



红日资本有限公司

RED SUN CAPITAL LIMITED

6 March 2024

To the Eminence Independent Board Committee and the Eminence Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION

PROPOSED ALTERATIONS OF TERMS OF THE 2023 CONVERTIBLE NOTE

INTRODUCTION

We refer to our appointment as the Eminence Independent Financial Adviser to advise the Eminence Independent Board Committee and the Eminence Independent Shareholders in relation to the Proposed Alterations and transactions contemplated thereunder, details of which are set out in the letter from the Eminence Board (the “**Letter from the Eminence Board**”) enclosed in the circular dated 6 March 2024 issued by Eminence to the Eminence Shareholders (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 23 January 2024 (after trading hours), Goodco, an indirect wholly-owned subsidiary of Easyknit and a substantial Eminence Shareholder, entered into the Deed of Amendment with Eminence, pursuant to which they conditionally agreed to amend the terms of the 2023 Convertible Note.

The 2023 Convertible Note is a convertible debt security of Eminence. Under Rule 28.05 of the Listing Rules, any amendments in the terms of convertible debt securities after issue must be approved by the Stock Exchange, except where the amendments take effect automatically under the existing terms of such convertible debt securities. An application for approval of the Proposed Alterations will be made by Eminence to the Stock Exchange.

Eminence has made its application to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the Further Conversion Shares (subject to adjustments in accordance with the terms of the 2023 Convertible Note) which may be issued by Eminence on exercise of the Conversion Rights after the Proposed Alterations.

No application has been or will be made for the listing of the 2023 Convertible Note on the Stock Exchange or any other stock exchange and no application will be made for the listing of the Conversion Shares on any other stock exchange.

Easyknit together with its subsidiaries including Goodco own approximately 26.59% of the issued share capital of Eminence as at the Latest Practicable Date. As Goodco, a member of the Easyknit Group, is a substantial Eminence Shareholder and thus a connected person of Eminence, the Deed of Amendment constitutes a connected transaction for Eminence and subject to the reporting, announcement, circular and the Eminence Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Eminence SGM will be convened and held for the Eminence Shareholders to consider and, if thought fit, approve the Deed of Amendment and transactions contemplated thereunder including the issue of the Further Conversion Shares. Only the Eminence Independent Shareholders will be entitled to vote on the ordinary resolution(s) to approve the Deed of Amendment and transactions contemplated thereunder including the issue of the Further Conversion Shares.

The Easyknit Group and its associates (which together control or are entitled to exercise control over voting rights of approximately 26.59% of the Eminence Shares as at the Latest Practicable Date) will abstain from voting, at the Eminence SGM on the ordinary resolution(s) approving the Deed of Amendment and transactions contemplated thereunder including the issue of the Further Conversion Shares.

THE EMINENCE INDEPENDENT BOARD COMMITTEE

The Eminence Independent Board Committee comprising three (3) independent non-executive Eminence Directors, namely Mr. Kan Ka Hon, Mr. Lau Sin Ming and Mr. Wu Koon Yin Welly, has been established to advise and give recommendations to the Eminence Independent Shareholders on the Deed of Amendment and transactions contemplated thereunder including the issue of the Further Conversion Shares on exercise of the Conversion Rights attached to it.

We, Red Sun Capital Limited, have been appointed by Eminence as the Eminence Independent Financial Adviser to advise and give recommendations to the Eminence Independent Board Committee and the Eminence Independent Shareholders in relation to (i) the Deed of Amendment and transactions contemplated thereunder including the issue of the Further Conversion Shares on exercise of the Conversion Rights attached to it; and (ii) how to vote at the Eminence SGM. Our appointment has been approved by the Eminence Independent Board Committee.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion, we have reviewed, among other things, (i) the sale and purchase agreements dated 30 November 2022 in respect of the 2023 Convertible Note; (ii) the interim report of the Eminence Group for the six months ended 30 September 2023 (the “**2023 Interim Report**”); (iii) the annual report of the Eminence Group for the year ended 31 March 2023 (the “**2023 Annual Report**”); (iv) the Deed of Amendment; (v) the announcement of Eminence dated 23 January 2024 in relation to the Proposed Alterations of terms of the 2023 Convertible Note; and (vi) other information as set out in the Circular. We consider that we have reviewed sufficient of relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules to reach an informed view and to provide a reasonable basis for our opinion and recommendation. We have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Eminence Directors and the management of Eminence (the “**Management**”). We have reviewed, *inter alia*, the statements, the information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Eminence Directors. We have assumed that all statements, information and representations provided by the Eminence Directors and the Management, for which they are solely responsible, were true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date and the Eminence Independent Shareholders will be notified of any material changes to such information and representations on or before the Eminence SGM. We have also assumed that all statements of belief, opinion and expectation made by the Eminence Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by Eminence, its advisers and/or the Eminence Directors.

The Eminence Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Eminence Group, nor have we considered the taxation implication as a result of the Proposed Alterations of terms of the 2023 Convertible Note. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. The Eminence Independent Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion after the Latest Practicable Date or lead us to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Eminence Shares or any other securities of Eminence.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in Eminence or any other parties that could reasonably be regarded as relevant to our independence. In the last two (2) years, we have acted as the independent financial adviser to independent board committees and independent shareholders of Eminence in relation to (i) the adjustments to the conversion prices of the convertible notes of Eminence, details of which are set out in the certificate dated 20 April 2022; (ii) a very substantial acquisition and connected transaction, details of which are set out in the circular of Eminence dated 21 January 2023; (iii) the adjustments to the conversion price of the convertible note of Eminence, details of which are set out in the certificate dated 3 August 2023; and (iv) major and continuing connected transaction, details of which are set out in the circular of Eminence dated 18 October 2023 (collectively “**Previous Engagements**”). Apart from the abovementioned independent financial adviser roles, we have not acted in any capacity for Eminence in the past two (2) years.

Under the Previous Engagements, we were required to express our opinion on and give recommendations to the Eminence Independent Board Committee (comprising all the independent non-executive Directors) and the Eminence Independent Shareholders in respect of the relevant transactions. Each of the Previous Engagements was independent engagement with normal professional fee paid in connection to each of the Previous Engagements, no interrelationship between each of the Previous Engagements. Apart from normal professional fees paid or payable to us in connection with this appointment as the Eminence Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from Eminence or any other parties that could reasonably be regarded as relevant to our independence. We were not connected with the Eminence Directors, chief executive of Eminence and substantial Eminence Shareholders or any of their respective subsidiaries or their respective associates, and do not have any shareholding, directly or indirectly, in any member of the Eminence Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Eminence Group. Among the Previous Engagements, each of the transactions was an independent transaction and different in nature, thus, we were expressing our opinion on a case-by-case basis and only normal professional fees were received for each of the engagements. Although two (2) of the Previous Engagements were in relation to the convertible note, given (i) one of them was expressing our opinion on the fairness and reasonableness of the principal terms of the sale and purchase agreements and the issue of the convertible note; and (ii) another one was in relation to adjustments to the conversion price of the convertible note, the nature for each of the abovementioned transactions are different with this transaction, accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have taken into consideration the following principal factors and reasons:

1. Business and financial overview of the Eminence Group

Table 1: Consolidated income statement of the Eminence Group

| | For the six months ended 30 September | | For the year ended 31 March | |
|--|--|-------------|--------------------------------|-----------|
| | 2023 | 2022 | 2023 | 2022 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) | (audited) | (audited) |
| Continuing operations | | | | |
| Revenue | 15,256 | 13,323 | 27,194 | 37,081 |
| Cost of services rendered | (1,530) | (1,437) | (2,969) | (2,910) |
| (Loss) profit before taxation | (149,710) | 54,421 | 57,321 | 87,219 |
| Taxation credit (charge) | 560 | (741) | 1,649 | (696) |
| (Loss) profit for the period/year attributable to owners of Eminence | (158,263) | 63,412 | 63,572 | 116,447 |

For the six months ended 30 September 2023 versus for the six months ended 30 September 2022

As extracted from the 2023 Interim Report, the principal source of revenue of the Eminence Group was derived from (i) rental income; and (ii) interest income from loan financing, which respectively contributed to approximately 92.1% and 7.9% of the total revenue of the Eminence Group for the six months ended 30 September 2023, respectively.

As set out in Table 1 above, the revenue of the Eminence Group increased by approximately HK\$1.93 million or approximately 14.5% from approximately HK\$13.3 million for the six months ended 30 September 2022 to approximately HK\$15.3 million for the six months ended 30 September 2023. Such increase was mainly attributable to (i) the increase in rental income by approximately HK\$2.1 million from approximately HK\$11.9 million for the six months ended 30 September 2022 to approximately HK\$14.0 million for the six months ended 30 September 2023; and (ii) decrease in interest income from loan financing by approximately HK\$0.2 million from approximately HK\$1.4 million for the six months ended 30 September 2022 to approximately HK\$1.2 million for the six months ended 30 September 2023.

The Eminence Group's profit for the period attributable to owners of Eminence decreased by approximately HK\$221.7 million from a profit of approximately HK\$63.4 million for the six months ended 30 September 2022 to a loss of approximately HK\$158.3 million for the six months ended 30 September 2023, which was mainly attributable to (i) decrease in revenue; (ii) increase in loss on changes in fair value of investment properties; (iii) increase in write-down on properties held for development for sale; and (iv) increase in finance costs. Such loss was partially offset by increase in net gain on changes in fair value of financial assets at fair value through profit or loss.

Financial year ended 31 March 2023 ("FY2023") versus financial year ended 31 March 2022 ("FY2022")

As extracted from the 2023 Annual Report, the principal source of revenue of the Eminence Group was derived from (i) rental income; and (ii) interest income from loan financing, which contributed to approximately 89.8% and 10.2% of the total revenue of the Eminence Group for FY2023, respectively.

As set out in Table 1 above, the revenue from continuing operations of the Eminence Group decreased by approximately HK\$9.9 million or approximately 26.7% from approximately HK\$37.1 million in FY2022 to approximately HK\$27.2 million in FY2023. Such decrease was mainly attributable to (i) the decrease in the rental income by HK\$6.1 million from approximately HK\$30.5 million in FY2022 to approximately HK\$24.4 million in FY2023; and (ii) the decrease in the interest income from loan financing by HK\$3.8 million from approximately HK\$6.6 million in FY2022 to approximately HK\$2.8 million in FY2023.

The Eminence Group's profit for the year decreased by approximately HK\$52.8 million from approximately HK\$116.4 million for FY2022 to approximately HK\$63.6 million for FY2023. Such decrease was mainly attributable to, among other things, (i) decrease in revenue; (ii) decrease in gain or settlement of loans receivable by properties; and (iii) decrease in write-back on properties held for development for sale, net. Such decrease in profit was partially offset by (i) increase in gain on changes in fair value of investment properties; and (ii) decrease in impairment loss on loan receivable.

Table 2: Consolidated statement of financial position of the Eminence Group

| | As at 30 September 2023 HK\$'000 (unaudited) | As at 31 March 2023 HK\$'000 (audited) | 2022 HK\$'000 (audited) |
|-------------------------|--|---|-------------------------------|
| Non-current assets | 1,349,941 | 1,438,126 | 1,495,937 |
| Current assets | 4,350,934 | 4,186,141 | 3,383,871 |
| Non-current liabilities | 1,086,628 | 1,521,181 | 962,755 |
| Current liabilities | 1,530,236 | 867,920 | 901,866 |
| Net current assets | 2,820,698 | 3,318,221 | 2,482,005 |
| Total equity | 3,084,011 | 3,235,166 | 3,015,187 |

Financial position as at 30 September 2023 versus financial position as at 31 March 2023

As set out in Table 2 above, as at 30 September 2023, the Eminence Group recorded net current assets of approximately HK\$2,820.7 million (31 March 2023: approximately HK\$3,318.2 million).

The Eminence Group's current assets increased from approximately HK\$4,186.1 million as at 31 March 2023 to approximately HK\$4,350.9 million as at 30 September 2023. Such increase was mainly attributable to combined effect of (i) the increase in properties held for development for sale by approximately HK\$124.1 million; (ii) the increase in cash and cash equivalents of approximately HK\$50.8 million; (iii) the increase in financial assets at fair value through profit or loss by approximately HK\$26.7 million; (iv) the decrease in loan receivables by approximately HK\$18.2 million; (v) the increase in trade and other receivables by approximately HK\$13.0 million; and (vi) the decrease in prepaid income tax by approximately HK\$1.6 million.

The Eminence Group's current liabilities increased from approximately HK\$867.9 million as at 31 March 2023 to approximately HK\$1,530.2 million as at 30 September 2023. Such increase was mainly attributable to combined effect of (i) the increase in secured bank borrowings by approximately HK\$587.4 million; (ii) the increase in deposit received for disposal of assets classified as held for sale by approximately HK\$70.6 million; (iii) the increase in trade and other payables by approximately HK\$3.5 million; (iv) the increase in lease liabilities by approximately HK\$1.1 million; and (v) the decrease in tax payables by approximately HK\$0.4 million.

Financial position as at 31 March 2023 versus financial position as at 31 March 2022

As set out in Table 2 above, as at 31 March 2023, the Eminence Group recorded net current assets of approximately HK\$3,318.2 million (31 March 2022: approximately HK\$2,482.0 million).

The Eminence Group's current assets increased from approximately HK\$3,383.9 million as at 31 March 2022 to approximately HK\$4,186.1 million as at 31 March 2023. Such increase was mainly attributable to the combined effect of (i) the increase in properties held for development for sale by approximately HK\$287.3 million; (ii) the decrease in trade and other receivables by approximately HK\$69.9 million; (iii) the decrease in loan receivables by approximately HK\$16.5 million; (iv) the decrease in financial assets at fair value through profit or loss of approximately HK\$66.2 million; (v) the decrease in debt instruments at fair value through other comprehensive income by approximately HK\$1.8 million; (vi) the increase in cash and cash equivalents by approximately HK\$271.9 million; and (vii) the increase in assets classified as held for sale – investment properties of approximately HK\$370.1 million.

The Eminence Group's current liabilities decreased from approximately HK\$901.9 million as at 31 March 2022 to approximately HK\$867.9 million as at 31 March 2023 which was mainly attributable to combined effect of (i) the decrease in secured bank borrowings by approximately HK\$244.7 million; (ii) the increase in trade and other payables by approximately HK\$1.8 million; (iii) the decrease in lease liabilities by approximately HK\$1.4 million; (iv) the decrease in tax payable by approximately HK\$0.2 million; and (v) the increase in deposit received for disposal of assets classified as held for sale of approximately HK\$226.8 million.

2. Reasons for and benefits of the Proposed Alterations

As stated in the Letter from the Eminence Board, the average closing price of the Eminence Shares during the period from 24 July 2023 and up to and including the date of the Joint Announcement is approximately HK\$0.38 per Eminence Share and is substantially lower than the prevailing Conversion Price of HK\$3.70 per Conversion Share. By reducing the Conversion Price, the Proposed Alterations will provide an incentive to the holder of the 2023 Convertible Note to exercise the Conversion Rights attaching to the 2023 Convertible Note, and thereby strengthen the capital base and financial position of Eminence. The alterations of the early redemption provision of the 2023 Convertible Note will give Eminence the right to redeem the 2023 Convertible Note whilst allowing it to redeem it early if it so chooses as to save its future interest expenses and thus free up its financial resources from the repayment of the 2023 Convertible Note which can be used for other working capital of the Eminence Group.

According to the existing terms of the 2023 Convertible Note, as the 2023 Convertible Note will be due on 19 February 2028, based on the consolidated management accounts of the Eminence Group provided by the Management, given that as at 31 December 2023, the Eminence Group had cash balance of approximately HK\$361,473,000, of which approximately HK\$202,900,000 was considered as unavailable amount retained in the PRC, leaving available amount to be approximately HK\$158,573,000, we consider that the Eminence Group may not be able to repay the 2023 Convertible Note based on the current consolidated management accounts of the Eminence Group provided by the Management. However, the early redemption provision provides Eminence the right to redeem the 2023 Convertible Note when Eminence considers it has sufficient financial resources to conduct such early redemption, it also provides the right for Eminence to refuse such early redemption if it considers Eminence does not have sufficient financial resources (given the early redemption is allowed at any time at election of Eminence or Goodco but with the approval of Eminence). As at the Latest Practicable Date, Eminence does not have any present plan to early redeem the 2023 Convertible Note, Eminence will consider to early redeem based on the sales performance of Eminence's property project and its financial position at the relevant time. Although Eminence has no current plan to early redeem the 2023 Convertible Note based on its current financial position, we consider it is justifiable to conduct the Proposed Alterations at the earlier stage to provide with Eminence the flexibility if the property market rebounds leading to a turnaround in the sales performance of the property project. Thus, we consider the timing of the Proposed Alterations, in particular, reducing the Conversion Price at the earlier stage to provide an incentive to the holder of the 2023 Convertible Note to exercise the Conversion Rights attaching to the 2023 Convertible Note is in the interests of Eminence and the Eminence Shareholders as a whole.

Given (i) the early redemption provision provides flexibility for Eminence and Goodco to decide whether to conduct such early redemption based on their respective financial positions and relevant business plans; (ii) Eminence does not require to go through a lengthy procedure and relevant costs can be saved when both parties agree to conduct early redemption (including despatch of circular and holding of special general meeting requirements); and (iii) if Goodco conducts early redemption, Eminence has the right to decide whether to conduct such early redemption after considering the financial position at the relevant moment, the possible financial effects shall be assessed by Eminence whether it is in the interests of Eminence and the Eminence Shareholders, the early redemption provision is fair and reasonable and in the interests of Eminence and the Eminence Shareholders as a whole.

Furthermore, the Proposed Alterations should provide an incentive to the holder of the 2023 Convertible Note to exercise the Conversion Rights attaching to the 2023 Convertible Note as the original Conversion Price is much higher than the prevailing market price of the Eminence Shares, which will be further discussed below. Reducing the Conversion Price will provide the opportunity to improve the Eminence Group's financial position if the existing noteholder exercise the Conversion Rights attached to the 2023 Convertible Note.

We have also considered the dilution effect of the conversion of the 2023 Convertible Note. As illustrated in section headed "5. Effect on the shareholding structure of Eminence" below in this letter, assuming the Conversion Rights attached to the 2023 Convertible Note are exercised to the maximum extent possible whilst maintaining the public float required by the Listing Rules, the shareholding of the public Eminence Shareholders will be diluted from the current level of approximately 73.41% to approximately 25.44% upon the exercise of the 2023 Convertible Note the maximum extent possible whilst maintaining the public float required by the Listing Rules. Given the abovementioned exercise has positive impact to the financial position of Eminence and more working capital can be retained for other business plans, we consider the abovementioned exercise, representing, the incentive provided by the Revised Conversion Price is in the interests of Eminence and the Eminence Shareholders.

After considering (i) the financial performance of the Eminence Group, as discussed in the section headed "1. Business and financial overview of the Eminence Group" in this letter above, that the Eminence Group may not be able to generate sufficient funding from operating activities to repay the 2023 Convertible Note; (ii) there is no other financing alternatives available to the Eminence Group to raise the fund needed for repayment of the 2023 Convertible Note; and (iii) the Eminence Group's financial position can be improved in the event that the existing noteholder convert the 2023 Convertible Note, we consider that the Proposed Alterations are fair and reasonable.

3. Deed of Amendment and the Proposed Alterations

On 23 January 2024 (after trading hours), Eminence and Goodco entered into the Deed of Amendment the effect of which if it becomes unconditional is to:

- (A) change the current Conversion Price from HK\$3.70 per Conversion Share to the Revised Conversion Price (subject to adjustments); and
- (B) alter the early redemption provision, to give Eminence and Goodco the right to redeem the 2023 Convertible Note at any time, in whole or in part.

The Proposed Alterations were arrived at after arm's length negotiations between Eminence and Goodco with reference to the existing financial performance and conditions of the Eminence Group and the prevailing market price of the Eminence Shares.

Certain key terms of the 2023 Convertible Note before and after the Proposed Alterations are summarised below:

| | Before the Proposed Alterations | After the Proposed Alterations |
|--|--|--|
| Conversion Price: | HK\$3.70 (subsequent to the Reorganisation and Placing) | HK\$0.18 |
| Number of the Conversion Shares issuable: | 56,486,486 | 1,161,111,111 (upon full conversion) |
| Number of the Conversion Shares: | 56,486,486 | 883,333,333 (assuming the Placing is completed in full) |
| Early redemption: | On demand of noteholder if trading in the Eminence Shares is suspended for twenty (20) consecutive trading days. | Allowed at any time at election of Eminence or Goodco (with the approval of Eminence) (<i>Note</i>) |

Note: Such term is incorporated in the Deed of Amendment by written notice serving by both Eminence and Goodco which is mutually agreed that Eminence has the right to choose whether to accept or refuse early redemption request by Goodco and there is no restriction contained therein for Eminence. Eminence will assess its financial position and future business plans at the relevant moment in considering whether to exercise the early redemption.

Apart from the Proposed Alterations, other terms and conditions of the 2023 Convertible Note shall remain unchanged.

3.1 Revised Conversion Prices

The Revised Conversion Price represents:

- (i) a discount of approximately 4.76% to the closing price of HK\$0.1890 per Eminence Share as quoted on the Stock Exchange on 23 January 2024, being the date of the Deed of Amendment;
- (ii) a discount of approximately 5.76% to the five (5) trading days' average of the closing price per Eminence Share of HK\$0.1910, being the last five (5) consecutive trading days up to and including 23 January 2024, being the date of the Deed of Amendment;

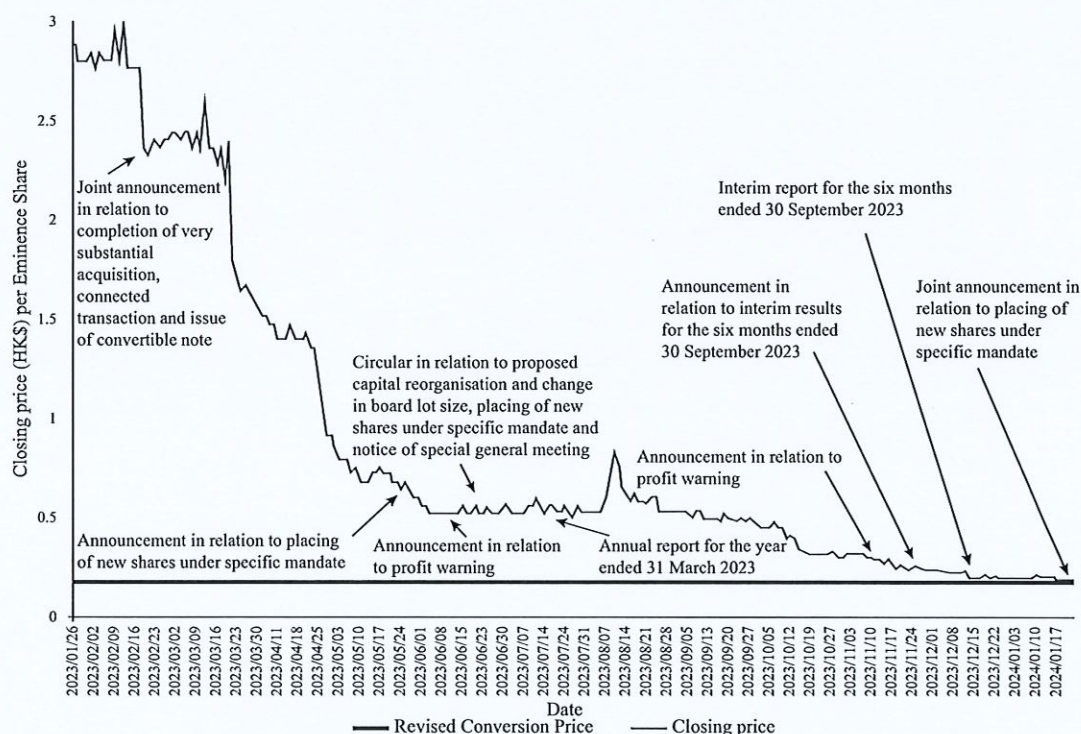
- (iii) a discount of approximately 10.58% to the ten (10) trading days' average of the closing price per Eminence Share of HK\$0.2013, being the last ten (10) consecutive trading days up to and including 23 January 2024, being the date of the Deed of Amendment;
- (iv) a discount of approximately 99.4% to the net asset value per Eminence Share of approximately HK\$29.90 on the basis of the total number of 103,148,116 issued Eminence Shares as at the date of the Deed of Amendment and net assets as at 30 September 2023 of approximately HK\$3,084.0 million;
- (v) a theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) of approximately 7.51%, represented by the theoretical diluted price of approximately HK\$0.1811 per Eminence Share to the benchmarked price of approximately HK\$0.1958 per Eminence Share (as defined under Rule 7.27B of the Listing Rules, taking into account the higher of the closing price on 23 January 2024, being the date of the Deed of Amendment of HK\$0.1890 per Eminence Share and the average of the closing prices of the Eminence Shares as quoted on the Stock Exchange for the five (5) previous consecutive trading days prior to the date of the Deed of Amendment of approximately HK\$0.1958 per Eminence Share);
- (vi) a cumulative theoretical dilution effect (as defined under Rule 7.27B of the Listing Rules) in aggregation with the Previous Placing and the Placing represented by a discount of approximately 8.24%, represented by the cumulative theoretical diluted price of approximately HK\$0.0156 per Eminence Share to the theoretical benchmarked price of approximately HK\$0.0170 per Eminence Share in respect of the Previous Placing (as defined under Rule 7.27B of the Listing Rules, taking into account the benchmarked price of the Previous Placing, being approximately HK\$0.0170 per Eminence Share); and
- (vii) a discount of approximately 25.31% to the closing price of HK\$0.241 per Eminence Share as quoted on the Stock Exchange on the Latest Practicable Date.

3.2 Our analysis on the Proposed Alterations

(i) Comparison of the Revised Conversion Price with historical Eminence Share price

In order to assess the fairness and reasonableness of the Revised Conversion Price, we have reviewed the daily closing price of the Eminence Shares as quoted on the Stock Exchange from 26 January 2023 up to and including 23 January 2024 (i.e. the date of the Deed of Amendment) (the “Review Period”), being a period of approximately twelve (12) months prior to and including the date of the Deed of Amendment. The comparison of daily closing prices of the Eminence Shares and the Revised Conversion Price is illustrated as follows:

Chart 1: Historical Eminence Share price performance of Eminence during the Review Period



Source: The Stock Exchange's website (www.hkex.com.hk)

As illustrated in Chart 1 above, the Eminence Shares have been traded at a general downward trend during the Review Period particularly since August 2023. During the Review Period, the closing prices of the Eminence Shares ranged from HK\$0.188 per Eminence Share to HK\$3.00 per Eminence Share. The Revised Conversion Price of HK\$0.18 per Eminence Share therefore slightly falls out of the said price range of the closing prices of the Eminence Shares, and represents a discount of approximately 94.0% and 4.3% to the highest and lowest closing price of the Eminence Shares, respectively, during the Review Period. We also note that the Revised Conversion Price represents a discount of approximately 79.7% to the average closing price of HK\$0.888 per Eminence Share during the Review Period. During the Review Period, the trading price of the Eminence Shares has been experiencing a substantial downward pressure since February 2023, which was in line with the downward trend of the Hang Seng Index, then displayed a relatively stable trend towards the end of the Review Period. As set out in the Letter from the Eminence Board, the Eminence Directors considered that it is suitable to conduct the Proposed Alterations at an early stage so as to provide Eminence with flexibility to decide whether to early redeem based on its financial resources and sales performance of property project(s) if the property market rebounds and also an incentive to Goodco to exercise the Conversion Rights. We noted from the 2023 Interim Report of Eminence that (i) the property development projects of Eminence, such as “Project King Lam Street”, “Project Kennedy Town” and “Project Fung Wah” are expected to complete in 2024, 2025 and 2026, respectively; and (ii) the total rental income of the Eminence Group recorded from continuing operations representing an increase of approximately 17.7% for the six months ended 30 September 2023 regarding property investment of Eminence. Having considered that (i) the Eminence Shares had remained relatively stable towards (a) the end of the Review Period and (b) in the three (3) months immediately prior to the Latest Practicable Date, respectively; and (ii) future development and performance of property industry is uncertain, subject to the then future market condition, possibly different to prevailing market condition of property industry that could be achieved as at the Latest Practicable Date, we are of the view that the timing of revising the Conversion Price is fair and reasonable and in the interests of Eminence and the Eminence Shareholders as a whole.

As per our understanding from the Management, the Revised Conversion Price was determined after arm’s length negotiations between the parties thereto and by reference to the recent trading performance of the Eminence Shares on the Stock Exchange and is not less than the par value of HK\$0.01 per existing ordinary Eminence Share of the issued share capital of Eminence. Accordingly, given that (i) the Eminence Shares have been experiencing a substantial downward pressure since August 2023; and (ii) the Revised Conversion Price was determined after arm’s length negotiations between the parties thereto, even though it represents a discount of approximately 79.7% to the average closing price during the Review Period, we are of the view that the Revised Conversion Price under the Deed of Amendment is fair and reasonable.

(ii) *Historical Eminence Share price performance against the net asset value per Eminence Share*

| Period (Note 1) | Net assets HK\$'000 | Published net asset value per Eminence Share (Note 2) | Eminence Share price | | | Discount to net asset value per Eminence Share | | |
|------------------------------------|------------------------|--|----------------------|--------|---------|---|--------|---------|
| | | HK\$ | Highest | Lowest | Average | Highest | Lowest | Average |
| | | | HK\$ | HK\$ | HK\$ | (%) | (%) | (%) |
| 26 June 2023 to 23 January 2024 | 3,084,011 | 29.90 | 0.84 | 0.25 | 0.47 | 97.2 | 99.2 | 98.4 |

Source: The Stock Exchange's website (www.hkex.com.hk)

Notes:

1. The period represents the first trading day immediately after the publication of the relevant results announcement of Eminence during the Review Period.
2. The net asset value per Eminence Share is calculated based on the net asset value attributable to the Eminence Shareholders as extracted from respective results announcement of Eminence and divided by the total number of the Eminence Shares in issue as at the respective period end date.

As set out in the table above, we noticed that during the six (6)-month period prior to and including 23 January 2024, being the date of the Deed of Amendment, the Eminence Shares have been constantly trading at discounts to the then net asset value per Eminence Shares. The discounts to the then net asset value per Eminence Share ranged from approximately 99.2% to 97.2%, with an average of approximately 98.4%. With respect to the Revised Conversion Price, the discount of approximately 99.4% over the net asset value per Eminence Share of approximately HK\$29.90 on the basis of the total number of 103,148,116 issued Eminence Shares as at the date of the Deed of Amendment is slightly higher than the average of the discounts of the net asset value per Eminence Share during the period.

We are of the view that the prevailing market price is a more relevant factor in determining the fairness and reasonableness of the initial conversion price. Discount to net asset value should be taken as a reference only. We consider that the current market price of the Eminence Shares directly reflects the value of the Eminence Shares that is generally perceived by the market having taken into account all business segments of the Eminence Group as well as the prevailing market conditions. Therefore, we are of the view that the Revised Conversion Price is fair and reasonable as it reflects the current market price of the Eminence Shares.

(iii) Comparison with recent issuance of convertible bonds/notes

In order to assess the fairness and reasonableness of the Proposed Alterations, namely the Revised Conversion Price, we have, on a best efforts basis, conducted a search of all recent issues of convertible bond(s) or convertible note(s) under specific mandate by companies listed on the Stock Exchange that the transaction involved issue of convertible bond(s) or convertible note(s), excluding those that are perpetual in term and have no maturity date, which we considered to be not comparable to the convertible bond(s) or convertible note(s) in terms of the nature as the perpetual convertible bond(s) or convertible note(s) offer a steady stream of interest indefinitely and the principal is generally not redeemable while the convertible bond(s) are redeemable at maturity date) for the six (6)-month period prior to and including 23 January 2024, being the date of the Deed of Amendment (the “Comparable Issues”) through published information on the Stock Exchange’s website. We consider that the six (6)-month period is appropriate in providing a general reference for the recent market practice in relation to the key terms of the Comparable Issues under similar market conditions, given that (i) the timeframe is sufficient in generating a reasonable and meaningful amount of samples for the purpose of our analysis; (ii) the inclusion of all Comparable Issues without any artificial selection or filtering on our part represents a true and fair view of the recent market trends for similar transactions conducted by other listed issuers in Hong Kong; and (iii) the inclusion of all Comparable Issues without limiting to transactions with amendments of the convertible bonds or notes provide a true and fair view of the recent market trends considering (a) different in rationales; (b) different in nature of convertible bonds or notes; (c) business of relevant companies are different; (d) limited number of transactions with amendments of the convertible bonds or notes which involved similar alterations of terms; and (e) historical transactions with amendments of the convertible bonds or notes may beyond six (6) months which may not reflecting the recent market condition, such may distort the result of analysis. Therefore, such selection criteria is considered to be representative and comparable. Based on such criteria, we have identified 21 Comparable Issues on an exhaustive basis meeting the aforesaid criteria. The Eminence Shareholders should note that the size, principal business, scale of the market capitalisation, profitability and financial positions of Eminence may be not the same as the issues of the Comparable Issues and we have not conducted any in-depth investigation into the size, principal business, scale of the market capitalisation, profitability and financial positions of the issuers of the Comparable Issues. This analysis is aiming in providing a general reference for the recent market practice in relation to the key terms of the Comparable Issues. We consider that our comparable analysis on the terms of the convertible bonds or convertible notes without limiting it to companies that are of similar size, principal

business, scale of the market capitalisation, profitability and financial positions to the Eminence Group is fair and reasonable and useful for the Eminence Independent Shareholders' reference. We set out our findings in the table below:

| Company name | Stock code | Date of announcement | Interest rate per annum (%) | Subscribers are connected person | Maturity (year(s)) | Premium/(discount) | Premium/(discount) | Premium/ (discount) of conversion price over/ho the audited/unaudited net asset value per share (%) | Amendments of conversion price at least three years before the maturity of the convertible bonds or notes |
|--|------------|----------------------|-----------------------------------|--|-----------------------|--|---|--|--|
| | | | | | | of conversion price over/ho the average closing price of respective shares for the last five consecutive trading days prior to/ up to and including the date of respective agreement (%) | of conversion price over/ho the closing price on the respective date of the agreements as stated in the announcements of respective companies (%) | | |
| Innovative Pharmaceutical Biotech Limited | 399 | 27 July 2023 | 0.0 | Yes | 10.0 | 0.00 | 4.66 | 357.35 | No |
| Life Concepts Holdings Limited ("Life Concepts") | 8056 | 03 August 2023 | 0.0 | No | 5.0 | (60.20) | (61.60) | 178.99 | No |
| Mobile Internet (China) Holdings Limited ("Mobile Internet") | 1439 | 25 August 2023 | 2.0 | No | 2.0 | (58.30) | (67.10) | 2,914.63 | No |
| Kiu Hung International Holdings Limited | 381 | 29 August 2023 | 4.0 | No | 5.0 | 32.74 | 31.58 | (219.94) | Yes |
| Wai Chun Group Holdings Limited | 1013 | 29 August 2023 | 1.0 | Yes | 4.0 | 0.00 | (39.50) | 130.04 | No |
| Wai Chun Group Holdings Limited | 1013 | 29 August 2023 | 1.0 | Yes | 4.0 | 0.00 | (39.50) | 130.04 | No |
| Hong Kong Aerospace Technology Group Limited | 1725 | 31 August 2023 | 0.5 | No | 1.0 | (8.91) | 8.31 | 92.32 | No |
| Husoke Holdings Limited ("Husoke") | 704 | 11 September 2023 | 8.0 | Yes | 2.0 | (0.56) | 0.00 | (1,878.97) | No |
| China Parenting Network Holdings Limited | 1736 | 12 September 2023 | 8.0 | No | 0.5 | 0.00 | 2.15 | (408.76) | No |
| China Kingstone Mining Holdings Limited | 1380 | 22 September 2023 | 2.0 | No | 3.0 | (44.20) | (43.56) | (362.49) | No |
| Wai Hung Group Holdings Limited ("Wai Hung") | 3321 | 22 September 2023 | 0.0 | No | 3.0 | (97.98) | (98.44) | 26.56 | Not Applicable |
| Asia Television Holdings Limited | 707 | 28 September 2023 | 8.0 | No | 2.0 | 177.77 | 122.20 | 127.57 | |
| Kasen International Holdings Limited | 496 | 29 September 2023 | 5.0 | No | 1.5 | 20.00 | 32.80 | (687.35) | No |
| Hatcher Group Limited | 8365 | 06 October 2023 | 0.0 | No | 2.0 | 9.59 | 10.80 | 89.22 | No |
| Century Entertainment International Holdings Limited | 959 | 16 October 2023 | 0.0 | Yes | 3.0 | 13.27 | 8.47 | 305.59 | No |
| Prosperity Investment Holdings Limited | 310 | 16 November 2023 | 8.0 | Yes | 2.0 | 10.67 | 10.67 | 83.08 | No |
| Zhongliang Holdings Group Company Limited | 2772 | 20 November 2023 | 3.0 | No | 3.7 | 321.10 | 313.80 | 99.71 | No |
| Oriental Payment Group Holdings Limited | 8613 | 02 January 2024 | 12.0 | Yes | 4.5 | 0.00 | 4.00 | 76.03 | No |
| Zhi Sheng Group Holdings Limited | 8370 | 03 January 2024 | 0.0 | No | 2.0 | 45.32 | 45.32 | 92.62 | No |
| CNC Holdings Limited ("CNC") | 8356 | 15 January 2024 | 0.8 | Yes | 1 | 1533.33 | 1533.33 | 149.86 | No |
| CNC | 8356 | 15 January 2024 | 0.8 | Yes | 1 | 1533.33 | 1533.33 | 149.86 | No |
| | | Maximum (Note) | 12.00 | | 10.00 | 321.10 | 313.80 | 357.35 | |
| | | Minimum (Note) | 0.00 | | 0.50 | (44.20) | (43.56) | (687.35) | |
| | | Average (Note) | 3.50 | | 3.21 | 38.49 | 31.48 | (6.33) | |
| | | Median (Note) | 2.00 | | 3.00 | 9.59 | 8.47 | 92.32 | |
| Eminence | 616 | 23 January 2024 | 5.00 | | 5.00 | (4.76) | (5.76) | (99.4) | Yes |

Source: The Stock Exchange's website (www.hkex.com.hk) and adopted from the relevant announcements.

Note:

Given (i) the premium and discount under the issuance of convertible bonds by Mobile Internet, Husoke and CNC are substantially higher than the range of the premium/discount of the other Comparable Issues; (ii) the issuance of convertible bond by Wai Hung as set out in the announcement of Wai Hung dated 22 September 2023 was terminated as set out in the announcement of Wai Hung dated 8 December 2023; and (iii) the issuance of convertible bond by Life Concepts as set out in the announcement of Life Concepts dated 3 August 2023 was terminated as set out in the announcement of Life Concepts dated 3 August 2023, with a view to ensure the Comparable Issues reflects the general market conditions, Mobile Internet, Husoke, Wai Hung, Life Concepts and CNC are considered as outliers, were excluded from the analysis.

(a) Revised Conversion Price

The Revised Conversion Price of HK\$0.18 per Conversion Share represents (i) a discount of approximately 4.76% to the closing price of HK\$0.1890 per Eminence Share as quoted on the Stock Exchange on 23 January 2024, being the date of the Deed of Amendment; and (ii) a discount of approximately 5.76% to the five (5) trading days' average of the closing price per Eminence Share of HK\$0.1910, being the last five (5) consecutive trading days up to and including 23 January 2024, being the date of the Deed of Amendment. As shown in the table, we note that out of 21 Comparable Issues, one (1) of them is related to amendments of conversion price at least three (3) years before the maturity of the convertible bonds or notes.

As shown in the table above, the conversion prices of the Comparable Issues ranged from (i) discount of approximately 44.20% to a premium of approximately 321.10% over the closing prices of the respective shares on the date of the respective agreements; and (ii) a discount of approximately 43.56% to a premium of approximately 313.80% over the average closing prices of respective shares for the last five (5) consecutive trading days immediately prior to or up to and including the date of the respective agreements.

We note that the discount of the Revised Conversion Price of approximately 4.76% to the closing price of HK\$0.1890 per Eminence Share as quoted on the date of the Deed of Amendment and the discount of approximately 5.76% to the five (5) trading days' average of the closing price per Eminence Share are within the range of the Comparable Issues.

(b) Conclusion

Having considered the above analysis and the reasons as set out in the section headed "2. Reasons for and benefits of the Proposed Alterations" above, and the Revised Conversion Price is within the range of both the premium/(discount) of the conversion price over/to the closing price on the respective date of relevant agreement of the Comparable Issues and the average closing price for the respective last five (5) trading days of the Comparable Issues, we are of the view that the terms of the Proposed Alterations are fair and reasonable so far as the Eminence Independent Shareholders are concerned and on normal commercial terms.

4. Possible financial effects as a result of the Proposed Alterations

The financial effects as a result of the Proposed Alterations set out below are purely for illustrative purposes only and do not reflect the future financial position of Eminence or the Eminence Group after the completion of the Proposed Alterations.

Effect on net assets value and gearing ratio

It is expected that the Proposed Alterations will not have an immediate material impact on the net asset value and gearing ratio of the Eminence Group. However, the net asset value and gearing ratio of the Eminence Group are expected to improve upon conversion of the 2023 Convertible Note with the reduction in the overall indebtedness and the increase in total equity of the Eminence Group. Assuming the 2023 Convertible Note is fully converted immediately after the Proposed Alterations, the net assets of approximately HK\$3,084.0 million as at 30 September 2023 will be increased by approximately HK\$172.4 million to net assets of approximately HK\$3,256.4 million. Accordingly, the gearing ratio will be reduced from approximately 71.04% as at 30 September 2023 to approximately 62.2%.

5. Effect on the shareholding structure of Eminence

The Eminence Independent Shareholders' attention is drawn to the section headed "EFFECTS ON THE SHAREHOLDING STRUCTURE OF EMINENCE" in the Letter from the Eminence Board for the details of changes in the shareholding structure of Eminence immediately upon completion of the Placing and the Proposed Alterations (assuming the maximum number of the Placing Shares are placed in full and there is no other change in the number of the Eminence Shares in issue and the Conversion Rights attached to the 2023 Convertible Note are exercised to the maximum extent possible whilst maintaining the public float required by the Listing Rules).

As at the Latest Practicable Date, Eminence had 103,148,116 Eminence Shares in issue. Assuming the Conversion Rights attached to the 2023 Convertible Note are exercised to the maximum extent possible whilst maintaining the public float required by the Listing Rules, a total of 883,333,333 Conversion Shares will be allotted and issued at the Revised Conversion Price of HK\$0.18 per Conversion Share, representing approximately 72.31% of the enlarged issued share capital of Eminence after the Placing and the Proposed Alterations.

As set out in the Letter from the Eminence Board, the shareholding of the public Eminence Shareholders will be diluted from the current level of approximately 73.41% to approximately 25.44% upon the exercise of the 2023 Convertible Note the maximum extent possible whilst maintaining the public float required by the Listing Rules after the Placing and the Proposed Alterations. However, such dilution effect is for illustration purpose only as, subject to the terms and conditions of the 2023 Convertible Note, the holder of the 2023 Convertible Note shall not exercise any Conversion Rights to such extent that results or will result in less than 25% or the minimum prescribed percentage of the Eminence Shares as set out in the Listing Rules would be held by the public immediately after the relevant exercise of the Conversion Rights.

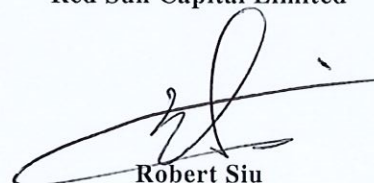
Assuming the Placing is completed in full and upon partial conversion of the 2023 Convertible Note at the Revised Conversion Price up to the public float limit required by the Listing Rules, a total of 883,333,333 Conversion Shares would be issued, representing approximately 72.31% of the issued share capital of Eminence enlarged by that issue and the holding of the Eminence Shares by members of the Easyknit Group will exceed 30% of the issued share capital of Eminence as enlarged by the allotment and issue of the Conversion Shares at the Revised Conversion Price. In the event that as a result of a conversion Goodco becomes obliged to make a general offer to the Eminence Shareholders in compliance with Rule 26 of the Takeovers Code it will do so.

Having considered (i) the reasons for and benefits for the entering into of the Deed of Amendment as discussed in the section above; (ii) the fairness and reasonableness of the Proposed Alterations as discussed in the section above; (iii) the generally positive financial effects of the entering into of the Proposed Alterations as discussed in the section above; and (iv) if Goodco conducts early redemption, Eminence has the right to decide whether to conduct such early redemption after considering the financial position at the relevant moment, the possible financial effects shall be assessed by Eminence whether it is in the interests of Eminence and the Eminence Shareholders, we are of the view that the aforementioned dilution effect on the shareholding of the existing public Eminence Shareholders is acceptable.

RECOMMENDATION

Having taken into account the above-mentioned principal factors and reasons, we are of the view that the terms of the Deed of Amendment are not in the ordinary and usual course of business of the Eminence Group, but are on normal commercial terms and fair and reasonable so far as the Eminence Independent Shareholders are concerned, and are in the interests of Eminence and the Eminence Shareholders as a whole. Accordingly, we recommend the Eminence Independent Shareholders, as well as the Eminence Independent Board Committee to advise the Eminence Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the Eminence SGM to approve the Deed of Amendment and transactions contemplated thereunder including the issue of the Further Conversion Shares.

Yours faithfully,
For and on behalf of
Red Sun Capital Limited



Robert Siu
Managing Director

Note: Mr. Robert Siu is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Red Sun Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and has over 26 years of experience in corporate finance industry.