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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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**SOMERLEY CAPITAL LIMITED**  
20th Floor  
China Building  
29 Queen's Road Central  
Hong Kong

6 March 2025

*To: the Independent Board Committee*

Dear Sirs,

**MANDATORY UNCONDITIONAL CASH OFFERS BY  
DEUTSCHE BANK AND UBS  
FOR AND ON BEHALF OF  
PARAGON SHINE LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
SUN ART RETAIL GROUP LIMITED  
(OTHER THAN THOSE SHARES ALREADY OWNED BY PARAGON SHINE  
LIMITED AND  
PARTIES ACTING IN CONCERT WITH IT) AND  
TO CANCEL ALL OUTSTANDING SHARE OPTIONS OF SUN ART RETAIL  
GROUP LIMITED**

**INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee in connection with (i) the mandatory unconditional cash offer by the Offeror Financial Advisers for and on behalf of the Offeror and/or (if applicable) the Offeror Designated Entities to acquire all the issued Shares (other than those Shares already owned and/or agreed to be acquired by the Offeror and the Offeror Concert Parties) and (ii) the offer by the Offeror in compliance with Rule 13 of the Takeovers Code to cancel all outstanding Options. Details of the Offers are set out in the Composite Document dated 6 March 2025, of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

On 31 December 2024, the Offeror and the Company jointly announced that the Offeror had entered into the SPA with the Sellers for the conditional sale and purchase of 7,507,666,581 Shares (representing approximately 78.7% of the Shares in issue as at the Latest Practicable Date) at a total consideration of approximately HK\$10,360.6 million, equivalent to HK\$1.38 per Sale Share, together with the Interest, further details of which are set out in the section headed "Background to the Offers".

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Following SPA Completion on 27 February 2025, and in accordance with Rule 26.1 of the Takeovers Code, a mandatory general offer is required to be made by DCP Capital Partners II, L.P. through the Offeror and/or (if applicable) the Offeror Designated Entities for all the issued Shares (other than those already owned and/or agreed to be acquired by the Offeror or the Offeror Concert Parties). An appropriate offer is required to be made by DCP Capital Partners II, L.P. through the Offeror to the Optionholders to cancel all the outstanding Options in accordance with Rule 13 of the Takeovers Code.

In accordance with the Takeovers Code, the Independent Board Committee, comprising all the non-executive Directors and independent non-executive Directors who have no direct or indirect interest in the Offers, namely Mr. HUANG Ming-Tuan, Ms. Karen Yifen CHANG, Mr. YIH Lai Tak, Dieter and Mr. CHAN Charles Sheung Wai, has been established to make a recommendation to the Offer Shareholders and the Optionholders in respect of the Share Offer and the Option Offer, respectively. Mr. HAN Liu and Ms. QIN Yuehong, two former non-executive Directors who resigned on 27 February 2025, were nominated by Alibaba Holding, the holding company of two of the Sellers, and therefore would not be part of the Independent Board Committee. With the approval of the Independent Board Committee, we have been appointed as the Independent Financial Adviser to advise the Independent Board Committee as regards the Offers.

As a separate matter, Somerley acts as compliance adviser (“CA”) under the Listing Rules to Synagistics Limited (stock code: 2562) (“**Synagistics**”), which is ultimately controlled by Alibaba Holding (the “**Synagistics Engagement**”). Alibaba Holding was also the ultimate controlling shareholder of the Company as at the date of the Joint Announcement. It was agreed on 28 February 2022 that Somerley would act as CA to HK Acquisition Corporation (stock code: 7841), one of the first special purpose acquisition companies (“**SPAC**”) listed in Hong Kong. Somerley’s subsequent CA engagement with Synagistics (the successor company to HK Acquisition) commenced upon the completion of the de-SPAC transaction on 30 October 2024. The only two executive directors of Synagistics are the founders of the business. To our understanding, save for Mr. Jin Qin, a non-executive director of Synagistics nominated by Alibaba Holding, with whom we had no dealings, none of the directors of Synagistics or members of its senior management team hold any position in Alibaba Holding or its close associates, including the Company, and Synagistics is not consolidated as a subsidiary of Alibaba Holding in its financial accounts. Accordingly, we do not consider that the Synagistics Engagement creates a significant connection with the Sellers of a kind reasonably likely to create, or to create the perception of, a conflict of interest or is reasonably likely to affect the objectivity of our advice on the Offers.

Other than in relation to the Synagistics Engagement, we are not associated with the Company, the Offeror or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Offers. Other than professional fees paid or payable to us under the Synagistics Engagement, which are not material, and apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any payment or benefits from the Company, the Offeror or any party acting, or presumed to be acting, in concert with any of them.

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In formulating our opinion and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group, which we have assumed to be true, accurate and complete in all material respects. We have reviewed, among other things, the Company's interim reports for the six months ended 30 September 2024 and 2023 and the Company's annual reports for the years ended 31 March 2023 and 2024, and the other information contained in the Composite Document. We have discussed with the Directors their statement set out in the section headed "Material Change" in Appendix II to the Composite Document that, save as disclosed in that section, there has been no material change in the financial or trading position or outlook of the Group since 31 March 2024, being the date to which the latest published audited consolidated financial statements of the Group were made up, and up to and including the Latest Practicable Date. We have also reviewed the trading performance of the Shares on the Stock Exchange and reviewed certain comparable companies and precedent privatisation transactions, and conducted site visits to selected stores of the Group. We have sought and received confirmation from the Directors that, to the best of their knowledge, no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and recommendation as set out in this letter. We have no reason to doubt the truth and accuracy of the information provided to us or to believe that any material facts have been omitted or withheld. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Offeror or the Offeror Concert Parties, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Composite Document are true as at the publication date of the Composite Document and will continue to be true until the close of the Offers. Shareholders and Optionholders will be notified of any material changes to such representations as soon as possible during the Offer Period.

We have not considered the tax and regulatory implications on Offer Shareholders and Optionholders of acceptance or non-acceptance of the Share Offer and the Option Offer respectively, since these depend on their individual circumstances. In particular, Offer Shareholders and Optionholders who are resident overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, consult their own professional advisers.

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### PRINCIPAL TERMS OF THE OFFER

#### 1. The Share Offer

The Offeror Financial Advisers, for and on behalf of the Offeror and/or (if applicable) the Offeror Designated Entities, are making the Share Offer to the Offer Shareholders to acquire all the issued Shares (other than those Shares already owned and/or agreed to be acquired by the Offeror and the Offeror Concert Parties) on the following basis:

- (a) **Full Upfront Settlement Alternative:** the Offer Shareholders will receive full payment of the Full Upfront Alternative Price of HK\$1.38 per Offer Share in cash no later than seven (7) Business Days after the date of acceptance; or
- (b) **Partial Deferred Settlement Alternative:** the Offer Shareholders will be entitled to receive the following consideration:
  - (i) the Partial Deferred Alternative First Payment Price of HK\$0.92 per Offer Share in cash no later than seven (7) Business Days after the date of acceptance; and
  - (ii) the Partial Deferred Alternative Second Payment Price of HK\$0.46 per Offer Share, together with (a) the Base Interest accruing on the Partial Deferred Alternative Second Payment Price from the Final Closing Date until the date on which the Partial Deferred Alternative Second Payment Price is paid and (b) the Variable Interest, in cash on the applicable Partial Deferred Alternative Second Payment Date. Further details of the calculation of the Base Interest and the Variable Interest are set out below.

Accepting Shareholders who validly opt for the Partial Deferred Settlement Alternative are provided with the following two settlement options in relation to any potential Advanced Payment by the Offeror or the SPA Additional Purchaser to the Sellers:

- A. **MGO Advanced Payment Option.** If any Advanced Payment is made to the Sellers, Accepting Shareholders electing this option would be entitled to receive the MGO Advanced Payment: (i) the MGO Advanced Payment shall be made in the same proportion that the Sellers receive any Advanced Payment relative to the total SPA Second Payment Price and the Base Interest accruing on such total SPA Second Payment Price and (ii) such proportional MGO Advanced Payment represents the early repayment of the relevant outstanding Partial Deferred Alternative Second Payment Price, and also comprise the Base Interest accruing on the then outstanding Partial Deferred Alternative Second Payment Price up to the date of such repayment.

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The Variable Interest in respect of the Partial Deferred Settlement Alternative payable under the MGO Advanced Payment Option would remain payable on the applicable Partial Deferred Alternative Second Payment Date of 30 June 2028 and be determined in accordance with the Updated Variable Interest Determination Mechanism. The Offeror and/or (if applicable) the Offeror Designated Entities shall make the MGO Advanced Payment at the same time as the Advanced Payment being made to the Sellers. If a MGO Advanced Payment is made, the Base Interest would not accrue on such amount of MGO Advanced Payment that have been prepaid, whilst the maximum Variable Interest of HK\$0.124 per Offer Share will continue to apply.

The Offeror and/or (if applicable) the Offeror Designated Entities will inform the Accepting Shareholders who validly elect the Partial Deferred Settlement Alternative (with the MGO Advanced Payment Option) of an upcoming Advanced Payment and the MGO Advanced Payment to the Sellers no later than 3 Business Days prior to the making of such Advanced Payment and MGO Advanced Payment by post to those Accepting Shareholders at the correspondence addresses recorded in the Share Register as of the Closing Date, unless an updated correspondence address is otherwise notified by the relevant Accepting Shareholder to the Offeror by post to Suites 2008-09, 20th Floor, AIA Central, 1 Connaught Road Central, Hong Kong or email to SunArtRetailCashOfferAcceptance@dcpcapital.com (with a copy of the identity document of such relevant Accepting Shareholder) no later than 10 Business Days prior to the date of such post.

- B. Original Partial Deferred Settlement Option.** Notwithstanding any Advanced Payment made to the Sellers, the Partial Deferred Alternative Second Payment will be paid to the Accepting Shareholders electing this option in the manner as disclosed in the Joint Announcement: (i) the Partial Deferred Alternative Second Payment Price of HK\$0.46 per Offer Share, together with the Base Interest accruing on the Partial Deferred Alternative Second Payment Price from the Final Closing Date until the date on which the Partial Deferred Alternative Second Payment Price is paid and the Variable Interest, will be paid in cash on the applicable Partial Deferred Alternative Second Payment Date, (ii) the Variable Interest will be determined in accordance with the mechanism set out in the Joint Announcement, (iii) the maximum Interest payable by the Offeror and/or (if applicable) the Offeror Designated Entities to the Accepting Shareholders under this option is HK\$0.20 per Offer Share and (iv) no MGO Advanced Payment will be made. The maximum consideration payable under this option is HK\$1.58 per Offer Share, being the Maximum Share Offer Price, ie no more than an additional HK\$0.20 per Offer Share will be payable above the Full Upfront Settlement Alternative.

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Offer Shareholders may only elect one method of settlement from the following: (a) the Full Upfront Settlement Alternative, (b) the Partial Deferred Settlement Alternative (with the MGO Advanced Payment Option in the case of a potential Advanced Payment to the Sellers) or (c) the Partial Deferred Settlement Alternative (with the Original Partial Deferred Settlement Option in the case of a potential Advanced Payment to the Sellers) (and not a combination of any of the foregoing). Accepting Shareholders who validly accept the Share Offer but make no or an invalid election on the settlement alternative for the Share Offer will be deemed to have elected the Full Upfront Settlement Alternative.

**The Partial Deferred Settlement Alternative is only available to Accepting Shareholders who hold their Offer Shares to be tendered for acceptance as Registered Holders (other than HKSCC Nominees Limited).** Accepting Shareholders may not elect the Partial Deferred Settlement Alternative if they are a CCASS Holder. Accordingly, Accepting Shareholders who are not Registered Holders but wish to elect the Partial Deferred Settlement Alternative are required, for example, to withdraw their Offer Shares to be tendered for acceptance deposited in CCASS, if any, from CCASS and enter into the Share Register as a Registered Holder, on or before the date that such Accepting Shareholder delivers its acceptance for the Share Offer where the Partial Deferred Settlement Alternative is elected. Please refer to Appendix I to the Composite Document for further details.

Settlement of the consideration payable to a Shareholder who accepts the Share Offer will be made in Hong Kong dollars by cheque to the relevant Shareholder in the following manner:

- (a) in respect of the Full Upfront Alternative Price and Partial Deferred Alternative First Payment Price, each cheque will be despatched by ordinary post to the address specified on the relevant Form of Acceptance at his/her/its own risk,
- (b) in respect of the Partial Deferred Alternative Second Payment that has not been prepaid, each cheque will be despatched by ordinary post to the Accepting Shareholders who have validly elected the Partial Deferred Settlement Alternative at the relevant address of such Accepting Shareholders recorded in the Share Register as of the Closing Date, unless an updated correspondence address is otherwise notified by the relevant Accepting Shareholder to the Offeror by post to Suites 2008-09, 20th Floor, AIA Central, 1 Connaught Road Central, Hong Kong or email to SunArtRetailCashOfferAcceptance@dcpcapital.com (with a copy of the identity document of such relevant Accepting Shareholder) no later than 10 Business Days prior to the applicable Partial Deferred Alternative Second Payment Date, at his/her/its own risk, and

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- (c) in respect of any MGO Advanced Payment, each cheque will be despatched by ordinary post to the Accepting Shareholders who have validly elected the Partial Deferred Settlement Alternative (with the MGO Advanced Payment Option) at the relevant address of such Accepting Shareholders recorded in the Share Register as of the Closing Date, unless an updated correspondence address is otherwise notified by the relevant Accepting Shareholder to the Offeror by post to Suites 2008-09, 20th Floor, AIA Central, 1 Connaught Road Central, Hong Kong or email to SunArtRetailCashOfferAcceptance@dcpcapital.com (with a copy of the identity document of such relevant Accepting Shareholder) no later than 10 Business Days prior to the date of the relevant Advanced Payment to the Sellers, at his/her/its own risk.

### *Advanced Payment*

Offer Shareholders electing the Partial Deferred Settlement Alternative (with the MGO Advanced Payment Option) would be entitled to receive the MGO Advanced Payment if any Advanced Payment is made to the Sellers on the following basis:

- (i) an early repayment by the Offeror and/or the SPA Additional Purchaser of the then outstanding SPA Second Payment Price, together with Base Interest accruing thereon up to the date of such repayment pursuant to the Supplemental SPA in the event of receipt by the SPA Initial Purchaser and/or the SPA Additional Purchaser of any dividends or other distributions declared, paid or made by the Company; and/or
- (ii) an early full or partial repayment of the then outstanding SPA Second Payment Price, together with Base Interest accruing thereon up to the date of such repayment which may otherwise be made by the SPA Initial Purchaser and/or the SPA Additional Purchaser from the SPA Completion Date at its respective discretion.

### *Base Interest*

The Base Interest accrues on the Partial Deferred Alternative Second Payment Price at 4.8% per annum, compounded annually.

### *Variable Interest*

*If the Original Partial Deferred Settlement Option is elected or no Advanced Payment has been made to the Sellers (the "Original Variable Interest Determination Mechanism")*

The amount of Variable Interest payable in respect of the Partial Deferred Alternative Second Payment shall be determined as follows:

- (a) if the 2027/2028 Average Adjusted EBITDA is higher than or equal to the Adjusted EBITDA High Limit, ie initially RMB4.4 billion, subject to EBITDA Limit Adjustment (if any), the Variable Interest shall be HK\$0.20 per Offer Share less the Base Interest per Offer Share;

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- (b) if the 2027/2028 Average Adjusted EBITDA is higher than the Adjusted EBITDA Low Limit, ie initially RMB3.9 billion, subject to EBITDA Limit Adjustment (if any), but is lower than the Adjusted EBITDA High Limit, the Variable Interest shall be an amount in Hong Kong dollars per Offer Share (as applicable) equal to:

$$\frac{(E-X)}{(Y-X)} \times Z$$

where:

E = 2027/2028 Average Adjusted EBITDA

X = Adjusted EBITDA Low Limit

Y = Adjusted EBITDA High Limit

Z = HK\$0.20 per Offer Share less the Base Interest per Offer Share; or

- (c) if the 2027/2028 Average Adjusted EBITDA is lower than or equal to the Adjusted EBITDA Low Limit, the Variable Interest shall be nil.

For the avoidance of doubt, the maximum Interest payable by the Offeror and/or (if applicable) the Offeror Designated Entities to the Accepting Shareholders who validly opt for the Partial Deferred Settlement Alternative (with the Original Partial Deferred Settlement Option) is HK\$0.20 per Offer Share.

*If the MGO Advanced Payment Option is elected and Advanced Payment is made to the Sellers, i.e. the Updated Variable Interest Determination Mechanism*

As set out in the SPA Completion Announcement, given the SPA Completion took place on 27 February 2025, the Offeror, the Purchaser Designated Entity and the Sellers were able to ascertain that the Base Interest payable on the SPA Second Payment Date is approximately HK\$0.076 per Sale Share, representing the interest accruing on the SPA Second Payment Price at 4.8% per annum, compounded annually, from the SPA Completion Date until the date falling 39 months thereafter (i.e. May 27, 2028), and based on such formulation, the maximum Variable Interest amount is approximately HK\$0.124 per Sale Share. On this basis, the Variable Interest in respect of the Partial Deferred Settlement Alternative payable under the MGO Advanced Payment Option would be determined in accordance with the Updated Variable Interest Determination Mechanism as follows:

- (a) if the 2027/2028 Average Adjusted EBITDA is higher than or equal to the Adjusted EBITDA High Limit, the Variable Interest shall be HK\$0.124 per Offer Share; or



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- (b) if the 2027/2028 Average Adjusted EBITDA is higher than the Adjusted EBITDA Low Limit but is lower than the Adjusted EBITDA High Limit, the Variable Interest shall be an amount in Hong Kong dollars per Offer Share equal to:

$$\frac{(E-X)}{(Y-X)} \times Z$$

where:

E = 2027/2028 Average Adjusted EBITDA

X = Adjusted EBITDA Low Limit

Y = Adjusted EBITDA High Limit

Z = HK\$0.124 per Offer Share; or

- (c) if the 2027/2028 Average Adjusted EBITDA is lower than or equal to the Adjusted EBITDA Low Limit, the Variable Interest shall be nil.

If a MGO Advanced Payment is made, the Base Interest would not accrue on such amount of MGO Advanced Payment that has been prepaid, whilst the maximum Variable Interest of HK\$0.124 per Offer Share will continue to apply.

### *Adjustment of the Adjusted EBITDA Low Limit and the Adjusted EBITDA High Limit*

The 2028 Financial Information is expected to be available by 31 May 2028. The Offeror and/or (if applicable) the Offeror Designated Entities will inform the Accepting Shareholders who validly elect the Partial Deferred Settlement Alternative of: (i) the 2027/2028 Average Adjusted EBITDA and the Variable Interest payable to those Accepting Shareholders after the 2028 Financial Information has been determined and (ii) the payment date of the Partial Deferred Alternative Second Payment Price, in each case by post to those Accepting Shareholders at the correspondence addresses recorded in the Share Register as of the Closing Date, unless an updated correspondence address is otherwise notified by the relevant Accepting Shareholder to the Offeror by post to Suites 2008-09, 20th Floor, AIA Central, 1 Connaught Road Central, Hong Kong or email to SunArtRetailCashOfferAcceptance@dcpcapital.com (with a copy of the identity document of such relevant Accepting Shareholder) no later than 10 Business Days prior to the date of such post.

Adjustments may be made to the Adjusted EBITDA Low Limit and Adjusted EBITDA High Limit in the event of occurrence of any EBITDA Limit Adjustment Event, which is any transaction by the Group from the SPA Completion Date until 31 March 2028 which: (a) is outside of the ordinary course of its business and (b) would constitute a discloseable

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transaction or a higher classification of notifiable transaction of the Company (irrespective of whether the Shares remain listed on the Main Board) under the provisions of Chapter 14 of the Listing Rules in force as at the date of the SPA.

In the event of occurrence of any EBITDA Limit Adjustment Event, the Sellers and the SPA Purchasers shall, within one month after 31 March 2028, discuss in good faith with a view to agreeing on any reasonable adjustments that may need to be made to the Adjusted EBITDA Low Limit and the Adjusted EBITDA High Limit as a result of each EBITDA Limit Adjustment Event, having regard to the following factors: (i) the amount of the Adjusted EBITDA of the assets or businesses that are the subject matter of that EBITDA Limit Adjustment Event recorded during the two financial years ending 31 March 2027 and 31 March 2028 of the Company and (ii) the gain or loss to be recognised by the Group as a result of that EBITDA Limit Adjustment Event for the two financial years ending 31 March 2027 and 31 March 2028.

For the avoidance of doubt, to the extent that any EBITDA Limit Adjustment is made by the SPA Purchasers to the Adjusted EBITDA Low Limit and Adjusted EBITDA High Limit, such EBITDA Limit Adjustment shall apply to the Accepting Shareholders who validly opt for the Partial Deferred Settlement Alternative. The Offeror and/or (if applicable) the Offeror Designated Entities will inform the Accepting Shareholders who validly elect the Partial Deferred Settlement Alternative of such EBITDA Limit Adjustment by post to those Accepting Shareholders at the correspondence addresses recorded in the Share Register as of the Closing Date, unless an updated correspondence address is otherwise notified by the relevant Accepting Shareholder to the Offeror by post to Suites 2008-09, 20th Floor, AIA Central, 1 Connaught Road Central, Hong Kong or email to SunArtRetailCashOfferAcceptance@dcpcapital.com (with a copy of the identity document of such relevant Accepting Shareholder) no later than 10 Business Days prior to the date of such post.

### *Basis for determination of the Base Interest and the Variable Interest*

The Base Interest and Variable Interest were determined after arm's length negotiation between the Sellers and the Offeror taking into account a range of factors such as benchmark interest rates, creditworthiness of the Offeror, type and nature of the deferred settlement, macro-economic factors and industry risks.

### *Other key terms*

If, after the date of the despatch of the Composite Document and up to the close of the Offers, any dividend or other distribution is made or paid to the Offer Shareholders (and not the Offeror or (if applicable) the Offeror Designated Entities) in respect of the Offer Shares, the Offeror will reduce the Share Offer Total Payment by all or any part of the amount or value of such dividend or other distribution (as the case may be), and the Option Offer Consideration shall be reduced accordingly.

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The Company confirms that as at the Latest Practicable Date, the Company did not have outstanding dividends which have been declared but not yet paid. Except for the 2025 Final Dividend which the Company may potentially declare, the Company will not make, declare or pay any dividend or make other distribution after the date of the Composite Document and before the close of the Offers.

The Offer Shares to be acquired under the Share Offer shall be fully paid and shall be acquired free from all liens, charges, encumbrances, pre-emptive rights and any other third-party rights of any nature and together with all rights attaching to them or subsequently becoming attached to them, including the right to receive all dividends, other distributions and return of capital, if any, announced, declared, made or paid the record date of which is on or after the date on which the Offers are closed.

The Offeror reserves the right to designate King Salmon and/or Cornflower Blue (being the Offeror Designated Entities) to acquire and hold any Offer Share to be acquired under the Share Offer.

### 2. The Option Offer

The Offeror Financial Advisers, for and on behalf of the Offeror, are making offers to the Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all the outstanding Options in exchange for cash on the following terms:

- (a) **In respect of Options with an exercise price of HK\$1.54:** for cancellation of each such Option, HK\$0.0001 in cash
- (b) **In respect of Options with an exercise price of HK\$2.18:** for cancellation of each such Option, HK\$0.0001 in cash

The Offers are unconditional in all respects. Acceptances of the Offers will be irrevocable and shall not be capable of being withdrawn, except in the circumstances as set out in the section headed “Right of withdrawal” in Appendix I to the Composite Document. Further details of the Offers, including the expected timetable and the terms and procedures for acceptance of the Offers, are set out in the sections headed “Expected timetable”, “Letter from Offeror Financial Advisers”, “Letter from the Board”, Appendix I to the Composite Document and the Forms of Acceptance.

The Offeror has not stated in the Joint Announcement and the Composite Document that (i) it will not increase the price under the Offers and (ii) it does not reserve the right to increase the price under the Offers.

Offer Shareholders should read the relevant sections in the Composite Document in full. The latest time and date for acceptance of the Offers is 4:00 p.m. on 27 March 2025, unless the Offeror revises or extends the Offers in accordance with the Takeovers Code.

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

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

#### 1. Background to the Offers

On 15 October 2024 the Company announced that on 27 September 2024 it had received an approach letter from an unnamed Another Potential Offeror who expressed an intention to make a pre-conditional voluntary conditional offer for all the issued shares of, and an option offer to cancel all outstanding share options issued by, the Company, subject to various matters. Subsequently, as set out in the Joint Announcement, the Sellers have ceased further discussions with Another Potential Offeror in relation to any possible offer for the Company.

In accordance with the SPA, on 31 December 2024, the Offeror entered into the SPA with the Sellers, pursuant to which A-RT Retail Holdings Limited, Taobao China Holding Limited and New Retail Strategic Opportunities Investments 1 Limited have conditionally agreed to sell the Sale Shares (representing approximately 78.7% of the Shares in issue as at the Latest Practicable Date) to the Offeror (and/or to an entity/entities which is/are wholly owned by the sole shareholder of the Offeror), for approximately HK\$10,360.6 million (equivalent to HK\$1.38 per Sale Share), together with the Interest.

As set out in the SPA Completion Announcement, SPA Completion took place on 27 February 2025. The Offeror and the SPA Additional Purchaser acquired a total of 7,507,666,581 Shares, representing approximately 78.7% of the entire issued share capital of the Company as at the Latest Practicable Date, from the Sellers at a consideration paid or payable (as applicable) by the Offeror in the following manner:

- (a) a sum of approximately HK\$6,907.1 million, equivalent to the SPA First Payment Price of HK\$0.92 per Sale Share, was paid in cash on the SPA Completion Date (less applicable stamp duty payable by the Sellers); and
- (b) subject to any Advanced Payment, the balance of approximately HK\$3,453.5 million, equivalent to the SPA Second Payment Price of HK\$0.46 per Sale Share, together with a maximum Interest of HK\$0.20 per Sale Share, shall be deferred and paid in cash on the applicable SPA Second Payment Date.

Therefore, pursuant to Rule 26.1 of the Takeovers Code, a mandatory general offer is required to be made by DCP Capital Partners II, L.P. through the Offeror and/or (if applicable) the Offeror Designated Entities for all the issued Shares, other than those already owned and/or agreed to be acquired by the Offeror or the Offeror Concert Parties. An appropriate offer is required to be made by DCP Capital Partners II, L.P. through the Offeror to the Optionholders to cancel all the outstanding Options in accordance with Rule 13 of the Takeovers Code.

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For the avoidance of doubt, SPA Completion occurred on the settlement of the SPA First Payment and is not subject to the SPA Second Payment having been paid.

On even date of SPA Completion Announcement, share charge(s) in respect of 100% of the issued shares of the Parent has been granted in favor of the Sellers.

Immediately following the SPA Completion the Sellers have divested all of their Shares. Certain continuing connected transactions between the Company and Alibaba Holding and its subsidiaries and affiliates, details of which are set out in the announcements of the Company dated 25 January 2024, 28 March 2024 and 8 April 2024, in relation to the Group's supply or purchase of different types/nature of goods and services and equity-based compensation cost allocation and reimbursement, remain in place following SPA Completion.

### 2. Information on the Group

The Company is incorporated in Hong Kong with limited liability and was listed on the Main Board of the Stock Exchange on 27 July 2011. For the year ended 31 March 2024, and for the six months ended 30 September 2024, the Group recorded revenue of approximately RMB72.6 billion and RMB34.7 billion, respectively. As the Latest Practicable Date, the market capitalisation of the Company was approximately HK\$18,316.2 million. The Shares are eligible for Southbound trading under the Shanghai and Shenzhen "stock connect" schemes for mutual stock market access between Mainland China and Hong Kong.

The Group is a major consumer retailer in the PRC. It principally sells fresh food, fast moving consumer goods, textile products and general goods mainly in self-owned or leased hypermarkets and superstores and through an online business. The Group operates its stores under the "RT Mart" and "RT Super" brands and more recently has been developing "M-Club"-branded stores, membership-only shops that offer consumers a variety of products for an annual membership fee. As at 30 September 2024 the Group's stores covered 206 cities across 29 provinces, autonomous regions and municipalities in the PRC.

As at 30 September 2024, the Group operated 466 hypermarkets, 30 superstores and six membership stores, for a total of 502 bricks-and-mortar locations, with a total GFA of approximately 13.5 million square metres. The table below sets out an historical summary of the number of stores operated, under construction and opened and closed by the Group:

	As at 30 September 2024	As at 31 March 2024	As at 31 March 2023	As at 31 March 2022
Number of stores	502	507	582	602
Hypermarkets and superstores under construction	1	0	6	17

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	For the six months ended	For the year ended 31 March		
	30 September 2024	2024	2023	2022
No of opened hypermarkets, superstores and membership stores	4	23	6	8
No of closed hypermarkets and superstores	7 <i>(Note 1)</i>	20 <i>(Note 2)</i>	7	5

*Notes:*

- (1) *Of which one closed hypermarket was to be converted into a membership store*
- (2) *Of which four closed hypermarkets were to be converted into membership stores*

As set out above, the Group has gradually closed some underperforming stores and the number of stores operated by the Group has decreased in recent periods, with a limited number of stores under construction. As at 30 September 2024, the Group has one superstore under construction, has identified and secured three sites to open hypermarkets, and has signed contracts for four superstores. Of the four new stores opened during the six months ended 30 September 2024, three were membership stores located in Eastern China. One of the hypermarkets closed during the same period was to be converted into a membership store. The Group expects to focus on multi-format store expansion across hypermarkets, superstores and membership stores.

The Group has recently focused on low-price strategies and optimisation of its product structure. For example, its “RT-Mart” and “RT-Super” stores introduced a series of products such as the “Super Saver” series, which was developed specifically by the Group’s private label team to meet customers’ needs while benchmarking competitors’ lowest-priced products in many categories. The Group’s “M-Club”-branded membership stores offer over 4,000 stock keeping units from around 30 countries and regions and launch more than 200 new products per month. Members of “M-Club” stores also have the option of placing orders online for dedicated global products in categories such as beauty and skincare, personal care, baby care and health supplements, with shipments dispatched directly from cross-border warehouses. “M-Club” also provides home delivery services with the fastest delivery within one hour. The Group also developed new online sales channels alongside its focus on bricks-and-mortar stores, achieving a mid-single-digit growth in same-store-sales of its business-to-consumer (“B2C”) online business during the six months ended 30 September 2024.

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**3. Financial information and prospects of the Group**

*(a) Financial results*

Set out below is a summary of the consolidated financial results of the Group for the six months ended 30 September 2024 and 2023, and for each of the two years ended 31 March 2024 and 2023. Details of the financial information of the Group are set out in Appendix II to the Composite Document:

	<b>For the six months ended</b>		<b>For the year ended</b>	
	<b>30 September</b>		<b>31 March</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
Revenue	34,708	35,768	72,567	83,662
Cost	<u>(26,182)</u>	<u>(26,879)</u>	<u>(54,609)</u>	<u>(63,081)</u>
Gross profit	8,526	8,889	17,958	20,581
<i>Gross profit margin</i>	<i>24.6%</i>	<i>24.9%</i>	<i>24.7%</i>	<i>24.6%</i>
Selling and marketing expenses	(7,667)	(8,718)	(18,178)	(18,510)
Administrative expenses	(859)	(898)	(2,251)	(2,369)
Other income and other gains, net	<u>621</u>	<u>746</u>	<u>1,462</u>	<u>1,475</u>
<b>Operating profit/(loss)</b>	<b>621</b>	<b>19</b>	<b>(1,009)</b>	<b>1,177</b>
Finance costs	(211)	(213)	(425)	(454)
Share of results of associates and joint ventures	<u>–</u>	<u>–</u>	<u>–</u>	<u>(1)</u>
<b>Profit/(loss) before income tax</b>	<b>410</b>	<b>(194)</b>	<b>(1,434)</b>	<b>722</b>
Income tax expense	<u>(224)</u>	<u>(184)</u>	<u>(234)</u>	<u>(644)</u>
<b>Profit/(loss) for the period/year</b>	<b>186</b>	<b>(378)</b>	<b>(1,668)</b>	<b>78</b>
<i>Net profit margin</i>	<i>0.5%</i>	<i>N/M</i>	<i>N/M</i>	<i>0.1%</i>
<b>Profit/(loss) attributable to the Shareholders</b>	<b>206</b>	<b>(359)</b>	<b>(1,605)</b>	<b>109</b>

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	For the six months ended		For the year ended	
	30 September		31 March	
	2024	2023	2024	2023
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
<b>Earnings/(loss) per Share (basic and diluted) (RMB)</b>	<b>0.02</b>	<b>(0.04)</b>	<b>(0.17)</b>	<b>0.01</b>
Dividend per Share (RMB)	0.158	–	0.018	0.040
(HK\$)	0.170	–	0.020	0.045

(i) *Revenue*

Revenue of the Group is primarily derived from the sales of food, groceries and other goods through bricks-and-mortar stores, mainly hypermarkets, and online sales channels. A smaller portion of revenue is generated from leasing retail space in hypermarket buildings to third parties and from membership fees generated from the Group's membership stores, which was a new revenue generator in the year ended 31 March 2024. For the year ended 31 March 2024, the Group recorded revenue of approximately RMB72,567 million, of which approximately 29% was generated from online sales, a decrease of approximately 13.3% when compared with revenue of approximately RMB83,662 million for the year ended 31 March 2023. For the year ended 31 March 2024, approximately 95.7% of the Group's total revenue of approximately RMB69,431 million was generated from sales of goods, a decrease of approximately 13.8% when compared to the year ended 31 March 2023. The decrease was primarily due to (i) the closing down of long-term loss-making stores, (ii) reduced demand for essential daily supplies and epidemic prevention materials provided to the community in response to government initiatives and (iii) the decrease in average ticket size, despite a slight recovery in offline traffic at stores. For the year ended 31 March 2024, the same store sales growth (the "SSSG") calculated based on the sales of goods from stores that operated in both the financial year ended 31 March 2023 and 31 March 2024 (excluding the sale of electronic appliances and the sales to Alibaba Holding on certain online platforms) was a negative 6.6%, the impact of which was partly offset by an increase in average daily orders per store for the Group's online B2C business. For the year ended 31 March 2024, revenue from rental income was approximately RMB3,120 million, representing a decrease of approximately 0.2% compared to the year ended 31 March 2023. Revenue from membership fees amounted to approximately RMB16 million for the year ended 31 March 2024.

For the six months ended 30 September 2024, the Group recorded revenue of approximately RMB34,708 million, representing a decrease of approximately 3.0% compared to the same period in 2023. For the six months ended 30 September 2024, approximately 95.6% of the Group's total revenue of approximately RMB33,186 million was generated from sales of goods, representing a decrease of approximately 3.0% compared to the same period in 2023. The decrease was mainly driven by (i) the closing down of loss-making stores and (ii) the



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scaling down of group purchase and inventory sharing programmes on Alibaba Holding online platforms. For the six months ended 30 September 2024, the SSSG was approximately 0.3%, primarily due to an increase in ticket size as a result of a low price strategy. Offline revenue showed signs of recovery and stabilisation, supported by new online channels, which drove SSSG. The Group did not report revenue generated from online sales for the period. Rental income decreased by approximately 2.3% to approximately RMB1,508 million for the six months ended 30 September 2024, mainly due to a reduction in gallery areas as stores were closed and tenant mix adjustments. For the six months ended 30 September 2024, revenue from membership fees was approximately RMB14 million.

*(ii) Gross profit*

For the year ended 31 March 2024, the Group recorded a gross profit of approximately RMB17,958 million, representing a decrease of approximately 12.7% compared to the year ended 31 March 2023, mainly as a result of a decrease in offline sales and price reductions to maintain price competitiveness. The Group recorded a gross profit margin of approximately 24.7% in the year ended 31 March 2024, comparable to the previous year.

For the six months ended 30 September 2024, gross profit was approximately RMB8,526 million, representing a decrease of approximately 4.1% compared to the same period in 2023 principally due to the Group's implementation of a low price strategy to enhance price competitiveness. The gross profit margin for the six months ended 30 September 2024 decreased by approximately 0.3 percentage points to 24.6% compared to the same period in 2024.

*(iii) Selling and marketing expenses*

Selling and marketing expenses mainly consisted of personnel expenses, operating lease charges, utility expenses, maintenance, advertising, miscellaneous expenses and the depreciation of property, plant and equipment. For the year ended 31 March 2024, the Group recorded selling and marketing expenses of approximately RMB18,178 million, an approximately 1.8% decrease as compared to the year ended 31 March 2023, mainly as a result of a reduction in personnel costs and lower variable costs due to the decrease in revenue from sales of goods, offset by an increase in impairment charges for stores with negative cash flows and those that were either closed or marked for closure, which related to properties leased for own-use, store and other equipment, decoration and leasehold improvements and investment properties, of approximately RMB1,208 million as compared to impairment charges of approximately RMB384 million for the year ended 31 March 2023.

Selling and marketing expenses recorded by the Group for the six months ended 30 September 2024 of approximately RMB7,667 million represented an approximately 12.1% decrease as compared to the same period in 2023, mainly due to (i) a decrease of approximately RMB456 million in personnel costs, (ii) a decrease of approximately RMB141 million in

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impairment losses accrued for stores with negative cash flows relating to building and leasehold improvements, equipment and right-of-use assets and (iii) reduced marketing expenses and a reduction in rental costs.

*(iv) Administrative expenses*

Administrative expenses of the Group mainly included personnel expenses, travelling expenses, depreciation of property, plant and equipment and other expenses for administrative departments. For the year ended 31 March 2024, the Group recorded approximately RMB2,251 million of administrative expenses, an approximately 5.0% decrease as compared to the year ended 31 March 2023, mainly attributable to the reversal of a special loss allowance related to trade receivables from certain retail customers and a reduction in personnel costs. Administrative expenses declined by approximately 4.3% to approximately RMB859 million for the six-month period ended 30 September 2024, primarily due to cost savings during the period.

*(v) Other income and other gains, net*

Net other income and other gains consisted of interest income, other miscellaneous income, government grants, net gain or loss on disposals and reassessment of investment properties and other property, plant and equipment, gains on financial assets and income from disposal of packaging materials.

The Group recorded net other income and other gains of approximately RMB1,462 million for the year ended 31 March 2024, which represented a decrease of approximately 0.9% as compared to the year ended 31 March 2023. This was primarily related to a reduction in government grants and miscellaneous income, partially offset by an increase in one-off net gains from the disposal and reassessment of investment properties and other property, plant, and equipment.

For the six months ended 30 September 2024 the Group recorded net other income and other gains of approximately RMB621 million, a decrease of approximately 16.8% compared to RMB746 million recorded in the same period in 2023, mainly related to a reduction in miscellaneous income, government grants and interest income, partially offset by an increase in one-off net gains from the disposal and reassessment of investment properties and other property, plant and equipment.

*(vi) Profit/loss for the period/year*

The Group recorded a loss of approximately RMB1,668 million for the year ended 31 March 2024 as compared to a profit of approximately RMB78 million for the year ended 31 March 2023, mainly due to a decline in revenue and increased impairment charges, as set out above.

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For the six months ended 30 September 2024, the Group recorded a profit of approximately RMB186 million compared with a loss of approximately RMB378 million for the corresponding period in 2023. The return to profitability as compared to the six months ended 30 September 2023 was mainly due to a reduction in selling, marketing and administrative expenses, including lower personnel costs, other cost savings, a reduction in impairment charges and positive SSSG.

*(vii) Dividends paid to Shareholders*

The dividends paid to Shareholders decreased from HK\$0.045 in the year ended 31 March 2023 to HK\$0.02 per Share in the year ended 31 March 2024. On 10 December 2024, the Directors resolved to approve the declaration and payment of an Interim Dividend of HK\$0.17 (equivalent to approximately RMB0.158) per Share for the six months ended 30 September 2024, which was paid on 24 January 2025. No interim dividend was declared by the Company for the six months ended 30 September 2023.

*(b) Financial position*

Set out below is a summary of the consolidated financial position of the Group as at 30 September 2024 and 31 March 2024, details of which are set out in Appendix II to the Composite Document:

	As at 30 September 2024 <i>RMB million</i> <i>(Unaudited)</i>	As at 31 March 2024 <i>RMB million</i> <i>(Audited)</i>
Investment properties	5,246	5,302
Other property, plant and equipment	20,058	20,969
Other non-current assets	4,221	4,084
<b>Total non-current assets</b>	<b>29,525</b>	<b>30,355</b>
Inventories	8,065	7,691
Trade and other receivables	1,867	2,133
Restricted and time deposits	8,191	5,025
Financial assets at fair value through profit or loss	4,741	3,474
Cash and cash equivalents	9,500	11,908
Assets of disposal groups classified as held for sale	112	129
<b>Total current assets</b>	<b>32,476</b>	<b>30,360</b>
<b>Total assets</b>	<b>62,001</b>	<b>60,715</b>

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	As at 30 September 2024 RMB million (Unaudited)	As at 31 March 2024 RMB million (Audited)
Trade and other payables	17,677	16,840
Borrowings	2,983	1,749
Lease liabilities	6,390	6,628
Contract liabilities	12,218	12,675
Other liabilities	935	1,029
<b>Total liabilities</b>	<b>40,203</b>	<b>38,921</b>
<b>Net assets</b>	<b>21,798</b>	<b>21,794</b>
<b>Equity attributable to the Shareholders</b>	<b>21,431</b>	<b>21,403</b>
<b>Net asset value (“NAV”) per Share (RMB)</b>	<b>2.25</b>	<b>2.24</b>
<b>NAV per Share (HK\$) (Note 1)</b>	<b>2.43</b>	<b>2.42</b>

*Note:*

(1) The translation of RMB into HK\$ is based on the Reference Exchange Rate of HK\$: 1.0000: RMB0.92564 for illustration purposes only

(i) *Investment properties, other property, plant and equipment and other non-current assets*

The Group’s stores are either operated on lease or are self-owned. As at 30 September 2024, approximately 66.0% of the total GFA of its stores was operated as leased space and approximately 34.0% of the GFA was located in self-owned properties. Investment properties represented the portion of the Group’s stores containing retail galleries that are leased to third parties, and are stated at cost less accumulated depreciation and impairment losses, the carrying amount of which was approximately RMB5,246 million as at 30 September 2024.

As at 30 September 2024, the Group recorded approximately RMB20,058 million of other property, plant and equipment, which mainly consisted of the Group’s self-owned stores and associated items, including buildings, land use rights, store and other equipment, as well as other properties leased for own use (primarily the Group’s leased stores).

While the Group’s investment properties, other property, plant and equipment and land use rights are carried at cost, for the year ending 31 March 2024 an independent professional valuer has been engaged to value the properties owned by the Group or leased by the Group which were recognised as right-of-use assets. As at 31 March 2024, the total fair value of such properties was RMB50,450 million, among which, the fair value of investment properties was RMB20,251 million.

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As at 30 September 2024 the Group recorded approximately RMB4,221 million of other non-current assets, which mainly consisted of time and restricted deposits, deferred tax assets and trade and other receivables.

*(ii) Other assets*

The Group recorded other assets of approximately RMB32,476 million as at 30 September 2024, which mainly comprised (i) cash and cash equivalents of approximately RMB9,500 million, (ii) restricted and time deposits of approximately RMB8,191 million (iii) inventories, consisting primarily of store merchandise, of approximately RMB8,065 million, (iv) structured deposits, money market funds and certificates of deposit, held at fair value through profit or loss of approximately RMB4,741 million, (v) trade and other receivables of approximately RMB1,867 million, which consisted of amounts due from related and third parties, rental prepayments, other debtors and value-added tax receivables and (vi) assets of disposal groups classified as held for sale, being certain stores that are in the process of being sold, of approximately RMB112 million.

*(iii) Liabilities*

The Group recorded total liabilities of approximately RMB40,203 million as at 30 September 2024, which mainly comprised (i) approximately RMB17,677 million of trade and other payables, (ii) approximately RMB12,218 million of contract liabilities, primarily comprising advance receipts from customers in respect of unutilised balances of prepaid cards issued by the Group, (iii) approximately RMB6,390 million of lease liabilities, representing the present value of future minimum lease payments mainly on the Group's leased stores and (iv) approximately RMB2,983 million of current bank borrowings.

*(iv) Equity attributable to Shareholders*

The Group recorded equity attributable to Shareholders of approximately RMB21,431 million as at 30 September 2024 (approximately RMB2.25 per Share, equivalent to approximately HK\$2.43 per Share), comparable to that recorded by the Group as at 31 March 2024.

*(v) Commitments and contingencies*

The Group recorded capital commitments outstanding of approximately RMB760 million as at 30 September 2024, which mainly related to future expansion and renovation of hypermarkets. As set out in the Company's 2024 interim report, legal actions have commenced against the Group by certain customers, suppliers and landlords in respect of disputes on purchase agreements and property lease arrangements, which were ongoing as at 30 September 2024, with a total amount claimed of approximately RMB476 million. Management of the Group does not consider the above claims to have a material effect on the Group. A provision of RMB158 million, which the Directors believed to be adequate, was made within trade and other payables as at 30 September 2024.

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### *(c) Prospects of the Group*

As set out in the section headed “Financial results”, the Group recorded an approximately RMB1.7 billion loss for the year ended 31 March 2024, compared to a small profit of RMB78 million for the year ended 31 March 2023, principally affected by reduced revenue and impairments related to loss-making stores. The Group’s financial performance improved in the first half of the financial year ending 31 March 2025, with a profit of approximately RMB186 million, as compared to a loss of approximately RMB378 million in the six months ended 30 September 2024, mainly driven by a reduction in selling, marketing and administrative expenses, including impairment charges and positive SSSG. SSSG in the six months ended 30 September 2024 was 0.3% as compared to minus 5.9% in the six months ended 30 September 2023.

As a major operator of consumer-centric retail stores in the PRC with a focus on bricks-and-mortar outlets and serving its customers daily consumption necessities, we consider it reasonable to view the operating environment of the Group against broader economic indicators, including the gross domestic product (“GDP”) of the PRC and consumer spending data. The GDP of the PRC grew by approximately 3.0%, 5.2%, 5.0% and the national disposable income per capita increased by approximately 5.0%, 6.3%, 5.3% in 2022, 2023 and 2024 respectively, according to the National Bureau of Statistics of the PRC (the “NBS”). Both indicators appear to show a recovery, with growth having slowed somewhat more recently. Retail sales of consumer goods decreased by approximately 0.2% in 2022 and increased by approximately 7.2% and 3.5% in 2023 and 2024, respectively. The above statistics indicate a moderate improvement in the macroeconomic indicators which affect the broader retail environment including the market in which the Group operates. We consider this trend is reflected to some degree in the recent financial results of the Group. The Group recorded a net profit in three of the last five completed financial years with a net loss recorded in the year ended 31 March 2022 due to a challenging operating environment and strong competition, and a net loss in the year ended 31 March 2024 as stated above.

As set out in the interim report of the Group for the six months ended 30 September 2024, the Group is driving traffic growth at its stores with a focus on a competitive pricing of its products and by adjusting its product mix. For example, the Group has been developing several product ranges to appeal to price conscious consumers, under labels such as “Must-Buy” and “Every Day Low Price”. This in turn has led to a certain stabilisation of footfall to the Group’s stores, with growing ticket size driven by a slight increase in the average number of items purchased per order. The Group has also been developing its “RT-Super”-branded stores which offer a selected range of products with a focus on low price offerings. As set out in the interim report of the Group for the six months ended 30 September 2024, management of the Group believes that “RT-Super”-branded stores will become a significant driving force for the Group’s future expansion, and that they present an opportunity for the Group to strengthen its presence in top-tier cities. Another emphasis of the Group is the continued development of its “M-Club”-branded membership stores. As set out in the Group’s results presentation for the six months ended 30 September 2024, the Group intends to continue its multi-format and omni-channel development, which also includes increasing online B2C sales by growing average ticket size, including through the Group’s own app, and developing new online sales

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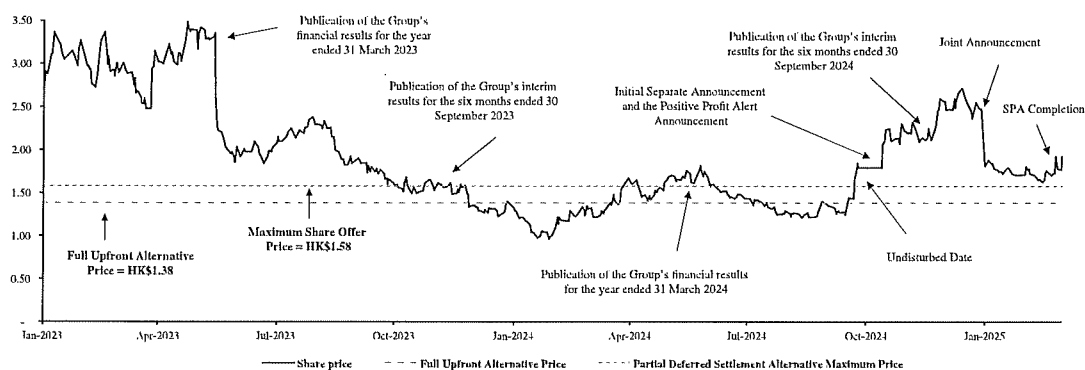
channels. According to the NBS, online retail sales have grown by approximately 7.2% in 2024 to reach approximately RMB15.5 trillion, and online retail sales of physical commodities accounted for approximately 26.8% of total consumer goods retail sales in 2024. We note that the Group achieved mid-single-digit growth in B2C online business on a same-store-sales basis in the six months ended 30 September 2024.

The Group's operating environment has been challenging in recent periods, as evidenced by the financial performance of the Group in recent financial periods. In the six months ended 30 September 2024 revenue declined by approximately 3.0%, with positive SSSG of approximately 0.3% and a decrease in rental income from third-party gallery spaces of approximately 2.3%. However, recent relevant statistics by the PRC government indicate a somewhat positive momentum, the Group has turned profitable in the six months ended 30 September 2024 and the rate of store closures appears to be easing.

#### 4. Analysis of price performance and trading liquidity

##### (a) Historical price performance of the Shares

Set out below is the movement of the closing prices of the Shares during the period from 2 January 2023 to the Latest Practicable Date, being a period of around two years prior to the Latest Practicable Date to illustrate the general trend of movement of the closing prices of the Shares (the "Review Period"):



Source: Bloomberg

During the Review Period the Shares closed above the Full Upfront Alternative Price on more than 77.8% of trading days. The first quarter of 2023 was generally characterised by a period of Share price volatility, with a high of HK\$3.37 on each of 11 January 2023 and 20 February 2023 and a low of HK\$2.47 on each of 24 and 27 March 2023. Following the publication of the Company's financial results for the year ended 31 March 2023 on 16 May 2023, the Share price decreased by approximately 22.7% to HK\$2.59 on 17 May 2023, before declining further to a low of HK\$1.85 on 23 June 2023. The closing price of the Shares subsequently broadly increased to a high of HK\$2.38 on 31 July 2023, followed by a downward trajectory for the rest of 2023 and into January 2024, with a Review Period low of HK\$0.96 on 31 January 2024.

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The Share price climbed generally thereafter, with a high of HK\$1.81 on 28 May 2024. The Share price trended downward subsequently to a low of HK\$1.21 in mid-August 2024. The Shares closed at HK\$1.84 on 26 September 2024, the Undisturbed Date and the last full day of trading prior to publication of the Initial Separate Announcement. On 27 September 2024 trading was halted at 9.39 a.m. with Shares closing at HK\$1.79.

Following the publication of the Initial Separate Announcement and the positive profit alert announcement in respect of the six months ended 30 September 2024 (the “**Positive Profit Alert Announcement**”) on 15 October 2024, the Shares resumed trading the following day and increased by approximately 15.1% to close at HK\$2.06. This was followed by a period of relatively volatile Share prices with a general upward trend. The Shares closed at a 52-week high of HK\$2.71 on 16 December 2024.

Following publication of the Joint Announcement on 1 January 2025 the Share price decreased by approximately 20.2% to close at HK\$1.98 the following day. The Shares continued to trade at premia over the Full Upfront Alternative Price and the Maximum Share Offer Price thereafter, and closed at HK\$1.92, an approximately 39.1% and 21.5% premium over the Full Upfront Alternative Price and the Maximum Share Offer Price, respectively, on the Latest Practicable Date.

**(b) Trading liquidity**

Set out below are the monthly total trading volumes of the Shares and the percentages of the monthly total trading volume to the total issued Shares and public float of the Company during the Review Period:

	<b>Monthly total trading volume of the Shares (Note 1)</b>	<b>Percentage of the monthly total trading volume of the Shares to the total issued Shares (Note 2)</b>	<b>Percentage of the monthly total trading volume of the Shares to public float of the Company (Note 3)</b>
<b>2023</b>			
January	188,950,442	2.0%	9.6%
February	197,367,063	2.1%	10.1%
March	202,538,802	2.1%	10.3%
April	179,742,334	1.9%	9.2%
May	301,290,719	3.2%	15.3%
June	138,315,064	1.4%	7.0%
July	81,645,794	0.9%	4.2%
August	118,801,783	1.2%	6.0%
September	81,363,138	0.9%	4.1%
October	88,575,656	0.9%	4.5%
November	79,733,016	0.8%	4.1%
December	69,738,187	0.7%	3.6%



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	<b>Monthly total trading volume of the Shares (Note 1)</b>	<b>Percentage of the monthly total trading volume of the Shares to the total issued Shares (Note 2)</b>	<b>Percentage of the monthly total trading volume of the Shares to public float of the Company (Note 3)</b>
<b>2024</b>			
January	169,425,647	1.8%	8.6%
February	337,077,953	3.5%	17.2%
March	205,832,628	2.2%	10.5%
April	220,770,000	2.3%	11.2%
May	150,664,483	1.6%	7.7%
June	77,431,924	0.8%	3.9%
July	59,427,132	0.6%	3.0%
August	54,517,770	0.6%	2.8%
September	155,110,565	1.6%	7.9%
October	298,191,284	3.1%	15.2%
November	228,256,256	2.4%	11.6%
December	271,131,046	2.8%	13.8%
<b>2025</b>			
January	519,351,652	5.4%	26.4%
February	356,731,380	3.7%	18.2%
From 3 March 2025 to the Latest Practicable Date	51,239,321	0.5%	2.6%

*Notes:*

- (1) *Source: Bloomberg*
- (2) *The calculation is based on the monthly total trading volumes of the Shares divided by all the issued Shares at the end of each month or at the Latest Practicable Date, as applicable*
- (3) *The calculation is based on the monthly total trading volumes of the Shares divided by the total number of Shares held by the public at the end of each month or at the Latest Practicable Date, as applicable*

As shown in the above table, in 2023 and 2024 the monthly trading volumes of the Shares represented approximately 0.7% to 3.2% and 0.6% to 3.5% of the total issued Shares, respectively, which equated to approximately 3.6% to 15.3% and 2.8% to 17.2% of the Shares constituting the public float of the Company, respectively. Monthly trading volumes increased in early 2024 and again since September 2024, indicating relatively active trading in the Shares as compared to 2023.

We note that monthly trading volumes have exceeded 11.6% of the public float for October to December 2024, and that monthly trading volumes have further increased in January and February 2025. On this basis we consider the Shares to be relatively actively traded in general since October 2024, as compared to May to September 2024.

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(c) *Comparisons of value*

HK\$1.38 per Offer Share, being the Full Upfront Alternative Price, represents:

- (i) a discount of approximately 25.0% to the closing price of HK\$1.84 per Share on the Undisturbed Date;
- (ii) a discount of approximately 14.8% to the average closing price of approximately HK\$1.62 per Share for the last five trading days up to and including the Undisturbed Date;
- (iii) a premium of approximately 3.0% over the average closing price of approximately HK\$1.34 per Share for the last 30 trading days up to and including the Undisturbed Date;
- (iv) a discount of approximately 2.1% to the average closing price of approximately HK\$1.41 per Share for the last 90 trading days up to and including the Undisturbed Date;
- (v) a discount of approximately 28.1% to the closing price of approximately HK\$1.92 per Share on the Latest Practicable Date;
- (vi) a discount of approximately 21.6% to approximately HK\$1.76, the average closing price of Shares as quoted on the Stock Exchange from the first trading day following publication of the Joint Announcement to the Latest Practicable Date;
- (vii) a discount of approximately 43.0% to the audited NAV attributable to equity holders per Share of approximately RMB2.24 per Share (equivalent to approximately HK\$2.42 per Share) as at 31 March 2024; and
- (viii) a discount of approximately 43.2% to the unaudited NAV attributable to equity holders per Share of approximately RMB2.25 per Share (equivalent to approximately HK\$2.43 per Share) as at 30 September 2024.

HK\$1.58 per Offer Share, being the Maximum Share Offer Price, represents:

- (i) a discount of approximately 14.1% to the closing price of HK\$1.84 per Share on the Undisturbed Date;
- (ii) a discount of approximately 2.5% to the average closing price of approximately HK\$1.62 per Share for the last five trading days up to and including the Undisturbed Date;

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- (iii) a premium of approximately 17.9% over the average closing price of approximately HK\$1.34 per Share for the last 30 trading days up to and including the Undisturbed Date;
- (iv) a premium of approximately 12.1% over the average closing price of approximately HK\$1.41 per Share for the last 90 trading days up to and including the Undisturbed Date;
- (v) a discount of approximately 17.7% to the closing price of approximately HK\$1.92 per Share on the Latest Practicable Date;
- (vi) a discount of approximately 10.2% to approximately HK\$1.76, the average closing price of Shares as quoted on the Stock Exchange from the first trading day following publication of the Joint Announcement to the Latest Practicable Date;
- (vii) a discount of approximately 34.7% to the audited NAV attributable to equity holders per Share of approximately RMB2.24 per Share (equivalent to approximately HK\$2.42 per Share) as at 31 March 2024; and
- (viii) a discount of approximately 35.0% to the unaudited NAV attributable to equity holders per Share of approximately RMB2.25 per Share (equivalent to approximately HK\$2.43 per Share) as at 30 September 2024.

As set out in the sections headed “Historical price performance of the Shares”, the Shares mostly traded above the Full Upfront Alternative Price during the Review Period. As set out above, the Full Upfront Alternative Price represents a discount to (i) the closing price of the Shares on the Undisturbed Date and (ii) the average of the last 5 and 90 trading days up to and including the Undisturbed Date. The Full Upfront Alternative Price represents a premium over the average closing price of the Shares for the last 30 trading days up to and including the Undisturbed Date. The Maximum Share Offer Price represents a discount to (i) the closing price of the Shares on the Undisturbed Date and (ii) the average of the last 5 trading days up to and including the Undisturbed Date, and a premium over the average closing price of the Shares for the last 30 and the last 90 trading days up to and including the Undisturbed Date.

Following publication of the Joint Announcement and up to the Latest Practicable Date, the Shares traded at a premium of between approximately 18.1% and 43.5% over the Full Upfront Alternative Price and between approximately 3.2% and 25.3% over the Maximum Share Offer Price, respectively.

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### 5. Peer comparison

The Group principally operates hypermarkets in the PRC which mainly sell food, groceries, textiles and general goods to consumers through its stores and online sales channels. For the purpose of this peer comparison we have reviewed comparable listed companies with similar characteristics as the Group. Due to the nature of the Group's business, its closest peers in terms of market capitalisation and business nature are listed in Mainland China, not Hong Kong. We have analysed comparable companies listed on the Stock Exchange, the Shanghai Stock Exchange and the Shenzhen Stock Exchange that principally engage in sales of merchandise to customers through hypermarket and supermarket convenience retail chains in the PRC, according to their latest published annual reports (the "Comparable Companies"). Based on our criteria, we have identified the Comparable Companies as set out below. We consider the list of Comparable Companies represents an exhaustive list based on publicly available information, on the basis of their principal activities:

Company name and stock code	Principal activities	Market		Consolidated NAV	EBITDA	EV to EBITDA ("EV/EBITDA") multiple	Price to book ("P/B") multiple
		capitalisation as at the Latest Practicable Date	Enterprise value as at the Latest Practicable Date				
		(million) (A)	(million) (B) (Note 1)	(million) (C) (Note 2)	(million) (D) (Note 3)	(times) (B/D)	(times) (A/C)
<i>Comparable companies listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange (in RMB where applicable)</i>							
Yonghui Superstores Co. Ltd. (stock code: 601933)	Operation of supermarkets	45,103	64,502	5,795	3,231	20.0	7.8
Shanghai Bailian Group Co. Ltd. (stock code: 600827)	Operation of hypermarkets, supermarkets and other retailers	15,816	8,758	19,350	3,059	2.9	0.8
Chengdu Hongqi Chain Co. Ltd. (stock code: 002697)	Operation of convenience stores	7,643	6,776	4,332	1,489	4.6	1.8
Zhonghai Holdings Group Co. Ltd. (stock code: 000759)	Operation of supermarkets and department stores	6,103	8,649	1,958	581	14.9	3.1
Jiajiayue Group Co. Ltd. (stock code: 603708)	Operation of supermarkets	6,415	8,582	2,521	1,386	6.2	2.5
Sanjiang Shopping Club Co. Ltd. (stock code: 601116)	Operation of supermarkets	6,309	7,478	3,189	296	25.2	2.0
New Huadu Supercenter Co. Ltd. (stock code: 002264)	Operation of supermarkets and online retailers	4,334	3,610	1,786	291	12.4	2.4
Yinchuan Xinhua Commercial (Group) Co., Ltd. (stock code: 600785)	Operation of supermarkets and department stores	2,611	5,265	2,223	823	6.4	1.2

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Company name and stock code	Principal activities	Market	Enterprise value	Consolidated NAV	EBITDA	EV to EBITDA	Price to book
		capitalisation as at the Latest Practicable Date	as at the Latest Practicable Date			("EV/EBITDA") multiple	("P/B") multiple
		(million) (A)	(million) (B) (Note 1)	(million) (C) (Note 2)	(million) (D) (Note 3)	(times) (B/D)	(times) (A/C)
					<i>Mean</i>	11.6	2.7
					<i>Median</i>	9.4	2.2
					<i>Maximum</i>	25.2	7.8
					<i>Minimum</i>	2.9	0.8
<i>Comparable companies listed on the Stock Exchange (in HK\$ where applicable)</i>							
Lianhua Supermarket Holdings Co., Ltd. ("Lianhua") (stock code: 980)	Operation of hypermarkets, supermarkets and convenience stores	592	3,705	19	727	5.1	31.6
China Shun Ke Long Holdings Limited (stock code: 974)	Operation of supermarkets	276	345	141	9	39.2	2.0
Beijing Jingkelong Company Limited ("Jingkelong") (stock code: 814)	Operation of supermarkets and wholesale distribution of food products	134	3,611	1,507	350	10.3	0.1
The Company on the basis of HK\$1.38 per Offer Share (Note 4)		HK\$13,165 RMB12,186 (Note 5)	HK\$13,424 RMB12,426 (Note 6)	HK\$23,153 RMB21,431	HK\$2,574 RMB2,383	5.2	0.6
<i>For illustrative purposes:</i>							
The Company on the basis of HK\$1.58 per Offer Share (Note 7)		HK\$15,073 RMB13,952 (Note 8)	HK\$15,332 RMB14,192 (Note 9)	HK\$23,153 RMB21,431	HK\$2,574 RMB2,383	6.0	0.7

Source: Bloomberg and websites of the Stock Exchange, the Shanghai Stock Exchange and the Shenzhen Stock Exchange

**Notes:**

- (1) For each company represents the sum of its market capitalisation as at the Latest Practicable Date, borrowings, lease liabilities and non-controlling interests, minus cash and cash equivalents, as set out in the most recently published financial statements
- (2) Being the respective consolidated NAV attributable to the equity holders as extracted from the latest published financial statements
- (3) For each company represents the earnings before net interest expense, taxes, depreciation and amortisation for the latest available trailing twelve-month period as set out in the relevant published financial statements
- (4) Being the Full Upfront Alternative Price

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- (5) *Being the Full Upfront Alternative Price of HK\$1.38 per Offer Share times 9,539,704,700 Shares in issue as at the Latest Practicable Date*
- (6) *Being the sum of the implied market capitalisation of the Company as described in note 5, borrowings, lease liabilities and non-controlling interests, minus cash and cash equivalents of the Group as set out in the interim report of the Company for the six months ended 30 September 2024*
- (7) *Being the Maximum Share Offer Price*
- (8) *Being the Maximum Share Offer Price of HK\$1.58 per Offer Share times 9,539,704,700 Shares in issue as at the Latest Practicable Date*
- (9) *Being the sum of the implied market capitalisation of the Company as described in note 8, borrowings, lease liabilities and non-controlling interests, minus cash and cash equivalents of the Group as set out in the interim report of the Company for the six months ended 30 September 2024*
- (10) *The translation of RMB into HK\$ is based on the Reference Exchange Rate of HK\$: 1.0000; RMB0.92564 for illustration purposes only*

**(i) EV/EBITDA multiple**

The Group recorded a loss of approximately RMB1,668 million for the year ended 31 March 2024 and a loss of approximately RMB1,104 million for the trailing twelve months ended 30 September 2024, which means a recent price-to-earnings multiple cannot be derived for the Group. On this basis we consider it more appropriate to have regard to the EV/EBITDA multiple in analysing the Comparable Companies, a commonly used metric in evaluating and comparing such entities.

As set out in the table above, the EV/EBITDA multiples of the Comparable Companies listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange have a mean and median of approximately 11.6 times and 9.4 times respectively. The EV/EBITDA multiple as represented by the Full Upfront Settlement Alternative Price of HK\$1.38 per Offer Share is approximately 5.2 times, which is substantially lower than each of the above mean and median, and towards the minimum of the range of the EV/EBITDA multiples of the Comparable Companies listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, which we consider not to be beneficial to Independent Shareholders. The EV/EBITDA multiple as represented by the Full Upfront Settlement Alternative Price of HK\$1.38 per Offer Share is higher than the EV/EBITDA multiple of Lianhua but lower than the EV/EBITDA multiples of the other two Comparable Companies listed on the Stock Exchange, which we consider somewhat less comparable to the Company in part due to their relatively small market capitalisation.

For illustrative purposes, we have also set out in the table above the implied EV/EBITDA multiple on the basis of the Maximum Share Offer Price of HK\$1.58 per Offer Share. The EV/EBITDA multiple of approximately 6.0 times on this basis is below the mean and median EV/EBITDA multiples of the Comparable Companies listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, higher than the EV/EBITDA multiple of Lianhua but lower than the EV/EBITDA multiples of the other two Comparable Companies listed on Stock Exchange. Independent Shareholders should note that the Maximum Share Offer Price of

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HK\$1.58 per Offer Share is not directly comparable to the Full Upfront Settlement Alternative Price of HK\$1.38 per Offer Share, as under the Partial Deferred Settlement Alternative the Offer Shareholders will receive a total consideration of between HK\$1.38 and HK\$1.58 per Offer Share, respectively, with HK\$0.92 per Offer Share payable no later than seven Business Days after the date of acceptance and an additional HK\$0.46 per Offer Share, plus Interest, in May and June 2028, with an alternative option of receiving an earlier part repayment of the HK\$0.46 per Offer Share (including relevant Base Interest) if the Offeror makes an Advance Payment. Further details are set out in the section headed “The Partial Deferred Settlement Alternative”.

*(ii) P/B multiple*

The P/B multiples of the Comparable Companies listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange have a mean and median of approximately 2.7 times and 2.2 times respectively, which are higher than the P/B multiple as represented by the Full Upfront Settlement Alternative Price of HK\$1.38 per Offer Share of approximately 0.6 times and the P/B multiple as represented by the Maximum Share Offer Price of HK\$1.58 per Offer Share of approximately 0.7 times. Except for the implied P/B multiple of Jingkelong of approximately 0.1 times, the implied P/B multiples under the Share Offer are lower than those of the Comparable Companies listed on the Stock Exchange. On this basis alone, the Share Offer is not attractive to Independent Shareholders.

### 6. Privatisation precedents

As set out in the section headed “Possible compulsory acquisition and withdrawal of listing of Shares”, the Offeror and/or (if applicable) the Offeror Designated Entities intend to privatise the Company by exercising the compulsory acquisition rights if the Offeror and/or (if applicable) the Offeror Designated Entities acquire not less than 90% of the Offer Shares and not less than 90% of the Independent Shares within, but not exceeding, the Compulsory Acquisition Entitlement Period. Against this backdrop, we have compared the Share Offer to privatisation proposals of companies listed on the Main Board of the Stock Exchange announced and completed since 1 January 2023 and up to the Latest Practicable Date, which have been approved by disinterested shareholders or declared unconditional and involve a cash consideration only (the “**Privatisation Precedents**”). The Privatisation Precedents represent an exhaustive, fair and representative list that we were able to identify from the website of the Stock Exchange, based on the above selection criteria. Although the companies listed below may have different principal activities, market capitalisations and financial fundamentals as compared to those of the Company, the reasons behind the privatisation proposals may vary, and some aspects of pricing may be industry-specific, we consider that the Privatisation Precedents provide a meaningful analysis of the overall market trend of the pricing of this type of transaction in the Hong Kong equity capital market as well as a meaningful additional benchmark for the Offer Shareholders to evaluate the premium and discount provided in the Share Offer.

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The table below illustrates the premia or discounts of the cancellation consideration/offer price over or to the respective last full trading day price and respective last 10, 30, 60, 90 and 120 trading days average share prices as well as the respective NAV per share, in respect of the Privatisation Precedents:

Date of the first Rule 3.5/3.7 announcement	Company name (stock code)	Premia/(discount) of the cancellation consideration/offer price over/(to) the closing price/average closing price per share						Premia/(discount) of the cancellation consideration/offer price over/(to) the latest NAV attributable to owners of the company per share (Note 2)
		on the last full trading day (Notes 1 and 2)	for the last 10 trading days (Notes 1 and 2)	for the last 30 trading days (Notes 1 and 2)	for the last 60 trading days (Notes 1 and 2)	for the last 90 trading days (Notes 1 and 2)	for the last 120 trading days (Notes 1 and 2)	
22 November 2024	Ronshine Service Holding Co., Ltd (2207)	15.4%	1.7%	(6.3)%	1.7%	(6.3)%	(13.0)%	(53.5)%
6 November 2024	Hang Chi Holdings Limited (8405)	14.8%	16.7%	16.7%	20.7%	20.7%	14.80%	45.8%
28 October 2024	Beijing Capital Grand Limited (1329)	46.5%	55.1%	41.8%	47.9%	65.4%	80.9%	(52.9)%
14 October 2024	CM Hi-Tech Cleanroom Limited (2115)	25.0%	26.9%	30.2%	39.7%	42.0%	41.2%	(4.8)%
2 September 2024	Doxen Energy Group Limited (668)	78.6%	82.3%	81.3%	86.2%	113.4%	131.8%	(41.6)%
29 August 2024	Eggriculture Foods Ltd. (8609)	141.8%	142.3%	146.9%	180.8%	207.8%	232.9%	50.6%
16 July 2024	Samson Holding Ltd. (531)	77.8%	105.4%	150.1%	186.7%	184.5%	172.8%	(40.3)%
19 June 2024	Asia Standard Hotel Group Limited (292) ("ASH")	52.8%	41.0%	57.1%	71.9%	71.9%	64.2%	(85.4)% (Note 3)
12 June 2024	A8 New Media Group Limited (800)	162.8%	168.7%	185.7%	185.7%	174.8%	155.3%	(41.4)%
27 May 2024	Huafa Property Services Group Company Limited (982)	30.6%	40.1%	70.6%	82.4%	88.3%	89.5%	970.1% (Note 4)
29 April 2024	L'Occitane International S.A. (973)	30.8%	40.6%	49.9%	60.8%	60.5%	52.4%	598.5% (Note 4)



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Date of the first Rule 3.5/3.7 announcement	Company name (stock code)	Premia/(discount) of the cancellation consideration/offer price over/(to) the closing price/average closing price per share						Premia/(discount) of the cancellation consideration/offer price over/(to) the latest NAV attributable to owners of the company per share (Note 2)
		on the last full trading day (Notes 1 and 2)	for the last 10 trading days (Notes 1 and 2)	for the last 30 trading days (Notes 1 and 2)	for the last 60 trading days (Notes 1 and 2)	for the last 90 trading days (Notes 1 and 2)	for the last 120 trading days (Notes 1 and 2)	
18 April 2024	Kin Yat Holdings Limited (638)	33.3%	47.3%	51.5%	53.6%	55.9%	63.5%	(63.1)%
28 March 2024	SciClone Pharmaceuticals (Holdings) Limited (6600)	33.9%	36.2%	47.5%	47.9%	48.7%	58.1%	228.4%
26 January 2024	Bank of Jinzhou Co., Ltd. (416)	0.0%	(1.0)%	0.3%	15.4%	34.8%	43.0%	(71.9)%
14 December 2023	Sinosoft Technology Group Limited (1297)	29.4%	31.2%	31.1%	22.5%	15.0%	11.4%	(78.9)%
4 December 2023	Weiqiao Textile Company Limited (2698)	104.7%	102.7%	111.1%	142.9%	147.5%	143.6%	(77.1)%
28 November 2023	CIMC Vehicles (Group) Co., Ltd. (1839)	16.5%	21.0%	25.4%	19.1%	15.9%	15.2%	(7.0)%
20 November 2023	Vinda International Holdings Limited (3331)	20.1%	21.4%	21.3%	25.7%	29.2%	26.9%	145.2%
6 October 2023	Haitong International Securities Group Limited (665)	114.1%	108.2%	126.5%	122.2%	124.5%	125.2%	(39.3)%
6 October 2023	Pine Care Group Limited (1989)	(1.1)%	0.9%	1.5%	8.9%	22.9%	29.9%	485.5% (Note 4)
15 September 2023	Lansen Pharmaceutical Holdings Limited (503)	26.8%	22.5%	20.0%	15.4%	20.8%	21.6%	(22.1)%
1 September 2023	CST Group Limited (985)	61.3%	21.4%	36.6%	(1.4)%	(14.9)%	(24.0)%	(60.7)%
27 June 2023	Dali Foods Group Company Limited (3799)	37.9%	39.4%	30.2%	21.8%	18.7%	14.7%	151.7%

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Date of the first Rule 3.5/3.7 announcement	Company name (stock code)	Premia/(discount) of the cancellation consideration/offer price over/(to) the closing price/average closing price per share						Premia/(discount) of the cancellation consideration/offer price over/(to) the latest NAV attributable to owners of the company per share (Note 2)
		on the last full trading day (Notes 1 and 2)	for the last 10 trading days (Notes 1 and 2)	for the last 30 trading days (Notes 1 and 2)	for the last 60 trading days (Notes 1 and 2)	for the last 90 trading days (Notes 1 and 2)	for the last 120 trading days (Notes 1 and 2)	
27 June 2023	Poly Culture Group Corporation Limited (3636)	77.6%	125.2%	133.1%	129.8%	129.0%	126.0%	(30.9)%
23 June 2023	Yongsheng Advanced Materials Company Limited (3608)	58.7%	61.0%	52.9%	38.5%	34.4%	29.9%	(42.9)%
11 June 2023	Mason Group Holdings Limited (273)	20.7%	19.4%	19.0%	16.2%	12.7%	13.9%	(60.1)%
28 May 2023	Golden Eagle Retail Group Limited (3308)	63.4%	61.5%	55.3%	49.9%	54.6%	49.2%	4.2%
8 May 2023	Hailan Holdings Limited (2278)	5.0%	5.0%	5.0%	5.0%	8.7%	14.7%	(3.2)%
29 March 2023	Inner Mongolia Yitai Coal Co., Ltd. (3948)	54.9%	63.7%	67.3%	64.2%	65.1%	66.2%	(6.0)%
21 February 2023	Jiangnan Group Limited (1366)	83.5%	106.2%	107.3%	102.0%	91.4%	83.5%	(63.8)%
17 February 2023	AAG Energy Holdings Limited (2686)	10.1%	9.3%	10.8%	24.2%	27.2%	25.9%	(27.5)%
	<i>Mean</i>	49.3%	52.4%	57.3%	60.9%	63.4%	63.3%	(12.4)%
	<i>Median</i>	33.9%	40.1%	47.5%	47.9%	48.7%	49.2%	(39.8)%
	<i>Maximum</i>	162.8%	168.7%	185.7%	186.7%	207.8%	232.9%	228.4%
	<i>Minimum</i>	(1.1)%	(1.0)%	(6.3)%	(1.4)%	(14.9)%	(24.0)%	(85.4)%
	On the basis of HK\$1.38 per Offer Share (Note 5)	(25.0)%	(5.5)%	3.0%	3.8%	(2.1)%	(5.5)%	(43.2)%

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Date of the first Rule 3.5/3.7 announcement	Company name (stock code)	Premia/(discount) of the cancellation consideration/offer price over/(to) the closing price/average closing price per share						Premia/(discount) of the cancellation consideration/offer price over/(to) the latest NAV attributable to owners of the company per share
		on the last full trading day <i>(Notes 1 and 2)</i>	for the last 10 trading days <i>(Notes 1 and 2)</i>	for the last 30 trading days <i>(Notes 1 and 2)</i>	for the last 60 trading days <i>(Notes 1 and 2)</i>	for the last 90 trading days <i>(Notes 1 and 2)</i>	for the last 120 trading days <i>(Notes 1 and 2)</i>	
<i>For illustrative purposes:</i>								
	<i>On the basis of HK\$1.58 per Offer Share (Note 6)</i>	<i>(14.1)%</i>	<i>8.2%</i>	<i>17.9%</i>	<i>18.8%</i>	<i>12.1%</i>	<i>8.2%</i>	<i>(35.0)%</i>

*Source: Bloomberg and the website of the Stock Exchange*

*Notes:*

- (1) Up to and including the last undisturbed full trading day as disclosed in the respective offer/scheme document or last full trading day prior to the publication of the Rule 3.5 announcement or the initial Rule 3.7 announcement (where applicable)*
- (2) Subject to rounding differences*
- (3) The NAV per share of ASH on an undiluted basis as disclosed in its scheme document dated 29 August 2024*
- (4) We consider this P/B multiple an outlier given that it is substantially higher than other Privatisation Precedents. Therefore it was excluded in our analysis*
- (5) Being the Full Upfront Alternative Price*
- (6) Being the Maximum Share Offer Price*

As set out above, the mean and median premia of the Privatisation Precedents over the mean closing price on the last trading day and for last 10, 30, 60, 90 and 120 trading days range from approximately 49.3% to 63.4% and approximately 33.9% to 49.2%, respectively. The Full Upfront Alternative Price of HK\$1.38 per Offer Share represents (i) a premium of 3.0% over the average closing price for the last 30 trading days, substantially below the mean and median of the Privatisation Precedents of 57.3% and 47.5%, respectively, (ii) a premium of 3.8% over the average closing price for the last 60 trading days, substantially below the mean and median of the Privatisation Precedents of approximately 60.9% and 47.9%, respectively and (iii) discounts of between 2.1% and 25.0% to the other date ranges of the Privatisation Precedents, which we consider not to be advantageous to the Independent Shareholders.

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The Full Upfront Alternative Price of HK\$1.38 per Offer Share represents a discount of approximately 43.2% to the unaudited NAV attributable to equity holders per Share of approximately HK\$2.43 as at 30 September 2024, which is greater than the average discount of approximately 12.4% and the median discount of approximately 39.8% of the Privatisation Precedents.

For illustrative purposes, we have performed the above analysis on the basis the Maximum Share Offer Price of HK\$1.58 per Offer Share. It represents (i) a discount of approximately 14.1% on the last full trading day, as compared to mean and median premia of the Privatisation Precedents of approximately 49.3% and 33.9%, respectively and (ii) premia of between approximately 8.2% and 18.8% to the other date ranges, which are below the respective mean and median premia as represented by the Privatisation Precedents. The Maximum Share Offer Price represents a discount of approximately 35.0% to the unaudited NAV attributable to equity holders per Share of approximately HK\$2.43 as at 30 September 2024, greater than the mean but lower than the median discount under the Privatisation Precedents.

### 7. The Partial Deferred Settlement Alternative

As set out in the section headed “The Share Offer”, Offer Shareholders have the option of accepting (a) the Full Upfront Settlement Alternative, (b) the Partial Deferred Settlement Alternative (with the MGO Advanced Payment Option in the case of a potential Advanced Payment to the Sellers) or (c) the Partial Deferred Settlement Alternative (with the Original Partial Deferred Settlement Option in the case of a potential Advanced Payment to the Sellers) (and not a combination of any of the foregoing).

Under the Partial Deferred Settlement Alternative, the Accepting Shareholders will receive payments of the consideration in stages as summarised below, on an indicative basis:

Settlement option chosen by the Accepting Shareholder	Date of payment of consideration to Accepting Shareholders			
	No later than seven Business Days after the date of acceptance	At the same time as the Advanced Payment is made to the Sellers (if any)	27 May 2028	30 June 2028
Original Partial Deferred Settlement Option	HK\$0.92 per Offer Share		HK\$0.46 per Offer Share, plus applicable Base Interest (Note 3)	Variable Interest (if applicable) (Note 5) (Note 6)

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	Date of payment of consideration to Accepting Shareholders			
	No later than seven Business Days after the date of acceptance	At the same time as the Advanced Payment is made to the Sellers (if any) (Note 1)	27 May 2028	30 June 2028
Settlement option chosen by the Accepting Shareholder				
MGO Advanced Payment Option	HK\$0.92 per Offer Share	MGO Advanced Payment (if any) (Note 2)	Outstanding Partial Deferred Alternative Second Payment Price, plus applicable Base Interest (Note 4)	Variable Interest (if applicable) (Note 5) (Note 7)

*Notes:*

- (1) *The Offeror and/or (if applicable) the Offeror Designated Entities shall make the MGO Advanced Payment at the same time as the Advanced Payment being made to the Sellers*
- (2) *(i) the MGO Advanced Payment shall be made in the same proportion that the Sellers receive any Advanced Payment relative to the total SPA Second Payment Price and the Base Interest accruing on such total SPA Second Payment Price and (ii) such proportional MGO Advanced Payment would represent the early repayment of the relevant outstanding Partial Deferred Alternative Second Payment Price and comprise the Interest accruing on the relevant outstanding Partial Deferred Alternative Second Payment Price up to the date of such repayment*
- (3) *Base Interest accruing from the Final Closing Date until 27 May 2028*
- (4) *Base Interest accruing on the then outstanding Partial Deferred Alternative Second Payment Price from the Final Closing Date up to the date of any repayments. If a MGO Advanced Payment is made, the Base Interest would not accrue on such amount of Advanced Payment and MGO Advanced Payment that have been prepaid*
- (5) *Variable Interest is only applicable if the 2027/2028 Average Adjusted EBITDA is higher than the Adjusted EBITDA Low Limit of initially RMB3.9 billion, subject to EBITDA Limit Adjustment (if any)*
- (6) *Variable interest is determined in accordance with the Original Variable Interest Determination Mechanism*
- (7) *Variable interest is determined in accordance with the Updated Variable Interest Determination Mechanism (if Advanced Payment is made) or the Original Variable Interest Determination Mechanism (if no Advanced Payment is made)*

As set out above, under the Original Partial Deferred Settlement Option, the Accepting Shareholders will receive HK\$0.92 per Offer Share no later than seven Business Days after the date of acceptance and subsequently (i) on 27 May 2028, HK\$0.46 per Offer Share together with the Base Interest, which will accrue at 4.8% per annum, compounded annually, from the Final Closing Date until 27 May 2028 and (ii) on 30 June 2028, the Variable Interest (if applicable), determined in accordance with the Original Variable Interest Determination Mechanism.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Under MGO Advanced Payment Option, the Accepting Shareholders will receive HK\$0.92 per Offer Share no later than seven Business Days after the date of acceptance and subsequently (i) if the Advanced Payment is made, the MGO Advanced Payment which would include the Base Interest accruing on the then outstanding Partial Deferred Alternative Second Payment Price up to the date of such repayment, (ii) on 27 May 2028, the remaining outstanding Partial Deferred Alternative Second Payment Price together with the Base Interest accruing thereon, from the Final Closing Date until 27 May 2028 and (ii) on 30 June 2028, the Variable Interest (if applicable), determined in accordance with the Original Variable Interest Determination Mechanism (if no Advanced payment has been made) or the Updated Variable Interest Determination Mechanism (if an Advanced Payment has been made).

Under MGO Advanced Payment Option, the Accepting Shareholders may receive a payment of consideration earlier than on 27 May 2028 (as is the case under the Original Partial Deferred Settlement Option), but only if the Advanced Payment is made.

### *Base Interest*

The Hong Kong Association of Banks publishes the Hong Kong Dollar Interest Settlement Rates daily for maturities ranging from overnight to 12 months, which is a generally accepted yardstick for lending rates available in the Hong Kong market. For additional reference, the Airport Authority Hong Kong on 6 February 2024 issued a 2.5-year retail bond with a 4.25% coupon rate, maturing on 5 August 2026, with a yield to maturity of 3.70% as at the Latest Practicable Date. Commercial lending rates published by certain banks in Hong Kong offer longer maturities more closely aligned with the implied tenure under the Base Interest of potentially over three years. However, terms can vary considerably depending on the type of borrower and short-term promotions in place. On this basis we note that the 12-month Hong Kong Dollar Interest Settlement Rate available at <https://www.hkab.org.hk/en/rates/hibor> as at the Latest Practicable Date is approximately 4.1% (the “**12-month HIBOR Rate**”). The Base Interest carries an interest rate of 4.8% per annum, which implies a premium over the 12-month HIBOR Rate which we consider advantageous to Independent Shareholders. However, a lender would generally expect a higher interest rate on a three-year loan as compared to a 12-month loan, although this may be offset by other factors. Conversely, the 12-month HIBOR Rate is generally regarded as a floor to commercial lending rates rather than an interest rate available to retail investors. Independent Shareholders should therefore consider whether the interest rate under the Base Interest compares favourably to relevant lending rates they may obtain in the market, after taking into account the specific circumstances such as its tenure and characteristics of a counterparty.

### *Variable interest*

The amount of Variable Interest payable is subject to a formula which depends on the 2027/2028 Average Adjusted EBITDA, as set out in the section headed “Variable Interest”. Under each of the Original Variable Interest Determination Mechanism and the Updated Variable Interest Determination Mechanism the maximum amount of Variable Interest payable is HK\$0.20 per Offer Share and HK\$0.124 per Offer Share, respectively. As set out in the section headed “Variable Interest”, the Offeror, the Purchaser Designated Entity and the Sellers

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were able to ascertain that the Base Interest payable on the SPA Second Payment Date is approximately HK\$0.076 per Sale Share, representing the interest accruing on the SPA Second Payment Price at 4.8% per annum, compounded annually, from the SPA Completion Date until the date falling 39 months thereafter (i.e. May 27, 2028), and based on such formulation, the maximum Variable Interest amount is approximately HK\$0.124 per Sale Share under the Updated Variable Interest Determination Mechanism.

The minimum and maximum consideration payable under the Partial Deferred Settlement Alternative, if the Original Partial Deferred Settlement Option is elected or no Advanced Payment has been made to the Sellers, is as follows:

- (i) **minimum consideration payable:** HK\$1.38 per Offer Share, plus the Base Interest, if the 2027/2028 Average Adjusted EBITDA is lower than or equal to the Adjusted EBITDA Low Limit of initially RMB3.9 billion, subject to EBITDA Limit Adjustment (if any); and
- (ii) **maximum consideration payable:** HK\$1.58 per Offer Share, if the 2027/2028 Average Adjusted EBITDA is higher than or equal to the Adjusted EBITDA High Limit of initially RMB4.4 billion, subject to EBITDA Limit Adjustment (if any).

The minimum and maximum consideration payable under the Partial Deferred Settlement Alternative, if the MGO Advanced Payment Option is elected and the Advanced Payment has been made to the Sellers, is as follows:

- (i) **minimum consideration payable:** HK\$1.38 per Offer Share, plus the Base Interest, if the 2027/2028 Average Adjusted EBITDA is lower than or equal to the Adjusted EBITDA Low Limit of initially RMB3.9 billion, subject to EBITDA Limit Adjustment (if any); and
- (ii) **maximum consideration payable:** HK\$1.38 per Offer Share, plus the Base Interest and plus HK\$0.124 per Offer Share, if the 2027/2028 Average Adjusted EBITDA is higher than or equal to the Adjusted EBITDA High Limit of initially RMB4.4 billion, subject to EBITDA Limit Adjustment (if any).

For reference, the Adjusted EBITDA of the Group for the year ended 31 March 2024 was approximately RMB3.1 billion. As set out above, the amount of Variable Interest payable depends on the financial performance of the Group in the financial years ending 31 March 2027 and 31 March 2028. Each of the EBITDA Low Limit and the EBITDA High Limit is subject to the EBITDA Limit Adjustment, which may affect the Variable Interest payable under the Partial Deferred Settlement Alternative. We consider the EBITDA Limit Adjustment acceptable given that (i) it applies in the same manner to the Variable Interest payable under the SPA, which was agreed between the Sellers and the Offeror, (ii) it is triggered only in case of a transaction by the Group which would constitute a discloseable transaction or a higher classification of notifiable transaction of the Company (irrespective of whether the Shares remain listed on the Main Board) under the provisions of Chapter 14 of the Listing Rules in

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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force as at the date of the SPA, and such transaction would be outside of the ordinary course of the Group's business and (iii) any adjustment made will be with reference to the Adjusted EBITDA of the assets or business that are the subject matter of that EBITDA Limit Adjustment Event.

As set out in the sections headed "Peer comparison" and "Privatisation precedents", for illustrative purposes we have reviewed the Maximum Share Offer Price of HK\$1.58 per Offer Share with reference to Comparable Companies and Privatisation Precedents. On this basis the Maximum Share Offer Price is not favourable to Independent Shareholders. Independent Shareholders who accept the Full Upfront Settlement Alternative will have funds which they can immediately deploy into other investments. They should therefore consider whether (i) the Base Interest offered presents a reasonable rate of return as compared to alternative investment opportunities that may be available to them and (ii) based on the prospects of the Group, whether a 2027/2028 Average Adjusted EBITDA of at least RMB3.9 billion, subject to EBITDA Limit Adjustment (if any), is likely to be achieved.

The Offeror intends to finance the consideration payable under the Offers (including costs and expenses relating to the Offers payable by the Offeror) with a combination of (i) equity commitments provided by DCP Capital Partners II, L.P. to the Offeror for purposes of financing the SPA First Payment and Offers and (ii) external debt facilities provided by China Merchants Bank Co., Ltd. Shanghai Branch. The Offeror intends to finance the Partial Deferred Alternative Second Payment with the Equity Commitment. The Offeror has agreed to grant the CMB Share Charge for the external debt facilities. The Offeror confirms that the payment of interest on, repayment of or security for any liability (contingent or otherwise) in relation to such external debt facilities will not depend to any significant extent on the business of the Company.

Deutsche Bank is satisfied that sufficient financial resources are available to the Offeror to satisfy the SPA First Payment to the Sellers and the full acceptances of the Offers by the Offer Shareholders and the Optionholders, as set out in the letter from the Offeror Financial Advisers in the Composite Document. However, Independent Shareholders should note that the Partial Deferred Alternative Second Payment is due in approximately three years and three months (in case of the Original Partial Deferred Settlement Option or no Advanced Payment has been made to the Sellers) and the payment at that time is not covered by the statement above. Depending on business and economic conditions during this period, there could be some credit risk attached to the MGO Advanced Payment (if applicable) and the Partial Deferred Alternative Second Payment, given the time that will have elapsed between the close of the Offers and future payment dates.

Independent Shareholders should also note that the Partial Deferred Settlement Alternative is only available to Offer Shareholders who hold their Offer Shares to be tendered for acceptance with the election of the Partial Deferred Settlement Alternative as Registered Holders. As such, Independent Shareholders who wish to choose the Partial Deferred Settlement Alternative but are not Registered Holders should consult their CCASS Participant for further information and assistance on the withdrawal process and to determine the time it may take and the related cost in case of withdrawing their Offer Shares from CCASS and entering them into the Share Register prior to accepting the Share Offer.



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### 8. Information of the Offeror and the Offeror Designated Entities

Each of the Offeror and the Offeror Designated Entities is an exempt company incorporated in the Cayman Islands with limited liability. The Offeror and the SPA Additional Purchaser are 100% directly owned by Parent, which is in turn 100% directly owned by Parent Holdco, which is in turn 100% directly owned by DCP Capital Partners II, L.P., a fund of DCP Capital, an alternative asset management company focused on private equity investments. DCP Capital Partners II, L.P. has total fund commitments of approximately US\$2.6 billion. King Salmon is 100% directly owned by Pearly White Limited, which is in turn 100% directly owned by Parent Holdco. Cornflower Blue is 100% directly owned by Parent Holdco. The general partner of DCP Capital Partners II, L.P. is DCP General Partner II, Ltd. DCP Capital Partners II, L.P. is a fund with a diversified base of approximately 60 limited partners and no single limited partner held more than 15% of the limited partnership interests therein.

#### *Intention of the Offeror and the Offeror Designated Entities relating to the Group*

As set out in the letter from the Offeror Financial Advisers in the Composite Document, following the successful completion of the Offers, the Offeror intends to support the Group's existing principal activities and continue to work closely with the Company management team to drive both customer and shareholder value. As at the Latest Practicable Date, the Offeror (a) does not have any plans to make any material changes to the continued employment of the employees of the Group (other than in the ordinary course of business) (b) does not expect there to be a significant redeployment of the fixed assets of the Group and (c) other than in the ordinary course of business, does not have any intention or has not entered into any agreement, arrangement, negotiation or undertaking (formal or informal, express or implied) to downsize or dispose of any of the Company's existing business and/or acquire any new businesses. The Offeror will conduct a strategic review of the Group's assets, corporate structure, capitalisation, operations, properties, policies and management to determine if any changes would be appropriate and desirable following the completion of the Offers with a view to optimising the Group's activities and development, and may make such changes as the Offeror deems necessary, appropriate or beneficial for the Group following its strategic review and/or taking into account any future developments.

As set out in the letter from the Offeror Financial Advisers in the Composite Document, by partnering with DCP Capital, the Company will have the opportunity to benefit from the Offeror's deep industry knowledge and strong operational resources to further enhance its competitive position in the dynamic retail industry.

As at the date of the Latest Practicable Date, save as disclosed in the Composite Document, the Offeror has not finalised any material plans in relation to the future development of the Company's business.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Composition of the Board*

As at the Latest Practicable Date, the Board was made up of five Directors, namely SHEN Hui as an executive Director; HUANG Ming-Tuan as a non-executive Director; and Karen Yifen CHANG, Charles Sheung Wai CHAN and YIH Lai Tak, Dieter as independent non-executive Directors.

As disclosed in the Change of Directors Announcement dated 27 February 2025, (i) Ms. QIN Yuehong has resigned as a non-executive Director and a member of each of the Audit Committee, Nomination Committee and the Remuneration Committee of the Company with effect from the SPA Completion Date, (ii) Mr. HAN Liu has resigned as a non-executive Director with effect from the SPA Completion Date and (iii) Mr. HUANG Ming-Tuan will resign as the chairman of the Board with effect immediately after the posting of the Composite Document, but will remain as a non-executive Director until the publication of the closing announcement on the first Closing Date to comply with the requirements under Rule 7 of the Takeovers Code and to discharge his duties as a member of the Independent Board Committee. Mr. Huang will resign as a non-executive Director with effect after the publication of the closing announcement on the first Closing Date in compliance with Rule 7 of the Takeovers Code.

As further disclosed in the Change of Directors Announcement, the following appointments to the Board have been made: (i) Mr. Julian Juul WOLHARDT, as the chairman of the Board and a non-executive director of the Company with effect immediately after the posting of the Composite Document, (ii) Ms. Guannan WANG as a non-executive director of the Company with effect immediately after the posting of the Composite Document and (iii) Ms. Mengxue MEI as a non-executive director of the Company with effect from the first Closing Date. The biographies of Mr. Wolhardt, Ms. Wang and Ms. Mei are set out in the Change of Directors Announcement. We consider the above Directors to be affiliated with the Offeror, who is permitted to appoint members to the Board upon despatch of the Composite Document. The above Directors are not members of the Independent Board Committee.

### *Possible compulsory acquisition and withdrawal of listing of Shares*

As stated in the letter from the Offeror Financial Advisers in the Composite Document, if the Offeror and/or (if applicable) the Offeror Designated Entities acquire not less than 90% of the Offer Shares and not less than 90% of the Independent Shares within, but not exceeding, the Compulsory Acquisition Entitlement Period, the Offeror and/or (if applicable) the Offeror Designated Entities acquire intend to privatise the Company by exercising the compulsory acquisition rights to which they are entitled under Rule 2.11 of the Takeovers Code and the Companies Ordinance to compulsorily acquire all those Shares not acquired by the Offeror and/or (if applicable) the Offeror Designated Entities under the Share Offer. On completion of the compulsory acquisition process, the Company will be held as to 100% indirectly by Parent Holdco through the Offeror, the SPA Additional Purchaser and (if applicable) the Offeror Designated Entities and an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange in accordance with Rule 6.15(1) of the Listing Rules.

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Upon the closing of the Offers, if the level of acceptances in respect of the Share Offer reaches the prescribed level under the Companies Ordinance required for compulsory acquisition and the requirements of Rule 2.11 of the Takeovers Code are satisfied, dealings in the Shares may be suspended from the entitlement date of compulsory acquisition rights up to the withdrawal of listing of the Shares from the Stock Exchange pursuant to Rule 6.15(1) of the Listing Rules.

As set out above, the Offeror and/or (if applicable) the Offeror Designated Entities intend to privatise the Company, conditional on acquiring not less than 90% of the Offer Shares and not less than 90% of the Independent Shares within, but not exceeding, the Compulsory Acquisition Entitlement Period. Against this backdrop we consider it reasonable to evaluate the Share Offer with reference to recent privatisations, as an additional yardstick. As set out in the section headed “Privatisation precedents”, the Share Offer is not attractive on this basis.

As stated in the letter from the Offeror Financial Advisers in the Composite Document, the Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to the Company, being 19.38% of the issued Shares, are held by the public, or if the Stock Exchange believes that: (i) a false market exists or may exist in the trading of the Shares or (ii) that there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares.

Upon the closing of the Offers, if the level of acceptances in respect of the Share Offer does not reach the prescribed level under the Companies Ordinance required for compulsory acquisition or the requirements of Rule 2.11 of the Takeovers Code are not satisfied, the Shares will remain listed on the Stock Exchange. The directors of the Offeror and the new Directors to be appointed to the Board of the Company have jointly and severally undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares following the close of the Offers.

As at the Latest Practicable Date, approximately 20.6% of the issued Shares were in the hands of the public. Based on the above, an acceptance level higher than approximately 1.2% of the issued Shares would lead to an insufficient public float of the Company and it is possible that dealings in the Shares could be suspended.

### 9. The Option Offer

As at the Latest Practicable Date, details of the Options, pursuant to the share option scheme of the Company adopted on 16 August 2023, were as follows:

<b>Option exercise price (HK\$)</b>	<b>“See through” price (HK\$)</b>	<b>Number of outstanding Options (vested)</b>	<b>Number of outstanding Options (unvested)</b>	<b>Total number of outstanding Options</b>
1.54	0.0001	6,250,000	18,750,000	25,000,000
2.18	0.0001	10,000,000	10,000,000	20,000,000

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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If the Option Offer is accepted, the relevant Options together with all rights attaching thereto will be entirely cancelled and renounced. However, the Options shall remain if the Optionholders choose not to accept the Option Offer.

Optionholders should note that the Board has confirmed that it will exercise its discretion as provided under the rules of the Share Option Scheme such that none of the outstanding unvested Options will become fully vested and exercisable solely by reason of the Offers.

As set out in the letter from the Offeror Financial Advisers in the Composite Document, the consideration for the cancellation of each Option has been set on a conventional basis in Hong Kong representing the “see-through” price, which compares the Full Upfront Alternative Price with the exercise price of each Option. As the exercise prices for those Options are higher than the Full Upfront Alternative Price under the Share Offer, the Options are “out-of-the-money”. On this basis, the Option Offer will be made at the purely nominal amount of HK\$0.0001 in cash for the cancellation of each such outstanding Option.

We consider that the consideration offered on this basis under the Option Offer is conventional but not acceptable. Optionholders should note that the Shares have closed at HK\$1.92 on the Latest Practicable Date, a premium of approximately 24.7% over the option exercise price of HK\$1.54 per Share for certain options as set out above. Such Optionholder may consider exercising his vested Options in accordance with their terms and disposing some or all of the resultant Shares in the market instead of accepting the Option Offer. As set out in Appendix III to the Composite Document, as at the Latest Practicable Date, Mr. SHEN Hui, an executive Director holding 25,000,000 Options, has indicated his intention to reject the Option Offer in respect of the Options which he is holding.

The Options exercisable at HK\$2.18 per Share have limited intrinsic value at the moment. However, the Share price has exceeded this level in the recent past and if it does so again in future, not accepting the Option Offer would allow the Optionholders to capture potential gains should the price of the Shares increase above HK\$2.18 per Share. Conversely, if the price of the Shares remains below HK\$2.18, the Optionholders’ position will not worsen, as their loss will be limited to the nominal amount of HK\$0.0001 per Option, representing the opportunity cost for not accepting the Option Offer.

On the basis of 45,000,000 total Options outstanding and a price of HK\$0.0001 per Option, the total value of the Option Offer is HK\$4,500 which we consider is not a material amount for Optionholders.

### DISCUSSION

The mandatory offer in this case has been triggered by the completion of the SPA, which was agreed after arm’s length negotiations between two independent parties. Alibaba Holding has controlled the Company for more than four years, and is also able to deliver a majority interest to the buyer. We note that in this case, since the publication of the Joint Announcement, the Shares have traded, and continue to trade up to the Latest Practicable Date, consistently and quite actively, above the Full Upfront Alternative Price and the Maximum Share Offer Price.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In reaching our recommendation as regards the Offers, we have taken into account the factors and reasons set out above, and in particular the following:

**(i) The Offers**

The Sellers, which are two subsidiaries of Alibaba Holding and an investment fund over which Alibaba Holding exercises significant influence, have sold their approximately 78.7% interest in the Company to a fund managed by DCP Capital, an alternative asset manager. The consideration under the SPA is payable in two tranches with a prepayment arrangement. Upon settlement of the SPA First Payment the SPA Completion occurred, which triggered the Share Offer and the Option Offer on a see-through basis. Offer Shareholders can choose between an upfront consideration (HK\$1.38 per Offer Share) or a consideration split in tranches (for a maximum consideration of HK\$1.58 per Offer Share).

**(ii) Recent results and prospects**

The Group made a loss of about RMB1.7 billion for the year ended 31 March 2024, with lower revenues, store closures and related impairment charges affecting the results. However, in the six months ended 30 September 2024 the Group achieved a turnaround and recorded a profit of about RMB186 million, on similar revenue year-on-year but lower operating expenses. The Group placed an emphasis on a competitive pricing structure for its products, adjusting its product mix through new product lines and store concepts to appeal to a wide consumer base.

The prospects of the Group appear somewhat positive against the backdrop of the Group's latest interim performance, although it remains to be seen whether strategic changes undertaken will translate into a sustained growth in sales and improvement in profitability.

**(iii) Share price and trading liquidity**

The Shares have been trading above the Full Upfront Settlement Alternative Price of HK\$1.38 for most of 2023. In 2024 prior to the Initial Separate Announcement, the Shares traded between a discount of 30.4% to and a premium of 33.3% over HK\$1.38 per Share. After publication of the Initial Separate Announcement and prior to the publication of the Joint Announcement, the Shares peaked at HK\$2.71. The Shares dropped by 20.2% the day after publication of the Joint Announcement but continued trading at a premium of between 18.1% and 43.5% over HK\$1.38 subsequently until the Latest Practicable Date. The Shares closed at HK\$1.92 on the Latest Practicable Date, above the Full Upfront Settlement Alternative Price and also the Maximum Share Offer Price.

Trading in the Shares has been relatively active since October 2024 as compared to previous months. If this continues Independent Shareholders who wish to sell part or all of their Shares should be able to dispose of some or all of their holding in the market.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **(iv) Peer comparison**

We have identified companies which are engaged in business comparable to that of the Group and reviewed their EV/EBITDA and P/B trading multiples on a trailing-twelve months basis. The EV/EBITDA multiple as implied by the Full Upfront Settlement Alternative Price of HK\$1.38 per Offer Share is approximately 5.2 times, lower than the mean and median of the EV/EBITDA multiples of the Comparable Companies listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, and lower than the EV/EBITDA multiples of two of the three Comparable Companies listed on the Stock Exchange. An analysis based on the implied P/B multiple is also not favourable to Independent Shareholders.

### **(v) Possible privatisation**

The Offeror and/or (if applicable) the Offeror Designated Entities have stated that they would privatise the Company if they acquire not less than 90% of the Offer Shares and not less than 90% of the Independent Shares within, but not exceeding, the Compulsory Acquisition Entitlement Period. On this basis we reviewed the Share Offer against the Privatisation Precedents. We consider the premia implied by the Share Offer with reference to recent Privatisation Precedents are not attractive to Independent Shareholders.

### **(vi) The Partial Deferred Settlement Alternative**

Under the Share Offer the Offer Shareholders may choose to receive either HK\$1.38 per Offer Share within seven days of acceptance, or HK\$0.92 per Offer Share within seven days of acceptance and an additional HK\$0.46 per Offer Share, plus Interest, in May and June 2028, with an alternative option of receiving an earlier part repayment of the HK\$0.46 per Offer Share (including relevant Base Interest) if the Offeror makes an early repayment of the outstanding SPA Second Payment Price. The maximum Interest payable is HK\$0.20 per Offer Share under the Original Partial Deferred Settlement Option or under the MGO Advanced Payment Option (if no Advanced Payment has been made to the Sellers). The majority of the potential Interest relates to the Company's performance over approximately the next three years, for which no forecast is available to Shareholders. In addition, as explained above, the deferred payments involve an element of credit risk.

For illustrative purposes we have reviewed the Maximum Share Offer Price of HK\$1.58 per Offer Share with reference to Comparable Companies and Privatisation Precedents. On this basis the Maximum Share Offer Price, even without adjustment for the deferred payment element, is not favourable to Independent Shareholders. Independent Shareholders who nevertheless wish to consider the Share Offer may bear in mind the Partial Deferred Settlement Alternative if the interest rate on HK\$0.46 per Offer Share of 4.8% per annum, which is slightly higher than the 12-month HIBOR Rate as at the Latest Practicable Date, together with the prospects of the Group achieving certain EBITDA targets in the financial years 2027 and 2028, seem to them sufficiently attractive to offset receiving a portion of the consideration in May and June 2028, rather than upfront. The MGO Advanced Payment Option may offer an earlier repayment while retaining a Variable Interest element. Independent Shareholders who are considering accepting the Partial Deferred Settlement Alternative and who are not Registered Holders would first need to move their Shares onto the Share Register, which may take time, incur costs and limit marketability during the transfer period. Independent Shareholders should consult their CCASS Participant for further information and assistance on the withdrawal process.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### (vii) The Option Offer

Since the outstanding Options are “out of the money” compared to the Full Upfront Alternative Price, the Option Offer is priced at a purely nominal consideration per Option. We consider this conventional but not acceptable. The relevant Optionholder may instead consider exercising his vested Options at HK\$1.54 per Share and selling the resultant Shares in the market, if the Shares continue to trade at a premium to the option exercise price. Holders of Options at HK\$2.18 are advised to retain them as the future price of the Shares may be quite volatile and the amount receivable from acceptance of the Option Offer is not material.

### OPINION AND RECOMMENDATION

Based on the above principal factors and reasons, we consider the terms of (i) the Share Offer and (ii) the Option Offer are not fair and not reasonable so far as the Independent Shareholders and Optionholders are concerned, and accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders and Optionholders not to accept the Share Offer or the Option Offer respectively.

The Shares have consistently traded above the Full Upfront Alternative Price of HK\$1.38 per Offer Share and the Maximum Share Offer Price of HK\$1.58 per Offer Share since publication of the Joint Announcement, closing at HK\$1.92 on the Latest Practicable Date. Independent Shareholders who might consider taking the opportunity of the Full Upfront Alternative Price setting a floor to the market price of the Shares to realise their investment should monitor the market price and the trading liquidity of the Shares with a view to disposing of some or all of their Shares in the market instead of accepting the Share Offer.

The Optionholder of Options with an exercise price of HK\$1.54 per Share whose Options have vested and are exercisable in accordance with their terms may consider exercising his Options and disposing some or all of the resultant Shares in the market. Holders of Options with an exercise price of HK\$2.18 per Share should consider retaining their Options in view of the volatility of the prices of the Shares and the minimal amount of consideration payable under the Option Offer.

Independent Shareholders should bear in mind the possibility of a suspension in trading in the Shares following the close of the Offers if a public float of 19.38% is not maintained but the threshold for privatisation is not reached. In such case, the Company and the Offeror have jointly and severally undertaken to take such steps as necessary to restore the public float.

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**  
**Jakob Fabian Hesse**  
Director



*Mr. Jakob Fabian Hesse is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over ten years of experience in the corporate finance industry.*