies listed on the Main Board of the Stock Exchange in the 12 months prior to the date of the Subscription Agreement ("Comparable Rights Issues/Open Offers") as set out in the table below.

Table 4:

Announcement date	Stock code	Company	Subscription price *(HK$)*	Net asset/ (liability) value per share before completion *(HK$)*	Net asset/ (liability) value per share after completion *(HK$)*	Premium/ (discount) to closing price	Premium/ (discount) to the 5 days average closing price	Premium/ (discount) to the 10 average closing price	Underwriting commission *(Note 1)*
10-Dec-09	660	Wai Chun Mining Industry Group Company Limited[(2)]	0.03	(0.01)	(0.001)	(80.00%)	(80.70%)	(81.40%)	1.00%
21-Dec-09	240	Build King Holdings Limited	0.15	0.14	0.14	(40.00%)	(40.70%)	(42.30%)	0.00%
23-Dec-09	952	Quam Limited[(2)]	0.23	0.39	0.36	(38.70%)	(38.80%)	(41.80%)	2.00%
11-Jan-10	491	See Corporation Limited	0.2	0.03	0.18	(81.31%)	(82.67%)	(82.29%)	2.50%
14-Jan-10	629	Yue Da Mining Holdings Limited	1.2	1.92	1.55	(46.90%)	(46.43%)	(42.42%)	2.00%
14-Jan-10	1222	Wang On Group Limited	0.185	2.83	0.56	(81.22%)	(81.50%)	(80.15%)[3]	2.50%
28-Jan-10	40	Gold Peak Industries (Holdings) Limited	0.65	2.35	1.84	(50.00%)	(51.50%)	(50.80%)	2.75%
4-Feb-10	628	Dore Holdings Limited	0.2	0.33	0.29	(16.67%)	(4.76%)	(3.38%)[3]	N/A
2-Mar-10	3968	China Merchants Bank Co., Ltd.	10.06	5.00	5.58	(49.19%)	(47.15%)	(46.94%)	N/A
4-Mar-10	899	Asia Resources Holdings Limited	0.13	0.20	0.17	(44.44%)	(45.92%)	(44.72%)	2.50%
19-Mar-10	399	United Gene High-Tech Group Limited	0.052	0.02	0.03	(89.17%)	(89.34%)	(89.33%)	5.00%
24-Mar-10	145	The Hong Kong Building and Loan Agency Limited	0.1	0.10	0.10	(64.28%)	(62.12%)	(61.68%)	2.50%
12-Apr-10	2312	China Financial Leasing Group Limited	0.057	0.02	0.03	(52.10%)	(52.74%)	(52.22%)	2.50%
20-Apr-10	329	Dragonite International Limited	0.1	0.31	0.24	(53.27%)	(52.15%)	(54.75%)[3]	5.00%

Announcement date	Stock code	Company	Subscription price (HK$)	Net asset/ (liability) value per share before completion (HK$)	Net asset/ (liability) value per share after completion (HK$)	Premium/ (discount) to closing price	Premium/ (discount) to the 5 days average closing price	Premium/ (discount) to the 10 average closing price	Underwriting commission (Note 1)
10-May-10	485	Starlight International Holdings Limited	0.12	0.83	0.51	(60.00%)	(61.29%)	(61.54%)	1.50%
11-May-10	686	Time Infrastructure Holdings Limited	0.5	0.14	0.21	(19.35%)	(18.83%)	(19.87%)	1.50%
12-May-10	455	Yunnan Enterprises Holdings Limited	0.21	0.43	0.32	(72.00%)	(73.40%)	(73.80%)	0.00%
17-May-10	1136	TCC International Holdings Limited	2.1	2.88	2.61	(27.08%)	(25.27%)	(25.80%)	2.25%
6-Jun-10	3328	Bank of Communications Co., Ltd.	5.14	3.79	3.95	(37.20%)	(37.10%)	(36.10%)	N/A
11-Jun-10	869	Playmates Toys Limited[(2)]	0.3	0.01	0.11	(38.14%)	(38.27%)[3]	(33.48%)	2.50%
11-Jun-10	2389	Genvon Group Limited[(2)]	0.15	0.06	0.11	(35.60%)	(37.00%)	(38.00%)	1.50%
14-Jun-10	809	Global Bio-chem Technology Group Company Limited	0.75	3.23	2.51	(50.00%)	(51.00%)	(50.00%)	3.00%
15-Jun-10	651	China Ocean Shipbuilding Industry Group Limited	0.5	0.56	0.32	(12.28%)	(4.03%)	1.63%	1.50%
8-Jul-10	326	China Star Entertainment Limited	0.1	0.80	0.57	(12.28%)	(11.50%)	(13.79%)[3]	1.00%
9-Jul-10	9	China Mandarin Holdings Limited[(2)]	0.0109	0.09	0.02	(94.55%)	(94.67%)	(94.64%)	2.50%
28-Jul-10	764	Eternity Investment Limited	0.4	4.98	1.54	(29.82%)	(35.48%)	(35.59%)[3]	1.00%
28-Jul-10	1398	Industrial and Commercial Bank of China Limited	3.49	2.40	2.40	(47.40%)	(48.30%)	(46.80%)	N/A
9-Aug-10	897	Wai Yuen Tong Medicine Holdings Limited	0.207	3.78	0.68	(83.10%)	(83.10%)	(83.21%)[3]	2.50%
8-Sep-10	295	Kong Sun Holdings Limited	0.25	0.42	0.36	(46.81%)	(44.69%)	(43.50%)	2.50%
14-Sep-10	123	Yuexiu Property Company Limited	1.61	1.98	1.89	(15.26%)	(15.26%)	(13.90%)	0.00%
20-Sep-10	91	New Smart Energy Group Limited	0.112	0.67	0.29	(26.32%)	(26.70%)	(26.32%)[3]	2.50%
22-Sep-10	1003	21 Holdings Limited	0.19	2.63	0.41	(87.66%)	(87.20%)	(87.04%)[3]	2.25%
4-Oct-10	169	Hengli Properties Development (Group) Limited[(2)]	0.1	0.09	0.10	(71.43%)	(68.05%)	(67.11%)	2.50%
7-Oct-10	355	Century City International Holdings Limited[(2)]	0.48	1.52	1.43	(30.40%)	(31.40%)	(27.80%)	2.50%
12-Oct-10	397	China Gogreen Assets Investment Limited	0.15	1.20	0.25	(67.67%)	(67.50%)	(68.29%)[3]	2.50%
13-Oct-10	2888	Standard Chartered PLC	156.82	105.24	110.72	(32.93%)	(31.76%)[3]	(31.66%)[3]	2.15%
20-Oct-10	692	Ching Hing (Holdings) Limited	0.05	1.60	0.22	(81.82%)	(81.48%)	(82.70%)[3]	2.50%
28-Oct-10	3988	Bank of China Limited	2.74	2.40	2.43	(41.20%)	(40.04%)	(39.91%)	N/A
2-Nov-10	939	China Construction Bank Corporation	4.38	2.80	2.90	(42.70%)	(41.00%)	(41.00%)	N/A
5-Nov-10	3868	Qunxing Paper Holdings Company Limited	0.66	2.73	2.04	(80.30%)	(80.12%)	(80.24%)	2.50%
16-Nov-10	440	Dah Sing Financial Holdings Limited	36.89	46.13	45.04	(39.97%)	(39.39%)	(38.18%)	2.25%
16-Nov-10	2356	Dah Sing Banking Group Limited	9	10.35	10.22	(40.94%)	(41.06%)	(39.76%)	2.25%
19-Nov-10	542	Morning Star Resources Limited	0.2	0.93	0.24	(89.53%)	(89.58%)	(89.85%)[3]	2.50%

Announcement date	Stock code	Company	Subscription price (HK$)	Net asset/ (liability) value per share before completion (HK$)	Net asset/ (liability) value per share after completion (HK$)	Premium/ (discount) to closing price	Premium/ (discount) to the 5 days average closing price	Premium/ (discount) to the 10 average closing price	Underwriting commission (Note 1)
23-Nov-10	512	China Grand Pharmaceutical and Healthcare Holdings Limited	0.58	0.14	0.25	(21.62%)	(21.62%)	(22.97%)	3.50%
25-Nov-10	885	Forefront Group Limited	0.125	2.24	0.36	(86.56%)	(87.24%)	(88.00%)[3]	3.00%
29-Nov-10	263	China Yunnan Tin Minerals Group Company Limited	0.1	2.27	0.34	(87.80%)	(88.56%)	(89.18%)[3]	3.00%
1-Dec-10	92	Champion Technology Holdings Limited[(2)]	0.15	1.74	1.22	(37.80%)	(38.30%)	(39.00%)	2.50%
			Maximum			(12.28%)	(4.03%)	1.63%	5.00%
			Minimum			(94.55%)	(94.67%)	(94.64%)	0.00%
			Average			(51.80%)	(51.42%)	(51.10%)	2.24%

N/A: No such information disclosed in the relevant announcements

Notes:

1. The underwriters with no underwriting commission were the relevant companies' substantial shareholders/ connected persons.

2. The underwriters of these fund raising transactions include the relevant companies' substantial shareholders/ connected persons.

3. No such information was disclosed in the relevant announcements. We have calculated such information based on the historical share prices of the relevant companies.

As shown in the above table, the premium/discount of which the issue price of the Comparable Rights Issues/Open Offers represented over/to (i) the closing price immediately prior to announcement ranged from a discount of 12.28% to a discount of 94.55% with an average of a discount of 51.8%; (ii) the 5 days average closing price ranged from a discount of 4.03% to a discount of 94.67% with an average of a discount of 51.42%; and (iii) the 10 days average closing price ranged from a premium of 1.63% to a discount of 94.64% with an average of a discount of 51.1%.

It is a general market expectation that rights issues and open offers should be carried out at a discount to trading prices. However, the Subscription Price represents a premium ranges from 4.65% to 6.58% over the three benchmark prices. It is not generally expected that any pre-emptive issue to all shareholders at a price representing a premium over trading prices would be attractive. Accordingly, a rights issue or open offer would not be considered favourable in view of the Subscription Price.

In addition, the underwriting commissions of the Comparable Rights Issues/Open Offers ranged from 0% to 5% with an average of 2.24%. No underwriting commission is payable by the Group in respect of the Subscription.

The Subscription is considered appropriate as it is interest-free and does not add further burden on gearing as compared to debt financing. Further debt financing will worsen the gearing and interest coverage ratio of the Group. If the Group were to borrow money via the issue of new loan notes, based on the current yield to maturity of the existing notes of the Company in issue, it is reasonable to believe that an even higher yield would have to be offered to investors. Based on some press reports in November 2010, there were PRC real estate developers which called off their debt issuing plans as a result of the relatively high interest requested by investors.

Apart from rights issues and open offers, the Company may also issue new Shares to independent investors through a share placement. However, discounts to the recent trading prices prior to the share placement will usually have to be offered to investors as shown in Table 2 above. In addition to the pricing, a placement of new Shares to investors will have the same dilution effect (or even bigger if the same amount was to be raised at a lower issue price) to the Independent Shareholders as compared with the Subscription. Moreover, the Company would have to pay a commission to a placing agent for identifying investors.

Having considered the possibility, expenses and other cost to the Company (such as issue share at a discount to the trading price) in respect of the other financing alternatives and other factors as mentioned above, we concur with the Company's view that the Subscription is a good financing alternative available to the Group to finance the Relocation.

Financial effects of the Subscription

Cashflow

According to the interim report for the year ended 30 June 2010, the Group had bank balances and cash, and net current assets of HK$3,060.1 million and HK$11,702.4 million respectively. Upon completion of the Subscription, the liquidity and cash position will be improved as the Subscription will raise net proceeds of HK$562 million. The Group's bank balances and cash and net current assets would increase subject to all other things remaining unchanged. Accordingly, we are of the view that the Group's cash position and net current assets are expected to be improved upon completion of the Subscription.

Earnings

Save for the expenses relating to the Subscription, we are of the view that the completion of the Subscription will not have any immediate material impact on the Group's earnings. However, as set out in the Letter from the Board, the net proceeds from the Subscription will be used to finance the Relocation in respect of the Qinhai Yuan Development Project which the Group can develop a project with residential saleable floor area of 100,990 square metres and commercial saleable floor area of 52,739 square metres. The Company is optimistic that this project will have a positive impact on the Group's business prospect.

Net Asset Value

According to the interim report for the six months ended 30 June 2010, the net asset value as at 30 June 2010 was HK$10,961.4 million. Upon completion of the Subscription, the net asset value will be improved as the Subscription would increase the total assets and share capital of the Company. Based on the estimated net proceeds of HK$562 million, the net asset value would increase to HK$11,523.4 million subject to all other things remaining unchanged.

Gearing

As mentioned in the section "Financial position of the Group" to this letter, the gearing ratio as at 30 June 2010 was 55%. Upon completion of the Subscription, the Group's net asset value would increase as a result of the Subscription whilst the total liabilities would remain the same, resulting in a drop of the Group's gearing ratio to 52.42% subject to all other things remaining unchanged. Thus, we are of the view that the Group's gearing level will be improved upon completion of the Subscription.

Based on the above, the Subscription would have an overall positive effect on the Group's financial position upon completion of the Subscription. On such basis, we are of the view that the Subscription is in the interests of the Company and the Shareholders as a whole.

Effect on the shareholding structure of the Company

Reference is made to the shareholding structure of the Company as set out in the section headed "Effect of the Subscription" in the Letter from the Board. Upon completion of the Subscription, the shareholding of the existing public Shareholders will be diluted from approximately 64.77% to approximately 54.24%.

Having considered (i) the fairness and reasonableness of the Subscription Price of HK$0.81 in the section headed "Principal terms of the Subscription" above; (ii) the issuance of the Subscription Shares will strengthen the Company's capital base and enhance the Group's net asset position; (iii) the Group's difficulty in obtaining bank and other financing for the Qinhai Yuan Development Project given the regulatory limitations and the expected high interest costs based on the current yield-to-maturity and cost of capital of the existing loan notes of the Group and the knowledge of the management of the Company as described in the paragraph headed "other financing alternatives" in this letter above; (iv) the Subscription Price representing a premium over the recent trading price; and (v) the Subscription representing a good financing alternative available to the Company to finance the Relocation, we consider that the dilution effects on shareholdings of the Company upon completion of the Subscription is acceptable, and fair and reasonable.

Whitewash Waiver

The shareholding of the Subscriber and the persons acting in concert with it in the Company will increase from approximately 35.23% to approximately 45.76% immediately following completion of the Subscription. Under Rule 26.1 of the Takeovers Code, the

Subscriber is required to make a mandatory general offer for all the issued Shares and other relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) of the Company not owned by it and the persons acting in concert with it immediately following completion of the Subscription unless the Whitewash Waiver is obtained. In this regard, the Subscriber has made an application to the Executive for the Whitewash Waiver which is subject to the approval of the Independent Shareholders on a vote by poll.

The Subscription is conditional on, among other things, the approval of the Whitewash Waiver by the Independent Shareholders at the SGM. If the Whitewash Waiver is not approved, the Subscription will not proceed and no general offer obligation will be triggered. In the event that the Subscription does not proceed, the Group and the Shareholders will not be able to enjoy the benefits that would arise from the Subscription, as discussed earlier in this letter and the progress of the Relocation may be adversely affected. In view of the benefit of the Subscription and the Group's limitation on other financing options given the regulatory limitations and the expected high interest costs based on the current yield-to-maturity and cost of capital of the existing loan notes of the Group and the knowledge of the management of the Company as described in the paragraph headed "other financing alternatives" above in this letter above, we consider that the dilution to the Shareholders, other than the Subscriber and the persons acting in concert with it, as a result of the Subscription acceptable.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the terms of the Subscription Agreement and the Subscription are fair and reasonable and the Subscription is on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. On the basis that the grant of the Whitewash Waiver is an unwaivable condition of the Subscription Agreement, we also consider that the grant of the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Subscription IBC to recommend the Independent Shareholders vote in favour of the ordinary resolution to be proposed at the SGM to approve the Subscription. We also advise the Whitewash IBC to recommend the Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Subscription and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
OSK Capital Hong Kong Limited
Allen Tze
Director