

ALTUS CAPITAL LIMITED

21 Wing Wo Street, Central, Hong Kong

Tel : (852) 2522 6122
Fax : (852) 2522 6992
E-mail Address:
mail@altus.com.hk

25 April 2023

To the Independent Board Committee and the Independent Shareholders

Emperor Watch & Jewellery Limited

25th Floor
Emperor Group Centre
288 Hennessy Road
Wanchai
Hong Kong

Dear Sir/Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS 2024 MASTER LEASING AGREEMENTS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2024 MLAs and the transactions contemplated thereunder (including the Aggregate Tenancy Annual Caps), details of which are set out in the “Letter from the Board” contained in the circular of the Company dated 25 April 2023 (the “**Circular**”). Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

As the Group intends to continue to lease properties (including but not limited to offices and retail shops) from Emperor International Group (including Emperor E Hotel Group), and with the upcoming expiration of the 2020 MLAs, the Company entered into the 2024 MLAs with Emperor International and Emperor E Hotel respectively on 23 March 2023 to regulate arrangements for the Tenancy Transactions between the respective parties for a successive term of three years from 1 April 2024.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the Company, Emperor International and Emperor E Hotel are all indirectly controlled by the respective private discretionary trusts which are all set up by Dr. Yeung, who is the deemed substantial shareholder of the Company. As such, under Chapter 14A of the Listing Rules, each of Emperor International and Emperor E Hotel is a connected person of the Company and accordingly, the transactions contemplated under the 2024 MLAs constitute continuing connected transactions of the Company.

As the highest applicable percentage ratios (as defined in the Listing Rules) calculated with reference to the Aggregate Tenancy Annual Caps of the Company are more than 5% and exceed HK\$10,000,000, the 2024 MLAs and the Aggregate Tenancy Annual Caps are subject to the announcement, reporting and annual review requirements and Shareholders' approval under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Ms. Chan Sim Ling, Irene, Mr. Liu Hing Hung and Ms. Chan Wiling, Yvonne, has been established to consider and advise the Independent Shareholders as to (i) whether the terms of the 2024 MLAs and the Aggregate Tenancy Annual Caps are fair and reasonable; (ii) whether the transactions contemplated under the 2024 MLAs are on normal commercial terms and in the ordinary and usual course of business of the Group; (iii) whether the transactions contemplated under the 2024 MLAs are in the interests of the Company and the Shareholders as a whole; and (iv) how the Independent Shareholders should vote in respect of the relevant resolution to be proposed at the AGM, after taking into account the recommendation of the Independent Financial Adviser.

THE INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the 2024 MLAs and the Aggregate Tenancy Annual Caps are fair and reasonable; (ii) whether the transactions contemplated under the 2024 MLAs are on normal commercial terms and in the ordinary and usual course of business of the Group; (iii) whether the transactions contemplated under the 2024 MLAs are in the interests of the Company and the Shareholders as a whole; and (iv) how the Independent Shareholders should vote in respect of the relevant resolution to be proposed at the AGM.

We have not acted as an independent financial adviser or financial adviser for other transactions of the Company in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the 2024 MLAs and the Aggregate Tenancy Annual Caps is at market level and not conditional upon successful passing of the relevant resolution to be proposed at the AGM, and that our engagement is on normal commercial terms, we are independent of and not associated with the Company.

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others, (i) the 2024 MLAs; (ii) the 2020 MLAs; (iii) the annual results announcement of the Company for the year ended 31 December 2022 (the “**2022 Annual Results**”); (iv) the annual report of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”); (v) the interim report of Emperor International for the six months ended 30 September 2022 (the “**Emperor International 2022 Interim Report**”); (vi) the interim report of Emperor E Hotel for the six months ended 30 September 2022 (the “**Emperor E Hotel 2022 Interim Report**”); and (vii) other information as set out in the Circular.

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Group (the “**Management**”). We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, the Directors and the Management were reasonably made after due and careful enquiry and were true, accurate and complete at the time they were made and continued to be so as at the date of the AGM.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading at the time they were made or will be untrue, inaccurate or misleading at the date of the AGM, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us to be untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Company contained or referred to in the Circular and/or provided to us by the Company and the Management have been reasonably made after due and careful enquiry. We consider that we have been provided with and have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background

1.1 Information of the Group

The Company is an investment holding company. The Group is a leading retailer of European-made internationally renowned watches, together with fine jewellery products under its own brand, “*Emperor Jewellery*”. The Group has established a retail network of 93 stores as at 31 December 2022 across Hong Kong, Macau, Mainland China, Singapore and Malaysia, as well as several online shopping platforms.

1.2 Information of Emperor International

Emperor International is an investment holding company and its subsidiaries are principally engaged in property investment, property development and hospitality in Greater China and overseas. According to Emperor International 2022 Interim Report, Emperor International’s property portfolio covers a total area of over 5,400,000 square feet in Hong Kong, Mainland China and the United Kingdom. The Emperor International Group’s investment properties portfolio primarily focuses on commercial buildings and quality street-level retail spaces in prominent locations. The issued shares of Emperor International are listed on the Main Board of the Stock Exchange (Stock Code: 163).

1.3 Information of Emperor E Hotel

Emperor E Hotel is an investment holding company and its subsidiaries are principally engaged in the provision of hospitality services. According to Emperor E Hotel 2022 Interim Report, Emperor E Hotel’s portfolio covers six hotels and serviced apartments in Hong Kong and Macau, namely (i) The Emperor Hotel, The Unit Morrison Hill, The Unit Happy Valley and The Unit Davis in Hong Kong; and (ii) Grand Emperor Hotel and Inn Hotel in Macau. The issued shares of Emperor E Hotel are listed on the Main Board of the Stock Exchange (Stock Code: 296).

2. Rationale for entering into the 2024 MLAs

As disclosed in the “Letter from the Board” of the Circular, the Group currently leases properties from Emperor International Group (including Emperor E Hotel Group) pursuant to the 2020 MLAs for its business operations. As at the Latest Practicable Date, the Group had 19 existing tenancy/lease/license agreements entered into between members of the Group and the respective members of Emperor International Group and Emperor E Hotel Group with sizes ranging from a signboard space to a retail shop with a gross floor area of 5,762 sq. ft. We understand from the Management that the Group intends to continue to lease these properties in the future. With the upcoming expiration of the 2020 MLAs, the entering into of the 2024 MLAs will continue to govern the Tenancy Transactions between the Group and Emperor International Group (including Emperor E Hotel Group), and also serves to streamline the relevant process of reporting, announcement and Shareholders’ approval, if necessary, whenever there is new tenancy or renewal of the Tenancy Transactions between the Group and Emperor International Group (including Emperor E Hotel Group). Besides, the obtaining of the Aggregate Tenancy Annual Caps will help reduce the relevant administrative burden and costs on the Company in complying with the requirements under the Listing Rules. According to the 2024 MLAs as further elaborated below, the Definitive Leasing Agreements will be agreed on an arm’s length basis, on normal commercial terms or on terms no less favourable to the Group than those terms offered by independent third parties as landlords.

Having considered that (i) the Group has been leasing properties from Emperor International Group (including Emperor E Hotel Group) for over 30 years without encountering into any material tenancy issues; (ii) the leasing of properties from Emperor International Group (including Emperor E Hotel Group) are vital and integral for the business operations of the Group given their good locations and adequate layout which meet the Group’s requirement; and (iii) the 2024 MLAs and the Aggregate Tenancy Annual Caps allow the Group to streamline the process and reduce the relevant administrative burden and costs in complying with the relevant requirements under the Listing Rules, we concur with the Management that the entering into the 2024 MLAs and the adoption of the Aggregate Tenancy Annual Caps are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the 2024 MLAs

Set out below is a summary of the principal terms of the 2024 MLAs, details of which are set out in the “Letter from the Board” of the Circular.

	2024 MLAs	Parties	Scope
(1)	2024 EIHL MLA	the Company; and Emperor International	Governing the Tenancy Transactions between the Group and Emperor International Group
(2)	2024 EEH MLA	the Company; and Emperor E Hotel	Governing the Tenancy Transactions between the Group and Emperor E Hotel Group

3.1 Terms

1 April 2024 – 31 March 2027. Subject to compliance with the then relevant requirements of the Listing Rules, or any waiver obtained from strict compliance with such requirements, upon expiration of the initial term or subsequent renewal term, the 2024 MLAs shall be automatically renewed for a successive period of three years thereafter (or such other period permitted under the Listing Rules), unless terminated earlier in accordance with the 2024 MLAs.

3.2 Key terms and conditions

Relevant members of the Group and the relevant members of Emperor International Group (including Emperor E Hotel Group) may from time to time enter into Definitive Leasing Agreement(s) in relation to any Tenancy Transactions upon, and subject to, the terms and conditions in compliance with the 2024 MLAs, provides that:

- (a) all the Tenancy Transactions have been and shall be conducted in the usual and ordinary course of business of both the Group and Emperor International Group (including Emperor E Hotel Group) and are in the interest of their respective shareholders as a whole;
- (b) the terms of each Definitive Leasing Agreement have been and shall be on normal commercial terms or on terms which are no less favourable to the Group than terms offered by independent third parties;
- (c) the terms of the Tenancy Transactions have been and shall be arrived at after arm’s length negotiation and the amount of rental thereunder the respective Definitive Leasing Agreements shall be determined based on the condition of the properties and with reference to the then prevailing market rents on premises comparable in location, area and permitted use;
- (d) all the Tenancy Transactions have been and shall be concluded in compliance with all applicable provisions of the Listing Rules, the applicable laws, 2024 MLAs and relevant Definitive Leasing Agreements; and

- (e) the Group has/shall have the option to consider third party landlords and premises other than the properties of Emperor International Group (including Emperor E Hotel Group).

We noted that the Group has established internal control measures for governing the terms and conditions of the Definitive Leasing Agreement(s) of the Tenancy Transactions to ensure that the Definitive Leasing Agreement(s) are on an arm's length basis, on normal commercial terms or on terms no less favourable to the Group than those terms offered by independent third party landlords. We understand from the Management that the Group will follow a series of procedures in selecting the premises and determining the rentals and terms of the tenancies. When the Management is about to renew the existing tenancy or open a new retail shop which requires new premises, the operation team of the Group will conduct site visits and source available properties in the selected location. The Group will then collect rental quotations of not less than three shortlisted properties from different landlords if there are such number of available properties in the selected location. Furthermore, the Group will further assess the rental and obtain comparable information for the determination of terms of tenancy.

In the event of the number of shortlisted properties in the selected location is less than three, the Company will assess the fairness and reasonableness of the rental rate and terms with reference to similar properties in the vicinity which do not fall strictly into the selection criteria of the Group or are not available to the Group but which remain to be reasonable reference. Should there be no comparable information obtained, the Company will engage independent property appraiser to prepare valuation reports. The Group may engage independent property appraiser to prepare valuation reports; conduct internal research to assess the valuation; and/or assess the valuation with reference to previous tenancy agreements for renewal cases. After the operation team gathers and analyses the aforesaid information of the proposed tenancy, the Management will review and approve the tenancy.

We considered that the above measures for determining the terms and conditions of the tenancy agreements, which has taken into account either (i) the terms offered by independent third party landlords; or (ii) comparable information of similar properties in the vicinity; and/or (iii) information from valuation report prepared by independent property appraiser, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In order to assess whether the above measures have been adhered to for the Tenancy Transactions, we have obtained and reviewed five samples of internal approval documents in respect of the leasing of properties from Emperor International Group (including Emperor E Hotel Group) under the 2020 MLAs (the "**Leasing Samples**"). The Leasing Samples are randomly selected and they cover the three geographical regions (Hong Kong, Macau and Mainland China) where the Group leases properties from Emperor International Group (including Emperor E Hotel Group) during the term of the 2020 MLAs. The Leasing Samples also cover the different types of property leased (retail stores and/or office) at each geographical region. Considering the above coverage, we are of the view that the size of the Leasing Samples is sufficient and adequate.

Based on our review, we noted that the Group had obtained comparable information of similar properties in the vicinity, such as rental rate and location for the purpose of determining the terms of the Tenancy Transactions. We noted that the relevant terms of the Tenancy Transactions (in particular the rental) were comparable to the then market. In light of the above, we are of the view that the Group's internal control measures had been adhered to and comply with the aforementioned measures for governing the Tenancy Transactions entered into between members of the Group and members of Emperor International Group and Emperor E Hotel Group. We also believe that there exist adequate procedures to ensure the Tenancy Transactions will continue to be carried out on normal commercial terms and with reference to the aforementioned measures and accordingly, the Tenancy Transactions will be fair and reasonable.

4. Proposed Aggregate Tenancy Annual Caps

4.1 Historical transactions amount and utilisation

Set out below is the table summarising (i) the existing annual caps; and (ii) the historical transactions amounts of the (a) right-of-use assets recognised; and (b) Variable Lease Payments and other short term lease payments paid under the Tenancy Transactions between the Group and Emperor International Group/Emperor E Hotel Group for the period of 2020 MLAs:

	For the nine months ended 31 December 2021 HK\$ '000 (Approx.)	For the 12 months ended 31 December 2022 HK\$ '000 (Approx.)	For the two months ended 28 February 2023 HK\$ '000 (Approx.)
Right-of-use assets			
Existing annual caps	100,000	350,000	350,000 (for the year ending 31 December 2023)
Historical transaction amounts	31,037	106,862	3,631
Utilisation rates	31.0%	30.5%	6.2% <i>(Note)</i>
Variable Lease Payments and other short term lease payments			
Existing annual caps	4,000	4,500	5,000 (for the year ending 31 December 2023)
Historical transaction amounts	1,705	1,352	411
Utilisation rates	42.6%	30.0%	49.3% <i>(Note)</i>

Note: The utilisation rate for the two months ended 28 February 2023 is calculated based on (i) historical transaction amount for the two months ended 28 February 2023; and divided by (ii) the existing annual cap for the two months ended 28 February 2023 on a pro-rata basis.

Right-of-use assets

In accordance with HKFRS 16 “Leases”, the Group (as the lessee) is required to recognise right-of-use assets, which represent the present value of estimated rental fees and are calculated based on the expected (i) rental fees; (ii) duration of the leases; and (iii) discount rate. Correspondingly, the Group is required to set annual caps on the total value of right-of-use assets relating to leases expected to be entered into by the Group as a lessee.

During the period of 2020 MLAs, the utilisation rates in relation to the annual caps set for right-of-use assets were relatively low at approximately 31.0%, 30.5% and 6.2% for the nine months ended 31 December 2021, the year ended 31 December 2022 and the two months ended 28 February 2023 respectively. In this regard, we have discussed with the Management and understand that the relatively low utilisation rates were primarily attributable to (i) the shorter than expected leasing terms (i.e. one year) that had been entered into by the Group and Emperor International Group (including Emperor E Hotel Group) during the term of the 2020 MLAs, as part of the prudent approach adopted in view of the uncertainty brought about by the COVID-19 pandemic to the retail sector; (ii) the delay of the Group’s development and expansion plan whereby the Group had postponed the opening of new retail stores as compared to its original plan in view of the weak retail consumption sentiment and the pandemic-related travel restrictions in Hong Kong and PRC; and (iii) rental concession offered by the Emperor International Group and Emperor E Hotel Group following the negotiations between the relevant parties amid the protracted COVID-19 pandemic and economic downturn.

Variable Lease Payments and other short term lease payments

According to HKFRS 16 “Leases”, the Variable Lease Payments under Tenancy Transactions will be recognised as expenses incurred by the Group. We understand from the Management that the Variable Lease Payments primarily represent variable lease payments linked to turnover of the relevant retail shops.

During the period of 2020 MLAs, the utilisation rates in relation to the annual caps set for Variable Lease Payments and other short term lease payments were relatively low at approximately 42.6%, 30.0% and 49.3% for the nine months ended 31 December 2021, the year ended 31 December 2022 and the two months ended 28 February 2023 respectively. In this regard, we have discussed with the Management and understand that the relatively low utilisation rates were mainly attributable to (i) the lower than expected turnover recognised by the relevant retail shops due to the weak consumption sentiment and travel restriction policies implemented in view of the COVID-19 pandemic; (ii) the delay of the Group's development and expansion plan whereby the Group has postponed the opening of new retail stores as compared to the original plan in view of the weak retail consumption sentiment and pandemic-related travel restrictions in Hong Kong and Mainland China; and (iii) the rental concession offered by Emperor International Group and Emperor E Hotel Group following the negotiations between the relevant parties amid the protracted COVID-19 pandemic and economic downturn.

4.2 Proposed Aggregate Tenancy Annual Caps

Set out below are the proposed Aggregate Tenancy Annual Caps under the 2024 MLAs for each of the respective periods:

	For the nine months ending 31 December 2024 HK\$'000	For the 12 months ending 31 December 2025 HK\$'000	For the 12 months ending 31 December 2026 HK\$'000	For the three months ending 31 March 2027 HK\$'000
Aggregate Right-of-Use Annual Cap	200,000	280,000	280,000	80,000
Aggregate Rental Expense Annual Cap	2,500	3,500	4,000	1,000

The Aggregate Tenancy Annual Caps represent the estimated respective maximum value of (i) the right-of-use assets relating to leases to be or expected to be entered into by the Group in the respective period(s) of the term under the 2024 MLAs; and (ii) the Variable Lease Payments and other short-term lease payments payable by the Group in respect of Tenancy Transactions in the respective period(s) of the term under the 2024 MLAs.

In determining the Aggregate Tenancy Annual Caps, we understand from the Management that the Group has taken into account the following factors for consideration: (i) the historical transaction amounts; (ii) the number of existing Tenancy Transactions; (iii) assuming all the above tenancies will be renewed upon expiry for not more than three years during the term of 2024 MLAs and taking into account the possible oncoming adjustment in rental rates; (iv) the business development and expansion of the Group; (v) the location and usage of the properties of the existing portfolio of Emperor International Group (including Emperor E Hotel Group) and potential acquisition of properties by Emperor International Group which can be available for leasing to the members of the Group in the future; and (vi) the prevailing market rents of the properties as compared with similar properties in the vicinity.

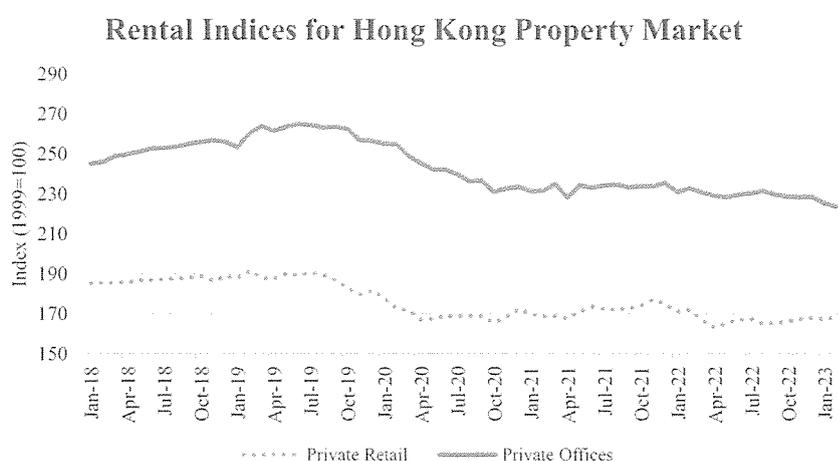
In order to assess the fairness and reasonableness of the Aggregate Tenancy Annual Caps, we have obtained and reviewed the relevant workings for the calculations of the proposed Aggregate Tenancy Annual Caps and considered the following factors:

(a) The renewal of existing tenancies and possible rental adjustment

According to the list of existing tenancies obtained from the Management, we noted that as at the Latest Practicable Date, there were 19 existing tenancy/lease/licence agreements entered into between members of the Group and members of Emperor International Group and Emperor E Hotel Group, which mainly comprise office and retail stores. The earliest expiry date of the leases is in December 2023 and the latest one is in October 2025. The monthly rental ranges from a signboard space at HK\$1,700 to a retail shop with a gross floor area of 5,762 sq. ft. at HK\$1,750,000. The duration of the leases are usually one to three years.

In this regard, we have discussed with the Management and understand that since the existing leased properties are vital and integral to the Group's business operations, it is the intention of the Group to renew all the existing leasing agreements upon expiry. Taking into account the recent lifting of travel restrictions and COVID-19 pandemic-related precautionary measures in Hong Kong, Macau and Mainland China, the Management expects that the consumption and retail markets will regain momentum and the economy will recover in the near future, which in turn may potentially lead to an increase in future rental level. In this respect, we understand from the Management that the Group, subject to negotiations among parties, intend to enter into longer term of leases (i.e. three years) upon the expiry of the existing leasing agreements. In addition, we also noted that the Group has taken into account a general increase in rental rates of 10% when calculating the proposed Aggregate Tenancy Annual Caps.

In order to assess the fairness and reasonableness of the expected rental rates for the lease of properties under the Tenancy Transactions, we have researched on the rental indices for private retail and office sectors of Hong Kong property market. Set out below is the graph illustrating the rental indices for private retail and office sectors of the Hong Kong property market in the past five years from February 2018 to February 2023 published by the Rating and Valuation Department of the Government of the Hong Kong Special Administrative Region:



As illustrated in the graph above, we noted that the rental indices for private retail and office sectors were generally on an upward trend and reached a high of 191.7 and 265.1 respectively before the outbreak of the COVID-19 pandemic. During the period from 2019 to 2022, the rental indices of the private retail and office sectors recorded a substantial downturn and plummeted by over 10% to a low of 163.1 and 228.4 in or around the middle of 2022. Thereafter, the private office rental indices have remained relatively stable while the private retail rental indices showed a slight sign of recovery and recorded 168.2 in February 2023. With this trend observed, as well as the recent lifting of travel restrictions and COVID-19 pandemic-related precaution measures as discussed above, it is reasonable to expect that, during the term of the 2024 MLAs, the market rental rates may rebound along the economic activities gradually regaining momentum.

In light of the above, we consider the assumption of general rental increment of 10% during the term of 2024 MLAs is fair and reasonable.

(b) The business development and potential expansion of the Group

According to the 2022 Annual Results and our discussion with the Management, we understand that the Group intends to continue to expand its retail network, and expects to open jewellery stores in Tai Wai and Kwun Tong, Hong Kong, as well as in Chengdu and Hebei, Mainland China. It is expected that, with the lifting of the travel restrictions in Hong Kong, Macau and Mainland China as well as the COVID-19 pandemic-related precautionary measures worldwide, the tourism and the retail industries will regain its momentum. We noted from the Management that, in 2022, the Group had opened three jewellery stores in Hong Kong, as well as four jewellery stores and one Rolex store in the Mainland China. In addition, the Group has established a store rollout plan for 2023, focusing on residential areas in Hong Kong and prominent cities in Mainland China. Against this backdrop, we have discussed with the Management and noted that the Group may enter into certain new tenancy agreements with the Emperor International Group during the term of the 2024 MLAs for opening of new stores in Hong Kong and/or the Mainland China.

In light of the above, we consider the assumption of entering into new tenancy agreements with Emperor International Group during the term of 2024 MLAs is fair and reasonable.

(c) The property portfolio of the Emperor International Group (including Emperor E Hotel Group)

According to the Emperor International 2022 Interim Report and based on our discussion with the Management, we noted that the Emperor International Group's investment properties portfolio primarily consisted of commercial buildings and quality street-level retail spaces in prominent locations, with an aggregate gross floor area of over 2,700,000 square feet, including but not limited to a number of premium office, commercial and industrial complexes across different locations. In addition, Emperor International Group stated that it will continue to look out for commercial buildings with redevelopment value and undertake urban renewal projects in suitable districts. We noted that the Emperor International Group has been implementing the above by undertaking redevelopment and revitalisation programmes of commercial and residential properties in various locations across different regions in Hong Kong which offers retail premises for leasing out.

Having considered the current property portfolio and the potential development of property-related projects of the Emperor International Group which can be available for leasing to the members of the Group in the future, we believe it is reasonable to assume that the Group will enter into certain new Tenancy Transactions with Emperor International Group (including Emperor E Hotel Group) under the 2024 MLAs in the coming years.

Overall, we understand that the significant increase in the proposed Aggregate Tenancy Annual Caps as compared to the historical transaction amounts is mainly due to the combined effects of (i) a lower than expected utilisation of existing annual caps as shorter than expected leasing terms had been entered into by the Group with Emperor International Group (including Emperor E Hotel Group) as the Group adopted a prudent approach on tenure of leases given the uncertainties during the COVID-19 pandemic, as further discussed in the section headed “4.1 Historical transactions amount and utilisation” above; (ii) the Group’s expectation on entering into longer leasing tenures following recent signs of economic recovery as the COVID-19 pandemic subsides and the related precautionary measures and travel restrictions are lifted; (iii) the Group’s upcoming expansion plan for its retail network where it will potentially enter into new tenancy agreements with the Emperor International Group (including Emperor E Hotel Group); and (iv) possible upward rental adjustments, as further discussed above.

In light of the above, we are of the view that the proposed Aggregate Tenancy Annual Caps are fair and reasonable.

5. Internal control measures

We have obtained and reviewed the Group’s internal control procedures in relation to the Tenancy Transactions under the 2024 MLAs. For details of the Group’s internal control procedures, please refer to the section headed “3.2 Key terms and conditions” above.

In addition, to ensure that the Definitive Leasing Agreement(s) will be entered into in accordance with the general terms of the 2024 MLAs and the requirements of Chapter 14A of the Listing Rules, (i) the Management will assess each of the Definitive Leasing Agreements with the aforementioned procedures; (ii) the relevant departments of the Group will record the transaction amount(s) to ensure that the Aggregate Tenancy Annual Caps will not be exceeded; (iii) the Group will engage external auditor to conduct an annual review of the Tenancy Transactions to opine on whether the Aggregate Tenancy Annual Caps have been exceeded; and (iv) the independent non-executive Directors will review the Tenancy Transactions contemplated under the 2024 MLAs annually.

As discussed in the section headed “3.2 Key terms and conditions” above, we have obtained the Leasing Samples and noted that such samples adhered to and comply with the internal control measures in safeguarding the Tenancy Transactions. We also noted that in the 2021 Annual Report that the independent non-executive Directors and auditors had conducted annual review of the continuing connected transactions of the Company (including the Tenancy Transactions under the 2020 MLAs) and there were no adverse findings during such annual review.

In view of the above, we concur with the Management that the Group’s internal control measures in relation to the Tenancy Transactions under the 2024 MLAs is effective and adequate.

RECOMMENDATION

Having considered the above principal factors, we are of the view that (i) the terms of the 2024 MLAs and the Aggregate Tenancy Annual Caps are fair and reasonable; (ii) the transactions contemplated under the 2024 MLAs are on normal commercial terms and in the ordinary and usual course of business of the Group; and (iii) the transactions contemplated under the 2024 MLAs are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolution to be proposed at the AGM to approve the 2024 MLAs and the Aggregate Tenancy Annual Caps.

Yours faithfully,
For and on behalf of
Altus Capital Limited



Chang Sean Pey
Executive Director

Mr. Chang Sean Pey (“Mr. Chang”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and permitted to undertake work as a sponsor. He is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Mr. Chang has over 25 years of experience in banking, corporate finance advisory and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.