

4 July 2024

*To: the Independent Board Committee*

Dear Sirs or Madams,

**VOLUNTARY CONDITIONAL CASH PARTIAL OFFER BY GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED ON BEHALF OF THE OFFEROR TO ACQUIRE 660,602,843 SHARES IN THE ISSUED SHARE CAPITAL OF THE COMPANY FROM QUALIFYING SHAREHOLDERS**

**I. INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee, in relation to the Partial Offer, details of which are contained in the Composite Document dated 4 July 2024 (the “**Composite Document**”), of which this letter forms part. Unless the context otherwise requires, capitalized terms used in this letter shall have the same meaning as those defined in the Composite Document.

On 20 June 2024, the Offeror and the Company jointly announced (the “**Joint Announcement**”) that Guotai Junan Securities, on behalf of the Offeror would make a voluntary conditional cash partial offer to acquire 660,602,843 Shares (representing approximately 15.00% of the Shares in issue as at the Latest Practicable Date) from the Qualifying Shareholders at the Offer Price of HK\$0.16 per Offer Share.

As at the Latest Practicable Date, there are 4,404,018,959 Shares in issue with no outstanding options, warrants, derivatives or securities that carry a right to subscribe for or that are convertible or exchangeable into Shares or other types of equity interest, and as at the Latest Practicable Date, 2,786,946,458 Shares in issue are held by the Qualifying Shareholders.

In accordance with Rules 2.1 and 2.8 of the Takeovers Code, the Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Cai Jianmin, Mr. Liu Xueling and Ms. Qian Weiqing, has been established to make a recommendation to the Qualifying Shareholders as to whether the Partial Offer is fair and reasonable, and as to approval and acceptance of the Partial Offer. Mr. Shi Zhongyang, a non-executive Director, is an employee of the Swatch Group. As The Swatch Group (Hong Kong) Limited is a presumed concert party of the Offeror, Mr. Shi Zhongyang is therefore not

considered independent for the purpose of giving advice or recommendations to the Qualifying Shareholders. We have been appointed as the Independent Financial Adviser by the Company with the approval of the Independent Board Committee to advise the Independent Board Committee in respect of the Partial Offer and in particular as to whether the Partial Offer is fair and reasonable, and as to approval and acceptance of the Partial Offer.

In the past two years, saved as the current appointment as the Independent Financial Adviser in respect of the Partial Offer (including to (i) discuss with the Directors in relation to the disclosure of material change of the financial and trading position of the Group in the Composite Document as required under Rule 10.11 of the Takeovers Code, and (ii) issue a letter to report on certain unaudited financial information of the Group as set out in Appendix III of the Composite Document as required under Rule 10.4 of the Takeovers Code), 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, considered ourselves eligible to give independent advice on the Partial Offer. Apart from normal professional fees paid or payable to us in connection with the appointment as the Independent Financial Adviser of the Partial Offer, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror or any party acting, or presumed to be acting, in concert with any of them. We are therefore independent under Rule 13.84 of the Listing Rules and under Rule 2.6 of the Takeover Code to act as the Independent Financial Adviser to the Independent Board Committee in connection with the Partial Offer.

## **II. BASIS OF OUR OPINION**

In formulating our opinion, we have relied on the information, financial information and facts supplied to us and representations expressed by the Directors and/or the management of the Group and have assumed that all such information, financial information and facts and any representations made to us or referred to in the Joint Announcement, and the Composite Document, for which they are fully responsible, are true, accurate and complete as at the time they were made and as at the date hereof and made after due and careful inquiry by the Directors and/or management of the Group. We have been advised by the Directors and/or the management of the Group that all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading. Should there be any subsequent material changes in such information during the Offer Period, the Company will inform the Qualifying Shareholders as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. The Qualifying Shareholders shall also be informed as soon as practicable when there are any material changes to the information contained or referred to in this letter and our opinion after the Latest Practicable Date and throughout the Offer Period.

Our review and analyses were based upon, among others, the information provided by the Company and certain published information from the public domain including, the annual reports of the Company for the three years ended 31 December 2021 (the “**2021 Annual Report**”), 2022 (the “**2022 Annual Report**”), and 2023 (the “**2023 Annual Report**”) and other information as set out in the Composite Document and considered that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information nor have we conducted any form of in-depth investigation into the businesses, affairs, borrowing and financial position or prospects of the Group, the Offeror, Guotai Junan Capital, Guotai Junan Securities, the Swatch Group and each of their respective associates and parties acting in concert with them.

In relation to the Partial Offer, we have not considered the tax implications nor the stamp duty on the Qualifying Shareholders of the acceptance or non-acceptance of the Partial Offer, since tax implications depend on individual circumstances. In particular, the Qualifying Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt should consult their own professional advisers. For further details on stamp duty, please refer to Appendix I of the Composite Document.

### **III. TERMS AND CONDITIONS OF THE PARTIAL OFFER**

Set out below are the summary of terms and conditions of the Partial Offer, for details please refer to the “Letter from Guotai Junan Capital” as contained in the Composite Document.

#### **1. Pre-Condition to the Partial Offer**

The making of the Partial Offer was subject to the obtaining of the consent from the Executive in respect of the Partial Offer pursuant to Rule 28.1 of the Takeovers Code. On 25 June 2024, the Offeror and the Company jointly announced that the Pre-Condition was fulfilled.

#### **2. Conditions to the Partial Offer**

The Partial Offer is subject to the fulfilment of the following Conditions:

- (i) valid acceptances being received (and not, where permitted, withdrawn) in respect of 660,602,843 Shares (representing approximately 15.00% of the Shares in issue as at the Latest Practicable Date) at or before 4:00 p.m. (Hong Kong time) on the First Closing Date (or such later date as the Offeror may decide and the Executive may approve); and

- (ii) approval of the Partial Offer pursuant to Rule 28.5 of the Takeovers Code by the Independent Shareholders holding over 50% of the Shares not held by the Offeror and parties acting in concert with it, signified by means of a separate tick box on the Form of Approval and Acceptance specifying the number of Shares in respect of which the Partial Offer is approved.

For Qualifying Shareholders who wish to approve and accept the Partial Offer, they are reminded to complete both Box A and Box B of the Form of Approval and Acceptance. Whether or not the Independent Shareholders accept the Partial Offer, they may approve the Partial Offer and specify the number of Shares in respect of which they approve the Partial Offer in the Form of Approval and Acceptance. Each Share held by the Independent Shareholders shall be entitled to one vote only. Multiple votes in respect of the same Share will not be taken into account in counting the approval of the Partial Offer. Qualifying Shareholders may also specify the number of Shares in respect of which they tender for acceptance of the Partial Offer.

In the event that valid acceptances are received:

- (i) for less than 660,602,843 Shares (representing approximately 15.00% of the Shares in issue as at the Latest Practicable Date) by the First Closing Date, unless the First Closing Date is extended in accordance with the Takeovers Code, the Partial Offer will not proceed and will lapse immediately; and
- (ii) for not less than 660,602,843 Shares (representing approximately 15.00% of the Shares in issue as at the Latest Practicable Date) on or before the First Closing Date, the Offeror will declare the Partial Offer unconditional as to acceptances on or before the First Closing Date.

Pursuant to Rule 15.1 of the Takeovers Code, the Partial Offer must initially be open for acceptance for at least 21 days following the Despatch Date.

Pursuant to Rule 15.3 of the Takeovers Code, where a conditional offer becomes or is declared unconditional (whether as to acceptances or in all respects), it should remain open for acceptance for not less than 14 days thereafter. Pursuant to Rule 28.4 of the Takeovers Code, (i) where the Partial Offer has become or been declared unconditional as to acceptance on the First Closing Date, the Partial Offer will remain open for acceptance for 14 days thereafter in accordance with the Takeovers Code and may not be further extended; and (ii) where the Partial Offer has become or been declared unconditional as to acceptance before the First Closing Date, the Partial Offer will remain open for acceptance for not less than 14 days thereafter, provided that the Final Closing Date shall not be extended to a day beyond the 14th day after the First Closing Date.

Accordingly, if the Partial Offer is declared unconditional in all respects on or before the 14th day after the Despatch Date, then the Final Closing Date would be on (but no earlier than) the First Closing Date. If the Partial Offer is declared unconditional in all respects later than the 14th day after the Despatch Date, then the Final Closing Date would be at least 14 days after the date of such declaration.

Pursuant to Rule 15.5, except with the consent of the Executive, the Partial Offer may not become or be declared unconditional as to acceptances after 7:00 p.m. on the 60th day after the Despatch Date.

Pursuant to Rule 28.6 of the Takeovers Code, since the Offeror and parties acting in concert with it will be holding more than 50% of the voting rights of the Company if the Partial Offer becomes unconditional in all respects and full valid acceptances of the Partial Offer are received, the Offeror and parties acting in concert with it will then be free to acquire further voting rights in the Company without incurring any obligation to make a general offer subject to Rule 28.3 of the Takeovers Code (that is, the Offeror and parties acting in concert with it (including any other person who is subsequently acting in concert with it) may not acquire voting rights in the Company during the 12-month period immediately following the end of the Offer Period, except with the consent of the Executive).

Shareholders and potential investors of the Company should note that the Partial Offer is subject to the satisfaction of the Conditions. Accordingly, the Partial Offer may or may not become unconditional.

### **3. The Partial Offer**

As at the Latest Practicable Date, there are 4,404,018,959 Shares in issue, amongst Guotai Junan Securities, on behalf of the Offeror, would make a voluntary conditional partial cash offer to acquire 660,602,843 Shares (representing approximately 15.00% of the Shares in issue as at the Latest Practicable Date) from the Qualifying Shareholders at the Offer Price of HK\$0.16 per Offer Share in cash.

The Offer Price of HK\$0.16 per Offer Share was determined on an arm's length commercial basis after taking into account, among other things, the prospect of the Company, the trading liquidity and the historic closing prices of the Shares on the Stock Exchange and with reference to other similar transactions in Hong Kong in recent years.

The Offer Shares to be acquired by the Offeror from the Qualifying Shareholders shall be fully paid, free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights and benefits at any time accruing and attaching thereto, including all rights to any dividend or other distributions the record date of which falls on or after the Final Closing Date. As at the Latest Practicable Date, the Company has no declared but unpaid dividends, distributions and/or other return of capital. The Company confirms that as at the Latest Practicable Date, it does not have any intention to make, declare or pay any further dividend or make other distributions between the Latest Practicable Date and the Final Closing Date.

If, after the date of the Latest Practicable Date and up to the Final Closing Date, any dividend and distributions is declared in respect of the Offer Shares and the record date of which falls on or before the Final Closing Date, the Offeror reserves the right to reduce the Offer Price by an amount equal to the amount of such dividend or distributions declared, made or paid in respect of each Offer Share, in which case any reference in the Joint Announcement, the Composite Document or any other announcement or document to the Offer Price will be deemed to be a reference to the Offer Price as so reduced.

#### **4. Value of the Partial Offer**

##### *Comparison of value*

The Offer Price of HK\$0.16 per Offer Share represents:

- (i) a premium of approximately 14.3% over the closing price of HK\$0.140 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 18.5% over the closing price of HK\$0.135 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 19.2% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 19.7% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;
- (v) a premium of approximately 15.7% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day;
- (vi) a discount of approximately 80.0% to the audited consolidated net asset value attributable to the Shareholders of approximately HK\$0.80 per Share as at 31 December 2023, calculated based on the audited consolidated net asset value attributable to the Shareholders of RMB3,186,036,000 (based on the exchange rate of RMB1: HK\$1.0982, the exchange rate published by the Hong Kong Association of Banks on its website as at 29 December 2023 (being the last business day in Hong Kong for the year of 2023) for illustrative purposes) as at 31 December 2023 and 4,404,018,959 Shares in issue as at the Latest Practicable Date; and
- (vii) a discount of approximately 81.3% to the consolidated net asset value attributable to the Shareholders as adjusted by the valuation report set out in Appendix II of approximately HK\$0.86 per Share as at 31 December 2023, calculated based on the adjusted audited consolidated net asset value

attributable to the Shareholders of RMB3,439,129,000 (based on the exchange rate of RMB1: HK\$1.0982, the exchange rate published by the Hong Kong Association of Banks on its website as at 29 December 2023 (being the last business day in Hong Kong for the year of 2023) for illustrative purposes) as at 31 December 2023 and 4,404,018,959 Shares in issue as at the Latest Practicable Date. The above-mentioned adjustment is due to revaluation of properties as a result of the valuation report set out in Appendix V, the detailed calculation of which is set out in Appendix II. Such revaluation has not been realised as at the Latest Practicable Date. Shareholders and potential investors in the securities of the Company should consider the above factors in assessing their voting/investment decisions.

#### *Highest and lowest Share prices*

During the Relevant Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.152 on 28 December 2023 and HK\$0.120 on 9 April 2024, respectively.

### **5. Other Terms to the Partial Offer**

#### *Acceptance of the Partial Offer*

The Qualifying Shareholders may accept the Partial Offer in respect of some or all of the Offer Shares held by them.

Subject to the Partial Offer becoming unconditional in all respects: (i) if valid acceptances are received for 660,602,843 Shares, all Offer Shares validly accepted will be taken up; and (ii) if valid acceptances are received for more than 660,602,843 Shares as at the Final Closing Date, the total number of Offer Shares to be taken up by the Offeror from each accepting Qualifying Shareholder will be determined by the total number of Offer Shares tendered for acceptance in accordance with the following formula:

$$\frac{A}{B} \times C$$

A	=	660,602,843 Shares, being the total number of Offer Shares for which the Partial Offer is made
B	=	the total number of Offer Shares validly tendered by all Qualifying Shareholders under the Partial Offer
C	=	the number of Offer Shares tendered by the relevant individual Qualifying Shareholder under the Partial Offer

*Partial nature of the Partial Offer and effect of fractions*

It is possible that, if a Qualifying Shareholder tenders all his/her/its Shares for acceptance under the Partial Offer, not all of such Shares will be taken up.

Fractions of Offer Shares will not be taken up under the Partial Offer and, accordingly, the number of Offer Shares that the Offeror will take up from each Qualifying Shareholder in accordance with the above formula will be rounded up or down to the nearest whole number at the discretion of the Offeror.

*Odd lots*

The Shares are currently traded in board lots of 4,000 Shares each. Such board lot size will not be changed as a result of the implementation of the Partial Offer. Qualifying Shareholders should note that acceptance of the Partial Offer may result in their holding odd lots of Shares. Accordingly, a designated broker has been appointed by the Offeror to match sales and purchases of odd lot holdings of Shares in the market for a period of six weeks following the closing of the Partial Offer to enable such Qualifying Shareholders to dispose of their odd lots or to top up their odd lots to whole board lots of 4,000 shares each. Please refer to section headed "Odd lots" in the "Letter from Guotai Junan Capital" of the Composite Document for further details.

*Effect of accepting the Partial Offer*

Acceptance of the Partial Offer by any Qualifying Shareholder will constitute a warranty by such Shareholder to the Offeror that the Shares sold by it to the Offeror under the Partial Offer are fully paid, free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights and benefits at any time accruing and attaching thereto, including all rights to any dividend or other distributions the record date of which falls on or after the Final Closing Date. As at the Latest Practicable Date, the Company has no declared but unpaid dividends, distributions and/or other return of capital. The Company confirms that as at the Latest Practicable Date, it does not have any intention to make, declare or pay any further dividend or make other distributions between the Latest Practicable Date and the Final Closing Date.

If, after the Latest Practicable Date and up to the Final Closing Date, any dividend and distributions is declared in respect of the Offer Shares and the record date of which falls on or before the Final Closing Date, the Offeror reserves the right to reduce the Offer Price by an amount equal to the amount of such dividend or distributions declared, made or paid in respect of each Offer Share, in which case any reference in the Joint Announcement, this Composite Document or any other announcement or document to the Offer Price will be deemed to be a reference to the Offer Price as so reduced.



Acceptance of the Partial Offer shall be irrevocable and shall not be capable of being withdrawn, except as permitted under the Takeovers Code.

#### *Settlement of consideration*

Subject to the Partial Offer becomes unconditional in all respects, each Qualifying Shareholder will receive a payment of the Offer Price in cash (subject to any adjustments as set out in the paragraph “Offer Shares to be acquired” in the Letter from Guotai Junan Capital) for every Offer Share in respect of which that Qualifying Shareholder validly accepts the Partial Offer and which is taken up by the Offeror under the Partial Offer (less any seller’s ad valorem stamp duty arising therefrom).

Settlement of the consideration payable by the Offeror in respect of acceptance of the Partial Offer will be made as soon as possible but in any event no later than 7 business days (as defined in the Takeovers Code) after the Final Closing Date. For further details regarding the timing of settlement of the consideration payable by the Offeror in respect of acceptance of the Partial Offer, please refer to Appendix I of the Composite Document.

#### **IV. INFORMATION ON THE OFFEROR**

The Offeror is a company incorporated in the British Virgin Islands with limited liability on 27 July 2022 and is principally engaged in investment holding. The sole shareholder and sole director of the Offeror is Mr. Cheung.

As at the Latest Practicable Date, Mr. Cheung is the chief executive officer and the president of high-end consuming accessories business of the Group and the son of Mr. Zhang, the chairman of the Company and an executive Director.

#### **V. PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our recommendations in respect of the Partial Offer, we have considered the following principal factors and reasons:

##### **1. Background information of the Group**

The Company is a company incorporated in the Cayman Islands with limited liability and its Shares are listed on the Main Board of the Stock Exchange since September 2005. As at the Latest Practicable Date, the Group is primarily focused on (i) the high-end consuming accessories business which comprised of the manufacturing of high-end consuming accessories and the building up of high-end consuming service platforms; and (ii) international commodity trading and its related supply chain services principally in mainland China and Hong Kong. Each segment accounted for approximately 50% of the Group’s total revenue in the year ended 31 December 2023.

The Group has also, via investment in its associated company, tapped into global bulk shipping industry.

Prior to COVID-19, the Group also engaged in the sales of internationally renowned brand watches. Due to the challenging conditions, severe losses in the renowned watch business and deteriorating market environment, the Group expected that the prospects for the retail business in Hong Kong, Macau, Taiwan and Southeast Asia would be gloomy, and that the outlook for renowned watch retail business would be even more pessimistic as a result of COVID-19 as stated in the announcement of the Group dated 4 September 2020, after careful and due consideration, the Board has resolved to cease the operation of the Group's watch retail business, while continuing to develop the Group's manufacturing of high-end consuming accessories and the building up of high-end consuming service platforms business.

Referring to the 2021 Annual Report, after the Group resolved to discontinue its watch retail business, in 2021, the Group increased its investment in the international commodity trading business in order to boost profitability and strengthen its foundation for future growth. As disclosed in the 2021 Annual Report, the international commodity trading business mainly covers the importation of iron ore and manganese ore to Mainland China and pursuant to the 2022 Annual Report and 2023 Annual Report, the international commodity trading business comprised of the trading of iron ore and coal.

### *Prospects of the Group's businesses*

#### *(i) The high-end consuming accessories business*

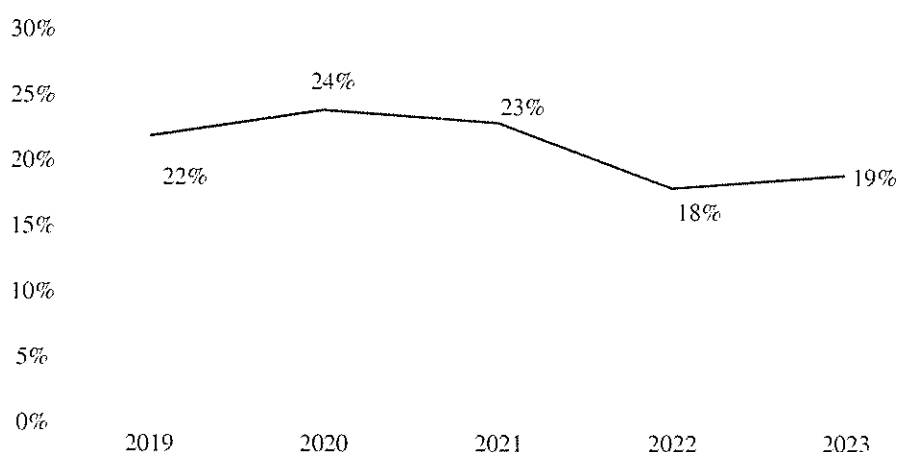
According to the 2023 Annual Report, the Group will focus on expanding the development in manufacturing of high-end consuming accessories and engage in deeper cooperation with brands and international counterparts in various ways. The Group will continue to enhance the service standard of its integrated services for commercial space in Mainland China and international markets. The Group will also fully embark on a limited number of diversified business activities to capitalize on the potential of the manufacturing of high-end consuming accessories in other high-end lifestyle products such as jewelry, cosmetics and mobile phones, and to expand its commercial space beautification services to include living space beautification services, striving to become an indispensable independent segment in the global industry ecological chain of high-end consumption.

Pursuant to news published on the website of the Shanghai Municipal People's Government of the PRC in February 2023 (<https://www.shanghai.gov.cn/nw48081/20230213/6c9583ac684c4bcf8cb56661f679d9b4.html>) (the "Article"), China's personal luxury market declined 10%, ending a five-year growth spurt in 2022. Furthermore, pursuant to the Article, according to a separate luxury industry analysis conducted by PricewaterhouseCoopers, China's luxury market will overtake the US and Europe by 2025, accounting for 25% of the global market. China's total luxury spending is expected to record a 16% annual increase to reach RMB816 billion (US\$112 billion) by 2025.

As the major products of the Group's high-end consuming accessories business comprised of watch accessories and providing high-end consuming service platform for watch retail shops in Hong Kong and PRC, the growth in export of Swiss watches to Hong Kong and PRC would be related to the growth of the Group's high-end consuming accessories business.

Set out below is the percentage of Swiss watch export to PRC including (Hong Kong) between 2019 up to 2023 with data extracted from World distribution of Swiss watch exports report published in January 2022 and January 2024:

**Swiss watch export percentage to China (including Hong Kong)**



*Source: Federation of the Swiss Watch Industry FH*

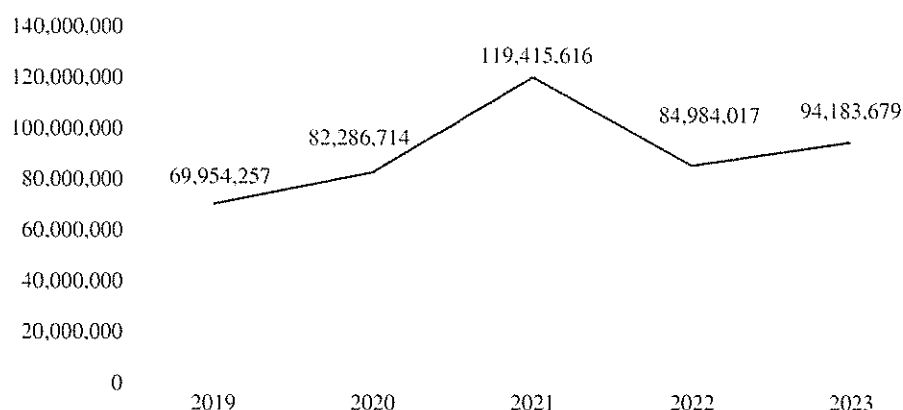
Referring to the chart above, China (including Hong Kong)'s share of Swiss watch recorded a decrease in 2021 and 2022 from 24% in 2020 to 18% in 2022. Swiss watch export percentage to China (including Hong Kong) only started to pick up in 2023.

*(ii) International commodity trading*

Pursuant to the 2023 Annual Report, in response to the difficult operating environment, the Group actively adapted to the market dynamics and accordingly made flexible and precise delivery as much as possible, in order to increase sales and decrease costs.

Set out below is a summary of the demand in the PRC of the two major commodities traded by the Group in 2023:

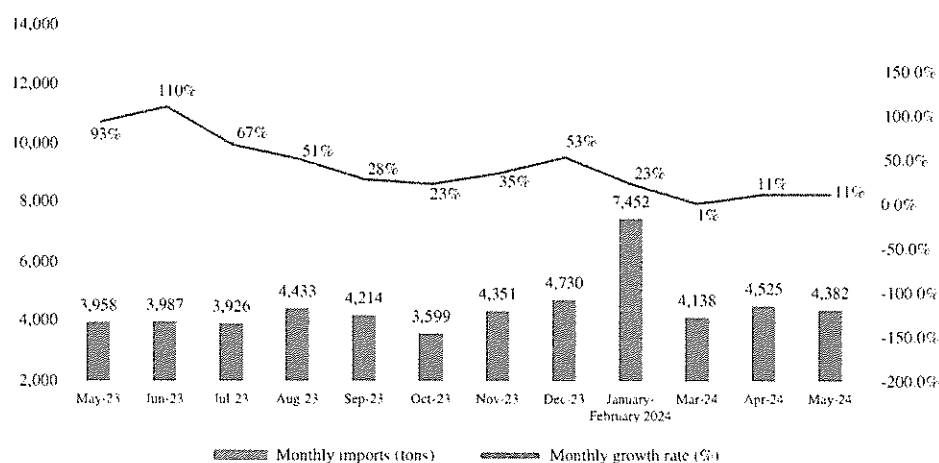
#### China Import amount of iron ore and concentrate 2019-2023 (in RMB)



Source: General Administration of Customs of the PRC

As illustrated above, demand for iron ore and concentrate decreased in 2022 and has started to pick up in 2023.

#### Monthly trend of China's Coal Imports



Source: China National Coal Association

With reference to the chart above, the monthly growth rate as compared to corresponding month in prior year recorded over 20% growth in from May to December 2023 with a highest growth rate in June 2023 of over 100%. Such growth rate gradually slowed down in 2024 and by April and May 2024 growth rates were only 11%.

Although in view of the market data above, both segments of the Group have been recovering, given the Group's performance has been fluctuating in the last five years and apart from 2021 and 2023, the Group had been loss making in the last five financial years and since then the Group has yet to declare any dividend in the last five years, the Partial Offer would present an immediate opportunity for Qualifying Shareholders to realise part of their investments in the Partial Offer for cash and redeploy the cash received from accepting the Partial Offer into other investment opportunities while allowing them to continue to enjoy any future development of the Company in considering the recovery and/or growth achieved in markets which the two business segments of the Group operated in.

## **2. Reasons for and benefits of the Partial Offer and intention of the Offeror**

### ***Reasons for the Partial Offer***

The Partial Offer represents an opportunity for Mr. Cheung to succeed the business of his father, Mr. Zhang, by acquiring a controlling interest in the Company at a fair market price and is a means of demonstrating confidence, commitment and dedication of Mr. Zhang's family to the Company; and Mr. Cheung wishes to maintain the listing status of the Company.

The Offeror believes that the Partial Offer would send a positive signal to the stakeholders of the Company, especially to its staff, customers and contractors, and demonstrate its confidence in, and strengthen its relationship with, the Group whilst reinforcing its commitment and dedication to the Group. Given the thin trading over the past year, the Offeror also considers that the Partial Offer would offer an opportunity to Qualifying Shareholders who wish to realise their investment at a premium to the market price, while the Qualifying Shareholders may also choose to retain part of their equity interest in the Company if they wish. The Partial Offer provides an opportunity for Shareholders to monetize their investments in the Company immediately for cash at a premium without any downward pressure on the Share price while to participate in the future growth of the Company (which will retain its listing status on the Stock Exchange) going forward, and to benefit from the future growth and development of the Group.

### ***Benefits to the Company and the Offeror***

Each of Mr. Zhang and Mr. Cheung is a senior management member of the Group. Upon the close of the Partial Offer, it is expected that Mr. Zhang (through Best Growth) and Mr. Cheung (through the Offeror) and the parties acting in concert with Mr. Cheung (excluding The Swatch Group (Hong Kong) Limited) will collectively hold up to 51.72% of the total issued Shares of the Company. The Partial Offer demonstrates the Zhang's family's commitment to the Group and their confidence towards the long-term prospect of the Group. The Partial Offer will also further align the interests of Mr. Cheung, as the chief executive officer of the Group, with the Group through his equity shareholding in the Company and will in turn further incentivise Mr. Cheung as an important senior management member of the Group.

*For Qualifying Shareholders: an opportunity to realize their investment in the Company at a premium amid the challenging environment*

The Qualifying Shareholders will be given an attractive opportunity to realise part of their investment at a premium to the trading price of the Shares, and at the same time retain the balance of their equity interest in the Company in order to participate in the future growth of the Company (which will retain its listing status on the Stock Exchange) going forward, and to benefit from the future growth and development of the Group.

As disclosed above, the Offer Price of HK\$0.16 per Offer Share represents a premium over the closing prices as quoted on the Stock Exchange on the Latest Practicable Date, prior to the Last Trading Day and the average closing prices as quoted for the last 5, 10, and 30 consecutive days up to and including the Last Trading Day.

The average daily trading volume of the Shares for the 12 months up to and including the Last Trading Day was approximately 3.1 million Shares per day, representing only approximately 0.07% of the total number of Shares issued and outstanding as at the Last Trading Day. Such average daily trading volume continued at comparable level up to the Latest Practicable Date. The low trading volume of the Shares makes it difficult for Shareholders to execute substantial sales of Shares on-market without adversely affecting the price of the Shares.

The Partial Offer, in contrast, provides an opportunity for Shareholders to monetize their investments in the Company immediately for cash at a premium without any downward pressure on the Share price while to participate in the future growth of the Company (which will retain its listing status on the Stock Exchange) going forward, and to benefit from the future growth and development of the Group.

In view of the above, we concur with Directors that, from the Qualifying Shareholders' perspective, the Partial Offer provides an opportunity to the Qualifying Shareholders to monetize their investment/potential interest in the Company at a premium to the recent closing prices of the Shares. The low trading volume of the Shares makes it difficult for Shareholders to execute substantial sales of Shares on-market without adversely affecting the price of the Shares, and as such the Partial Offer would present an immediate opportunity for Qualifying Shareholders to realise their investments in the Partial Offer for cash and redeploy the cash received from accepting the Partial Offer into other investment opportunities while allowing them to continue to enjoy any future growth of the Company.

### *Intention of the Offeror and public float*

With the completion of the Partial Offer, the Offeror intends that the Company will continue its existing business and the employment of employees of the Group in their ordinary courses. The Offeror has no intention to introduce any major changes in the business of the Company and any redeployment of the fixed assets of the Company or to cease or dispose of any of the Company's existing business.

As at the Latest Practicable Date, the Company has a public float of approximately 62.32% of the Shares in issue. Assuming that there are no changes to the issued share capital of the Company between the Latest Practicable Date and up to the Final Closing Date and all the Offer Shares tendered are from Shareholders which are counted towards the public float, the Company will have at least a public float of approximately 47.32% of the Shares in issue immediately following the close of the Partial Offer. Accordingly, the number of Shares in public hands will continue to meet the 25% minimum public float requirement under Rule 8.08 of the Listing Rules immediately following the close of the Partial Offer. As required to be disclosed pursuant to Rule 14.81(1) of the Listing Rules, the Offeror intends to maintain the listing status of the Shares on the Stock Exchange upon completion of the Partial Offer. The sole director of the Offeror has undertaken to the Stock Exchange to take appropriate steps if required to ensure that sufficient public float exists in the Shares as a result of the Partial Offer.

Having considered that the Offeror intendeds to continue with the Group's existing business and the Offeror has no intention to (i) introduce any major changes to the business; (ii) discontinue the employment of employees of the Group; or (iii) re-deploy the fixed assets of the Company or to cease or dispose of any of the Company's existing business, we expect that there would not be substantial change in the business activities of the Group as a direct result of the Partial Offer.

### 3. Analysis of the financial information of the Group

#### (i) Financial information of the Group

The following table summarises the consolidated financial results of the Group for the years ended 31 December 2021 (“FY2021”), 2022 (“FY2022”), 2023 (“FY2023”), which are extracted from the 2023 Annual Report and 2022 Annual Report:

	For the year ended 31 December 2023 (audited) (RMB'000)	For the year ended 31 December 2022 (audited) (RMB'000)	For the year ended 31 December 2021 (audited) (RMB'000)
<i>Continuing operations</i>			
Revenue	1,421,454	1,039,286	877,994
Cost of sales	(1,206,189)	(915,693)	(740,079)
Gross profit	215,265	123,593	137,915
Other revenue	47,299	32,033	35,822
Other net loss	(6,394)	(71,691)	(1,377)
Distribution costs	(61,100)	(55,481)	(52,532)
Administrative expenses	(172,805)	(133,323)	(118,238)
Profit/(loss) from operations	22,265	(104,869)	1,590
Share of profits of associates	16,358	76,457	50,997
Finance costs	(5,385)	(3,288)	(2,909)
Profit/(loss) before taxation	33,238	(31,700)	49,678
Income tax credit/(expense)	1,953	(2,970)	(392)
Profit/(loss) for the year from continuing operations	35,191	(34,670)	49,286

#### *For the year ended 31 December 2023 vs 31 December 2022*

The Group recorded revenue from continuing operations of RMB1,421.5 million for FY2023, representing a year-on-year increase of 36.8% compared to a revenue of RMB1,039.3 million for FY2022. The increase was mainly driven by the growth in revenue contributed from both (i) the revenue of the high-end consuming accessories business amounting to RMB710.7 million for FY2023 compared to RMB630.3 million generated in FY2022 representing a year-on-year increase of 12.8%; and (ii) the commodity trading business amounted to RMB710.7 million in FY2023 compared to RMB409.0 million recorded in FY2022, representing a year-on-year increase of 73.8%.



For FY2023, the Group recorded a gross profit for its continuing operation amounted to approximately RMB215.3 million compared to RMB123.6 million in FY2022, representing a year-on-year increase of 74.2%. The gross profit margin for the continuing operations was approximately 15.1% during FY2023 representing a year-on-year increase of 3.2 percentage points from compared to the gross profit margin of 11.9% in FY2022. The increase in gross profit and gross profit margin was mainly attributable to the fluctuations in commodity trading prices.

As a result of the above, the Group recorded a profit of RMB35.2 million for FY2023 for the continuing operations compared to a loss of RMB35.0 million for FY2022.

*For the year ended 31 December 2022 vs 31 December 2021*

During FY2022, the Group liquidated its remaining watch stocks and completely ceased its renowned watch operation, hence the Group did not generate revenue from watches trading subsequent to FY2022.

The Group recorded a revenue from continuing operations of RMB1,039.3 million for FY2022 compared to a revenue of RMB878.0 million for FY2021, representing a year-on-year increase of 18.4%. The increase in revenue was largely brought on by (i) the 14.4% year-on-year increase in revenue from high-end consuming accessories business amounted to RMB630.3 million recorded in FY2022 compared to RMB550.9 million generated in FY2021; (ii) the 25.0% year-on-year increase in revenue from commodity trading amounted to RMB409.0 million for FY2022 from RMB327.1 million recorded in FY2021.

During FY2022, the Group's gross profit for the continuing operations amounted to approximately RMB123.6 million compared to RMB137.9 million for FY2021, representing a year-on-year decrease of 10.4%. The gross profit margin for the continuing operations for FY2022 was approximately 11.9% compared to 15.7% for FY2021, representing a year-on-year decrease of 3.8 percentage points. The decrease in gross profit and gross profit margin was mainly due to a decrease in sales price caused by the unfavourable economic environment during the year.

In addition to decrease in gross profit and gross profit margin during FY2022, the Group also recorded a foreign exchange loss incurred by the operating units as a result of exchange rate fluctuations. As such, the Group recorded a loss of RMB35.0 million during FY2022 for its continuing operations compared to a profit of RMB49.3 million for FY2021.

(ii) *Financial position of the Group*

A summary of the audited financial position of the Group as at 31 December 2023, and 31 December 2022, as extracted from the 2023 Annual Report is set out below:

	As at 31 December 2023 RMB'000	As at 31 December 2022 RMB'000
Investment properties	266,398	126,694
Property, plant and equipment	551,137	512,032
Intangible assets	2,727	3,415
Goodwill	52,611	52,014
Interests in associates	137,386	132,780
Other investments	368,582	355,331
Prepayment and deposits	46,707	1,748
Deferred tax assets	3,259	2,721
<b>Total non-current assets</b>	<b>1,428,807</b>	<b>1,186,735</b>
Inventories	258,115	237,768
Trade and other receivables	558,072	703,627
Loans to associates	33,789	67,273
Other investments	10,654	7,336
Current tax recoverable	469	168
Deposits with banks	318,437	272,701
Cash and cash equivalents	990,815	1,050,187
<b>Total current assets</b>	<b>2,170,351</b>	<b>2,339,060</b>
Trade and other payables and contract liabilities	226,920	201,935
Bank loans	76,653	56,799
Lease liabilities	8,313	10,802
Current taxation	2,846	4,961
<b>Total current liabilities</b>	<b>314,732</b>	<b>274,497</b>
Bank loans	17,483	24,922
Lease liabilities	21,309	6,542
<b>Total non-current liabilities</b>	<b>38,792</b>	<b>31,464</b>
<b>Net assets</b>	<b>3,245,634</b>	<b>3,219,834</b>

The total assets of the Group amounted to approximately RMB3,599.2 million as at 31 December 2023. The non-current assets of the Group comprise mainly (i) investment properties of approximately RMB266.4 million and property, plant and equipment of approximately RMB551.1 million; and (ii) other investment amounting to approximately RMB368.6 million.

The current assets of the Company comprised mainly (i) inventories of approximately RMB258.1 million; (ii) trade and other receivables of approximately RMB558.1 million; and (iii) cash and cash equivalents and deposits with banks of approximately RMB1,309.3 million.

The total liabilities of the Group amounted to approximately RMB353.5 million as at 31 December 2023 mainly comprising (i) trade and other payables and contract liabilities amounting to RMB226.9 million; (ii) bank loans of RMB94.1 million; and (iii) lease liabilities of RMB29.6 million.

Despite the fact that the Group recorded an increase in revenue and profit during FY2023 compared to FY2022, the Group's performance has been fluctuating in the last five years and apart from FY2021 and FY2023, the Group had been loss making in the last five financial years and since then has yet to declare any dividend.

*(iii) Property valuation of the Group and the adjusted net assets value*

The Group had carried out property valuation on the market values as at 31 March 2024 of the properties held by the Group located in Hong Kong, Taiwan and the PRC (the "**Properties**"). The valuation on the Properties as at 31 March 2024 was conducted by the Valuer, using various valuation approaches for different property types, for further details of the valuation report please refer to Appendix V to the Circular (the "**Valuation Report**").

*Expertise and independence of the Valuer*

To assess the expertise and independence of the Valuer, we have (i) reviewed the engagement letter of the Valuer; and (ii) discussed with members of the valuation team engaged in the valuation of the Target Company to understand their experience and relationship with the Company as well as the valuation methodology adopted.

Based on our discussion with the Valuer and from public domain, the Valuer is member of Kroll global network with a team of over 6,500 professionals worldwide with nearly 100-year history. The Valuer has over 40 years presence in Asia pacific and has a team of over 1,500 employees in Asia pacific.

The valuation team engaged by the Group was led by Ms. Elaine H. L. Ng, who is a Registered Professional Surveyor (General Practice), a member of Hong Kong Institute of Surveyors and a member of Royal Institute of Chartered Surveyors, has over 16 years' post qualification experience in valuation of properties in Hong Kong, the PRC and Asia. Team members include (but not limited to) (i) Mr. Robert Hu, who is a member of CREA and CPV, Vice President of Kroll and has over 30 years' valuation experience in real estate in the PRC; and (ii) Ms. Kathy Li, who is a member of ASA, also a Vice President of Kroll and has over 30 years' valuation experience in real estate in the PRC.

The Valuer has confirmed that it is an independent third party of the Company, the Offeror or any party acting, or presumed to be acting, in concert with any of them. Furthermore, the Valuer confirmed to us that apart from normal professional fees payable to it in connection with its engagement for the issuance of the Valuation Report and other valuation engagements from time-to-time, no arrangements exist whereby it will receive any fee or benefit from the Group, the Offeror or any party acting, or presumed to be acting, in concert with any of them.

Based on our discussion with the Valuer and our review of their scope of work, we are not aware of any matters that could cause us to have doubts on the expertise and independence of the Valuer.

#### *The Valuation*

In assessing the fairness and reasonableness of the valuation of the Properties, we have reviewed the Valuation Report, the basis and assumptions made, and the methodology adopted by the Valuer in preparing the Valuation. Details of the assumptions are set out in the Valuation Report as contained in Appendix V to the Composite Document.

The Properties comprise 17 properties located in Hong Kong, Taiwan and in the PRC owned by the Group and one leased by the Group with no commercial value, with permitted use comprising of Industrial, Office Unit, Residential, Office, Shop and Car Parking Space. Pursuant to the Valuation Report, different valuation methodologies have been adopted for different usage types of the properties. For commercial, residential properties and land parcels, the Valuer has adopted the market approach to determine their market values, while the Valuer adopted cost approach to determine the market value(s) of the industrial properties.

##### *(a) For commercial, residential properties and land parcels*

In the valuation of the properties in its existing state, market approach was adopted. Comparables were selected with characteristics comparable to each of the subject property, such as location, size and permitted use.

The market approach is commonly used for real estate when comparable transactions and prices are available in the market. The market approach studies recent sales of similar properties, making adjustments for the differences between them. In situations where limited data is available, alternative methods such as the cost approach will be considered.

We have reviewed the respective comparables adopted for valuing commercial, residential properties and land parcels and understand that the selected comparables (if available) were within the same district of the subject property, if not in a proximate district where the subject property is located.

Due adjustments to the unit rates of those comparable have been made to reflect the difference in transaction including but not limited to transaction status, location, age, type, size and uses.

As advised by the Valuer, all of the above adjustments applied in conformity to the market practice. We noted that the adjustments applied in the Valuation were generally in line with the aforesaid basis and rationale.

(b) Industrial properties

In the valuation of the industrial properties in its existing state, cost approach was adopted, which comprised of (i) determination of land value by the direct comparison method; (ii) building value which took into account reproduction or replacement costs of the improvements are estimated as if the improvements were new; and (iii) adjustment for all elements of accrued depreciation including physical depreciation, functional and/or external obsolescence.

We have discussed with the Valuer and understood that unlike other standard factory units, there are apparently no market sale or lease transactions of real properties of similar type of production facilities in this region of PRC. Real properties of such type are usually bought together with other assets of the business. Hence, it is difficult, if not impossible, to find market comparables for meaningful analysis. Furthermore, industrial premises of similar type are largely purpose-built, and are not disposed of on a piecemeal basis. Therefore, it was not considered appropriate to adopt market or income approaches for industrial properties in the course of valuation.

**Valuation criteria**

Land value	<p>To determine the land value, the Valuer has made reference to various recent sales prices of industrial land parcels within the vicinity.</p> <p>The land sales comparable are selected as they have characteristics comparable to the subject property, such as location, size and permitted use.</p> <p>We have reviewed the respective land sales comparable adopted and understand that the selected comparables (if available) were within the same district of the subject property, if not in a proximate district where the subject property is located.</p>
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## Valuation criteria

Building value-  
reproduction or  
replacement costs of  
the improvements

For the buildings of the property, the Valuer has made reference to the prevailing construction costs in the vicinity to derive the replacement cost. The Valuer has made reference to the market cost comparables disclosed in the commonly used market cost data platform, which is known as “Glodon Construction Cost Data Platform 廣聯達建築成本資料平臺” with the following link:

<https://www.gldzb.com/#/home>

From our research from public domain, Glodon Construction Cost Data Platform is a data base which could provide subscriber with costing data construction of various properties including residential, office, hotel, commercial, industrial for 30 provinces in the PRC.

We have reviewed the relevant cost data provided by the Valuer and noted that the construction costs adopted in the Valuation were in-line with the cost data as noted from “Glodon Construction Cost Data Platform 廣聯達建築成本資料平臺”.

Adjustment for  
depreciation

After the determination of replacement cost, the Valuer made further adjustment on depreciation of the buildings. We noted from the depreciation adjustment calculation of the Valuer that the adjustment took into account the term of the land use right and the number of years which the subject property have been in use, which reflects the depreciation of the buildings for its available useful life.

Given the unique nature of industrial properties, we concur with the Valuer that applying cost approach while taking into consideration various recent sales prices of industrial land parcels for value the land of which the industrial properties were situated on to be appropriate.

### (c) Tax implications

As confirmed by the Group, as at the Valuation Date, the Group has no intention to sell the Properties and therefore the valuation did not take into account any tax implications.

Taking into consideration the above, we consider we have performed work as required under note (1)(d) to Rule 13.80 of the Listing Rules in relation to the Valuer and its work in arriving at the Valuation. We have enquired (i) the terms of engagement of the Valuer (including its independence) with the Company; (ii) the qualification and experience of the Valuer in relation to the valuation of similar property interests in Hong Kong, Taiwan and in the PRC; and (iii) the work taken by the Valuer in conducting the Valuation. From the relevant information provided by the Valuer and based on our interview with them, we are satisfied with the terms of engagement of the Valuer and noted that the scope of work is appropriate for arriving at the opinion in the Valuation and the Valuer has confirmed to us that there is no limitation on the scope of work. We are also satisfied with their qualifications and experience for the preparation of the Valuation Report.

*The adjusted unaudited net assets value*

By taking into account the effect of fair value changes arising from the valuation of all the Properties of the Group as at 31 March 2024 (as contained in the Valuation Report) set out in Appendix V to this Composite Document), set out below is the calculation of the adjusted net asset value of the Group:

		<i>RMB'000 (except for the Adjusted NAV per Share)</i>
Audited consolidated net asset value of the Group attributable to Shareholders as at 31 December 2023 (Note 1)		3,186,036
Adjustments:		
– Fair value changes on the property interests of the Group as at 31 March 2024 attributable to Shareholders based on the Valuation Report (Note 2)		253,093
Adjusted net asset value		3,439,129
Adjusted net asset value per Share (“Adjusted NAV per Share”) (Note 3)		RMB0.78 (equivalent to approximately HK\$0.86)

*Notes:*

1. The amount is extracted from the audited consolidated statement of financial position of the Group as at 31 December 2023.

2. The fair value change represents the excess of market value of the property interests as at 31 March 2024 over their corresponding carrying amount as at 31 December 2023 less the amount attributable to minority shareholders of the Group, as illustrated below:

Calculation of fair value gain:

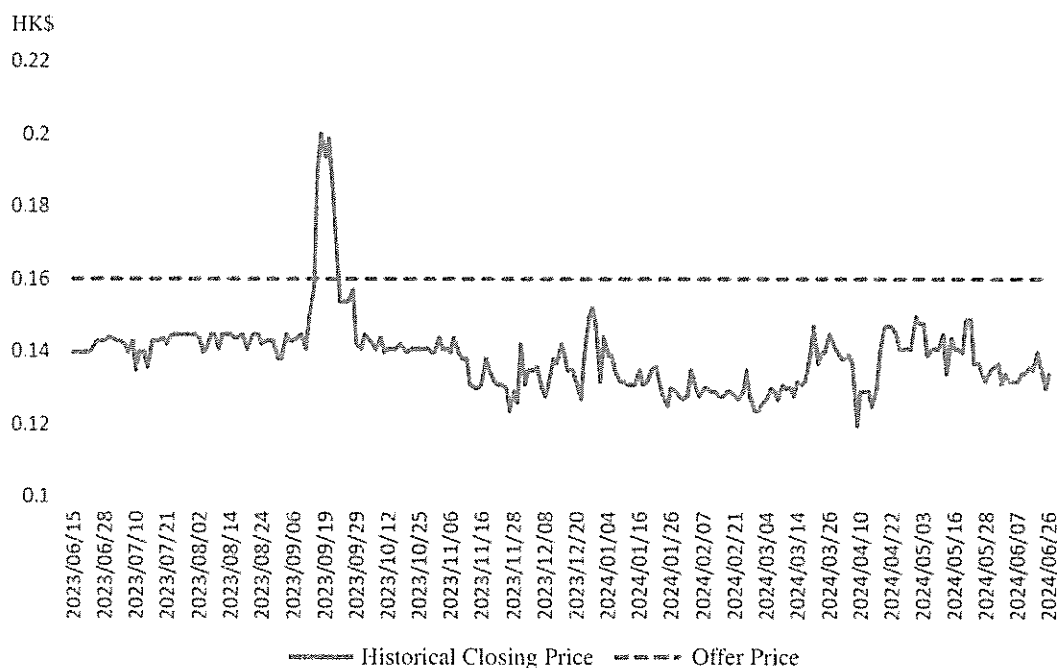
	<i>RMB'000</i>
Fair value of property interests of the Group as at 31 March 2024 (as set out in Appendix V to this Composite Document)	948,300
Less: Carrying value of the relevant property interests as at 31 December 2023	682,618
Fair value gain	265,682
Among which attributable to the Shareholders	253,093

3. The Adjusted NAV per Share is arrived at on the basis of 4,404,018,959 Shares in issue as at the Latest Practicable Date. The exchange rate of RMB1: HK\$1.0982, being the exchange rate published by the Hong Kong Association of Banks on its website as at 29 December 2023 (being the last business day in Hong Kong for the year of 2023), is adopted for the conversion of RMB into HK\$.

#### 4. Analysis of market price of the Shares

##### (a) *Historical price performance compared to the Offer Price of HK\$0.16 per Offer Share*

The chart below illustrates the daily closing price of the Shares as quoted on the Stock Exchange for the period from 15 June 2023 to the Latest Practicable Date, being the period of approximately 12 months prior to the Last Trading Day and up to and including the Latest Practicable Date (the “**Review Period**”). We consider that the Review Period represents a reasonable period of time within which the prevailing market price of the Shares can be illustrated.



Source: Website of the Stock Exchange



As illustrated above, the Offer Price was above the closing prices of the Shares during the majority time of the Review Period, which comprised of 251 trading days, saved for 6 trading days out of the 251 trading days between 15 September 2023 to 22 September 2023 which Shares were trading between HK\$0.167 per Share to HK\$0.2 per Share and gradually decrease thereafter. We have enquired with the management of the Group and were advised that, the Directors were not aware of any specific reasons which may have an impact of the fluctuations of Share prices during the above-mentioned trading days.

During the Review Period, the Shares have been trading between the price range of HK\$0.12 per Share to HK\$0.2 per Share with an average trading price of approximately HK\$0.14 per Share. The Offer Price represents a discount of approximately 20% to the highest closing price of the Shares of HK\$0.2 per Share and premium of approximately 33.3% and 14.3% over the lowest closing price of HK\$0.12 per Share and the average closing price of HK\$0.14 per Shares during the Review Period, respectively.

During the period between 15 June 2023 to 12 September 2023, the Group announced (i) an indirect wholly-owned subsidiary of the Company had won a bid to acquire 2 properties in the PRC on 3 August 2023; (ii) the Group's interim result on 22 August 2023 recording a loss for the period from continuing operations of RMB8.8 million as compared to a profit of RMB10.8 million as compared to the corresponding period in 2022; and (iii) an inside information regarding the transfer of Shares by the then controlling Shareholder to his family members on 23 August 2023. Share prices did not have a strong reaction towards the abovementioned announcements and traded at comparable price prior to the announcements and between 15 June 2023 to 12 September 2023, Share price traded at a range of HK\$0.135 to HK\$0.145 per Share.

Share price started to pick up on 13 September 2023 increasing to HK\$0.15 per Share and continue to rise and reached a peak during the Review Period of HK\$0.2 per Share on 18 September 2023. As mentioned above, the Directors advised that they were not aware of any specific reasons which may have an impact of the fluctuations of Share prices during such days. We noted that the Company announced the resignation of an independent non-executive director on 25 September 2023. Following such announcement, the closing price of the Shares on 26 September 2023 remained comparable to the closing price of Shares prior to the announcement.

After peaking at HK\$0.2 per Share on 18 September 2023, the Share price decreased gradually during the remaining trading days in 2023 and closed at HK\$0.148 on 29 December 2023, being the last trading day of 2023.

During the first two months of 2024 and prior to the announcement of positive profit alert announcement on 8 March 2024 and the results announcements on 20 March 2024 regarding the annual financial results of 2023 ("**2023 result announcements**"), the closing price of the Shares was trading between HK\$0.124 to HK\$0.144 per Share and closed at HK\$0.127 per Share on 7 March 2024 prior to 2023 results announcements. After the 2023 result announcements published on 20 March 2024, Share price started to pick and increased to

HK\$0.137 on 21 March 2024 after the publication of the results announcements of 2023 recording a profit for the year from continuing operations of RMB35.2 million as compared to a loss of RMB34.7 million in 2022.

The closing price of the Shares fluctuated thereafter and recorded the lowest trading price of the Review Period of HK\$0.12 per Share on 9 April 2024 after the publication of 2023 Annual Report on 8 April 2024. The closing price of the Shares thereafter was on a gradual increasing trend and closed at HK\$0.135 per Share on 14 June 2024 prior the trading halt requested by the Company with effective from 17 June 2024 pending to the release of the Joint Announcement.

The price of the Shares closed at HK\$0.14 on 21 June 2024, which was the first trading day immediately following the publication of the Joint Announcement. Since then, the closing price of the Shares remained relatively stable in the range of HK\$0.13 to HK\$0.14 and closed at HK\$0.14 as at the Latest Practicable Date.

During the period after the publication of the Joint Announcement up to and including the Latest Practicable Date (the “**Post-Announcement Period**”), the Offer Price of HK\$0.16 per Share represents (i) a premium of approximately 23.1% over the lowest closing price of HK\$0.13 per Share; (ii) a premium of approximately 14.3% to the highest closing price of HK\$0.14 per Share during the Post-Announcement Period; and (iii) a premium of approximately 14.3% over the closing price of HK\$0.14 per Share as at the Latest Practicable Date.

We noted that the Offer Price represented a discount of approximately 80.0% and 81.3% to the audited consolidated net asset value attributable to the Shareholders of approximately HK\$0.80 per Share as at 31 December 2023 and the Adjusted NAV per Share of approximately HK\$0.86 respectively. Nevertheless, we also note that, (i) over 61.1% of the total assets of the Group as at 31 December 2023 represented property, plant and equipment, investment properties, intangible assets and goodwill which were illiquid in nature; and (ii) the Shares had been trading at a substantial discount to the consolidated net assets attributable to owners of the Company per Share throughout the Review Period (referring to analysis below).

*(b) Comparison of Offer Price against NAV per Share and Adjusted NAV per Share*

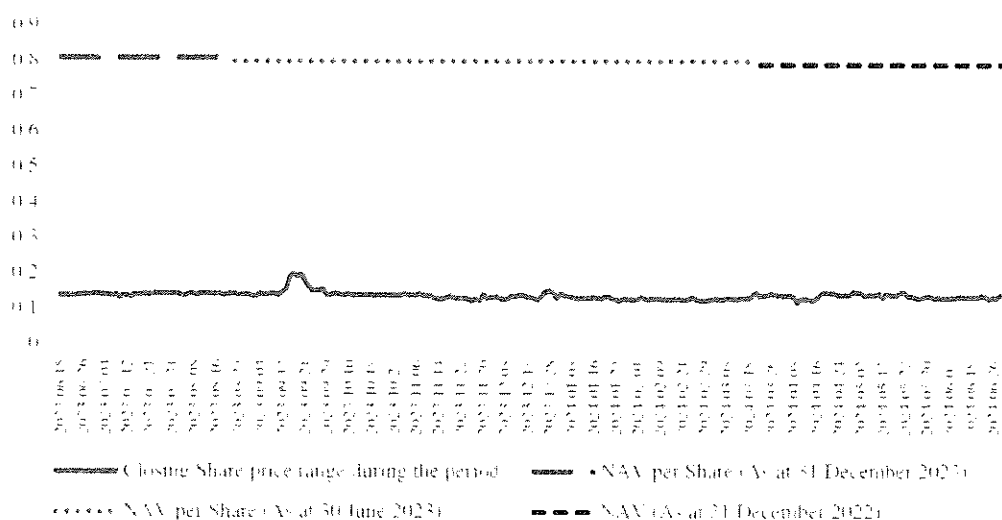
The Offer Price represents:

- (i) a discount of approximately 80.0% to the audited consolidated net asset value attributable to the Shareholders (“**NAV per Share**”) of approximately HK\$0.80 per Share as at 31 December 2023, calculated based on the audited consolidated net asset value attributable to the Shareholders of RMB3,186,036,000 (based on the exchange rate of RMB1: HK\$1.0982, the exchange rate published by the Hong Kong Association of Banks on its website as at 29 December 2023 (being the last business day in Hong Kong for the year of 2023) for illustrative purposes) as at 31 December 2023 and 4,404,018,959 Shares in issue as at the Latest Practicable Date; and

(ii) a discount of approximately 81.3% to the Adjusted NAV per Share;

In assessing the Offer Price against the NAV per Share, we have also considered the historical trading price against the NAV per share subsequent to the publication of consolidated financial position during the Review Period as set out below:

Financial Year/ period end	NAV attributable to owners of the Company  RMB	NAV per Share (Note 1) HK\$	Closing Share price range during the period (Note 2) HK\$	Average closing Share price (Note 3) HK\$	Discount to NAV per to Average Share price (Note 4) %
As at 31 December 2023	3,186,036,000	0.79	0.12-0.15 (From 21 March 2024 to 28 June 2024)	0.138 (From 21 March 2024 to 28 June 2024)	83%
As at 30 June 2023	3,251,070,000	0.80	0.124-0.20 (From 23 August 2023 to 20 March 2024)	0.138 (From 23 August 2023 to 20 March 2024)	83%
As at 31 December 2022	3,161,540,000	0.81	0.135-0.145 (From 15 June 2023 (Note 5) to 22 August 2023)	0.143 (From 15 June 2023 (Note 5) to 22 August 2023)	82%



- The NAV per share is calculated by dividing the audited/unaudited consolidated NAV attributable to owners of the Company as at the respective year/period end date as extracted from the respective annual/interim results announcement published by the Company over the number of issued shares as at respective year/period end date.

For illustrative purpose, we have adopted the exchange rate below as published by the Hong Kong Association of Banks on its website at respective year/period end date:

31 December 2023 (as at 29 December 2023 as it is the last working day of the financial year): RMB1 = HK\$1.0982

30 June 2023: RMB1 = HK\$1.0797

31 December 2022: RMB1 = HK\$1.1299

2. Representing the range of the closing Share price during the period from the trading day following the publication by the Company of its audited annual results or unaudited interim results (as the case may be)/commencement of the Review Period to the trading day on which the subsequent unaudited interim results or audited annual results (as the case may be) were published/up to the Latest Practicable Date.
3. Representing the average closing Share price during the period from the trading day following the publication by the Company of its audited annual results or unaudited interim results (as the case may be)/commencement of the Review Period to the trading day on which the subsequent unaudited interim results or audited annual results (as the case may be) were published/up to the Latest Practicable Date.
4. Representing the discount of the average closing Share price to the NAV per Share as at the respective year/period end date and subject to rounding.
5. Being the commencement day the of the Review Period (i.e one year prior to the Last Trading Day).

We noted that the Offer Price represents a discount of 80.0% to the NAV per Share as at 31 December 2023 and a discount of 81.3% to the adjusted NAV per Share as at 31 December 2023. Considering the fact that the Shares have been trading not at a price level close to the NAV per share and with average trading prices recorded a discount between 82% and 83% towards the NAV per share of the respective period, it is implied that the market may not value the Shares solely with reference to the NAV per share and trading price of the Shares may not have a direct correlation to the change in NAV.

(c) *Comparison of price to earning ratio ("PE Ratio") of the Offer Price against historical PE Ratio*

In assessing the Offer Price, we have also considered the historical PE Ratio subsequent to the publication of consolidated financial performance of the Group during the Review Period against the implied PE Ratio of the Offer Price of 18.9 times calculated based on the profit attributable to the shareholders of the Company of approximately HK\$37.21 million (equivalent to approximately RMB33.89 million based on an exchange rate of RMB1=HK\$1.0982 as published by the Hong Kong Association of Banks on its website on 29 December 2023) for the year ended 31 December 2023 as set out below:

Financial Year/period end	Profit attributable to owners of the Company <i>RMB</i>	Earning/(Loss) per Share (Note 1) <i>RMB</i>	Closing Share price range during the period (Note 2) <i>HK\$</i>	Average closing Share price (Note 3) <i>HK\$</i>	Historical PE Ratio considering average closing price (Note 4) <i>(times)</i>
FY2023	33,885,000	RMB 0.00769 HK\$ 0.00845	0.12-0.15 (From 21 March 2024 to 28 June 2024)	0.138 (From 21 March 2024 to 28 June 2024)	16.33
FY2022	Loss making	RMB (0.018) HK\$ (0.02)	0.124-0.20 (From 15 June 2023 (Note 5) to 20 March 2024)	0.139 (From 15 June 2023 (Note 5) to 20 March 2024)	N/A, the Group was loss making in FY2022

1. Earning/(Loss) per Share is calculated by dividing the profit attributable to the shareholders of the Company pursuant to the disclosure in the respective annual reports of the Group over the number of issued shares as at respective year end.

For illustrative purpose, we have adopted the exchange rate below as published by the Hong Kong Association of Banks on its website at respective year/period end date and is subject to rounding:

31 December 2023 (as at 29 December 2023 as it is the last working day of the financial year): RMB1 = HK\$1.0982

31 December 2022: RMB1 = HK\$1.1299

2. Representing the range of the closing Share price during the period from the trading day following the publication by the Company of its audited annual results/commencement of the Review Period to the trading day on which the subsequent audited annual results were published/up to the Latest Practicable Date.
3. Representing the average closing Share price during the period from the trading day following the publication by the Company of its audited annual result/commencement of the Review Period to the trading day on which the subsequent audited annual results (as the case may be) were published/up to the Latest Practicable Date.
4. Calculated based on dividing the average closing price by the respective earnings per Share.
5. Being the commencement day the of the Review Period (i.e one year prior to the Last Trading Day).

We noted that the implied PE ratio of the Offer Price is 18.9 times while the historical PE Ratio (taking into account the average closing price after the publication of the 2023 annual results up to the Latest Practicable Date) was 16.33 times, while no historical PE ratio could be computed between the commencement of the Review Period up until the publication of the financial result of the Group for the year ended 31 December 2023 on 21 March 2024 as the Group was loss making in 2022. In view of such, the Offer Price implied a better PE Ratio as compared to the available historical PE ratio during the Review Period.

*(d) Trading volume*

We have also reviewed the trading liquidity of the Shares during the Review Period. The table below sets out the trading volume of the Shares on the Stock Exchange during the Review Period:

	Number of trading days in the relevant month/period	Total trading volume for the month/period (Note 1)	Average daily volume for the month/period (Note 2)	Percentage of average daily trading volume to the issued Shares as at the end of each month/period (Note 3)	Percentage of average daily trading volume to the total number of Shares held by public Shareholders as at the Latest Practicable Date (Note 4)
<b>2023</b>					
From 15 June to 30 June	11	6,586,800	598,800	0.01%	0.03%
July	20	286,829,600	14,341,480	0.33%	0.63%
August	23	56,697,700	2,465,117	0.06%	0.11%
September	19	187,668,800	9,877,305	0.22%	0.43%
October	20	11,302,402	565,120	0.01%	0.02%
November	22	7,602,400	345,564	0.01%	0.02%
December	19	68,428,427	3,601,496	0.08%	0.16%
<b>2024</b>					
January	22	39,102,400	1,777,382	0.04%	0.08%
February	19	71,344,800	3,754,989	0.09%	0.16%
March	20	12,959,600	647,980	0.01%	0.03%
April	20	9,180,000	459,000	0.01%	0.02%
May	21	7,241,600	344,838	0.01%	0.02%
From 1 June to Latest Practicable Date	15	6,052,000	403,467	0.01%	0.02%
<i>Average</i>				<i>0.07%</i>	<i>0.13%</i>
<i>Maximum</i>				<i>0.33%</i>	<i>0.63%</i>
<i>Minimum</i>				<i>0.01%</i>	<i>0.02%</i>

Source: Website of the Stock Exchange

*Notes:*

1. Total trading volume is expressed in terms of number of Shares being traded.
2. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period.
3. Based on the number of Shares outstanding as at the end of each month/period or at the Latest Practicable Date (as applicable).
4. Based on 2,287,053,658 Shares held by public Shareholders (which have excluded the Shares held by the Offeror and the parties acting in concert with it and the Directors) as at the Latest Practicable Date.

We note from the above table that average daily trading volume ranged from approximately 344,838 Shares to 14,341,480 Shares, representing approximately 0.01% to 0.33% of the total number of Shares in issue as at the end of the respective month/period or as at the Latest Practicable Date (as applicable), and approximately 0.02% to 0.63% of the total number of Shares held by public Shareholders (which have excluded the Shares held by the Offeror and the parties acting in concert with it and the Directors) as at the Latest Practicable Date. We noted that the trading volume during July 2023 and September 2023 was exceptionally high as disclosed in the Stock Exchange's official website. We have enquired with the management of the Group regarding the relatively high trading volume of the Shares comparing to that of the rest of the other months during the Review Period and we were advised that the Company is not aware of any particular reason that led to the higher trading volume of the Shares.

Taking into account the fact that the average daily trading volume of the Shares during the Review Period was approximately 0.07% of the total issued Shares and approximately 0.13% of the Free Float Shares, we are of the view that the trading volume of Shares is to be considered as low, and in normal circumstances, if the Qualifying Shareholders are to dispose of a large number of Shares in the market, it may exert downward pressure on the market price of Shares.

*(e) Comparison against comparable companies*

In order to assess the fairness and reasonableness of the Offer Price, we consider the reference to price-to-earnings multiple ("**PE Ratio**") and price-to-book multiple ("**PB Ratio**") which are all common valuation methods, would be relevant.

The Offer Price represents a PE Ratio of approximately 18.9 times calculated based on the profit attributable to the shareholders of the Company of approximately HK\$37.21 million (equivalent to approximately RMB33.89 million based on an exchange rate of RMB1=HK\$1.0982 as published by the Hong Kong Association of Banks on its website on 29 December 2023) for the year ended 31 December 2023; and a PB Ratio of approximately 0.20 times calculated based on the audited consolidated net asset value of approximately HK\$3,498.9 million (equivalent to approximately RMB3,186.0 million based on an exchange rate of RMB1=HK\$1.0982 as published by the Hong Kong Association of Banks on its website on 29 December 2023) as at 31 December 2023.

As set out in the 2023 Annual Report for the year ended 31 December 2023, the revenue generated from the high end consumer accessories business and commodity trading business were approximately RMB710.7 million and RMB710.7 million which accounted for approximately 50.0% and 50.0% of the total revenue of the Group, respectively.

We have sought to identify comparable companies that are (i) engaged in both high end consuming accessories business and commodity trading business; (ii) listed on the Main Board of the Stock Exchange; and (iii) has a market capitalisation between HK\$100 million and HK\$1 billion, but were unable to identify comparable companies which conducted both high end consuming accessories business and commodity trading business similar to the Group.

Given that we did not identify any comparable companies which match the above criteria, we are of the view that a comparable analysis may not be applicable in assessing the fairness and reasonableness of the Partial Offer.

*(f) Comparison against partial offer precedents*

For the purpose of our analysis of the Offer Price, we have attempted to identify partial cash offer proposals based on the following criteria: (i) the company subject to the partial offer is publicly listed on the Stock Exchange; (ii) the partial cash offer proposals were first announced and subsequently completed during the period from 1 January 2019 up to and including the Latest Practicable Date; and (iii) the shareholding of the offeror and parties acting in concert with it of the precedents is over 30% but less than 50% prior to completion and will exceed 50% upon completion of such partial offer.

As we could only identify one precedent case, Xingda International Holdings Limited (stock code: 1899) which matches the above criteria, we are of the view that an analysis on comparison against only one partial offer precedent may not be applicable in assessing the fairness and reasonableness of the Partial Offer.

## **VI. DISCUSSION AND ANALYSIS**

In forming our opinion and recommendation below, we have taken into account the factors set out under the section headed “V. Principal factors and reasons considered” above, none of which can be considered in isolation. We would like to draw the attention in particular to the points summarised below:

- (i) there would not be substantial change in the existing business of the Group as a result of the Partial Offer based on the intention of the Offeror as stated in section headed “2. Reasons for and benefits of the Partial Offer and intention of the Offeror” above in this letter;



- (ii) no dividend has been declared in the past five years thus the Partial Offer provides an opportunity for Shareholders to monetize their investments in the Company immediately for cash at a premium without any downward pressure on the Share price while to participate in the future growth of the Company (which will retain its listing status on the Stock Exchange) going forward, and to benefit from the future growth and development of the Group;
- (iii) the global political situation is experiencing a high degree of unrest, making the global economy more perplexing and the business environment remains complicated and grim. China's economy has been struggling for recovery amid external instability and uncertainties as well as internal challenges. Despite, the Directors considered that the economy will recover and achieve growth in the long run, the Group's performance has been fluctuating in the last five years and apart from 2021 and 2023, the Group had been loss making in the last five financial years;
- (iv) the Offer Price represents a discount of 80.0% to the consolidated net asset value attributable to the Shareholder as at 31 December 2023 and a discount of 81.3% to the adjusted NAV per Share. Considering the fact that the Shares have been trading not at a price level close to the NAV per share and in fact at recording a discount between 82% and 83% of NAV per share for the past published financial results it may imply that the market may not value the Shares solely or directly with reference to the NAV per share and trading price of the Shares may not have a direct correlation to the change in NAV;
- (v) despite the Offer Price represents a discount of 80.0% and 81.3% to the audited consolidated net asset value attributable to the Shareholders of approximately HK\$0.80 per Share as at 31 December 2023 and the adjusted unaudited net asset value per Share of HK\$0.86 per Share respectively, we noted that over 61.1% of the total assets of the Group as at 31 December 2023 represented property, plant and equipment, investment properties, intangible assets and goodwill which were illiquid in nature; and
- (vi) the Offer Price was above the closing prices of the Shares during the majority time of the Review Period (saved for 6 trading days), the historical trading volumes of the Shares were low during the Review Period, with a range of average daily trading volume of the Shares as compared to the Shares held by the public from approximately 0.02% to approximately 0.63% and it is uncertain as to whether there would be sufficient liquidity in the Shares for the Qualifying Shareholders (especially those with relatively sizeable shareholdings) to dispose of a large volume of Shares in the open market at a fixed cash price within a short period of time without exerting downward pressure on the Shares price, therefore, the Partial Offer may represent an opportunity for the Qualifying Shareholders (especially those with relatively sizeable shareholdings) to dispose of part of their Shares at the Offer Price if they so wish and the Partial Offer may represent an opportunity for them to realise part of their investments.

## VII. RECOMMENDATION

Having considered the principal factors and reasons as discussed above, we consider that the Partial Offer (including the Offer Price) are fair and reasonable so far as the Independent Shareholders are concerned and accordingly, we advise the Independent Board Committee to recommend (i) the Independent Shareholders to approve the Partial Offer; and (ii) the Qualifying Shareholders to accept the Partial Offer.

Nonetheless, we would like to remind the Qualifying Shareholders who would like to realise their investments in the Shares to closely monitor the market price and liquidity of the Shares during the Offer Period and in any event come across any opportunity(ies) to obtain better return in selling their Shares in the open market may, instead of accepting the Partial Offer, consider selling their Shares in the open market should such sale proceeds, net of all transaction costs, exceed the amount receivable under the Partial Offer.

The Partial Offer is subject to approval pursuant to Rule 28.5 of the Takeovers Code by the Independent Shareholders holding over 50% of the Shares not held by the Offeror and parties acting in concert with it, signified by means of a separate tick box on the Form of Approval and Acceptance specifying the number of Shares in respect of which the Partial Offer is approved. Independent Shareholders should read carefully the procedures for approving the Partial Offer and Qualifying Shareholders should read carefully the procedures for accepting the Partial Offer as detailed in Appendix I to the Composite Document and the Form of Approval and Acceptance.

**The Qualifying Shareholders should be aware that the Partial Offer is subject to the satisfaction of the Conditions. Accordingly, the Partial Offer may or may not become unconditional. The Qualifying Shareholders should therefore exercise caution when dealing in the Shares.**

Yours faithfully,

For and on behalf of

**HALCYON CAPITAL LIMITED**



**Terry Chu**

*Managing Director*

*Mr. Chu is a licensed person registered with the Securities and Futures Commission and a responsible officer of Halcyon Capital Limited, which is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activities. Mr. Chu has participated in the provision of independent financial advisory services for a large number of various transactions involving companies listed on the Stock Exchange.*