

March 6, 2025

To the Offer Shareholders and Optionholders

Dear Sir or Madam,

**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

Reference is made to the Joint Announcement and the SPA Completion Announcement.

As disclosed in the Joint Announcement, on December 31, 2024, the Offeror entered into the SPA with the Sellers, pursuant to which the Offeror conditionally agreed to purchase (by itself and/or through an entity/entities which is/are wholly owned by the Parent), and the Sellers conditionally agreed to sell, 7,507,666,581 Shares, representing approximately 78.70% of the total issued share capital of the Company as at the Latest Practicable Date, at a consideration of HK \$10,360,579,882, representing HK\$1.38 per Sale Share, together with the Interest.

As disclosed in the SPA Completion Announcement, the Offeror and the Company jointly announced that SPA Completion took place on February 27, 2025. Immediately after the SPA Completion, the Offeror and the SPA Additional Purchaser, being indirect wholly-owned subsidiaries of the Parent Holdco, became interested in 7,507,666,581 Shares, representing approximately 78.70% of the entire issued share capital of the Company as at the Latest Practicable Date.

Pursuant to Rule 26.1 of the Takeovers Code, following SPA Completion, 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.

Details of the principal terms of the Offers together with information of the Offeror and the intentions of the Offeror in relation to the Group are set out in the “Letter from the Offeror Financial Advisers” in this Composite Document and further details on the terms of the Offers are set out in “Appendix I – Further Terms and Procedures of Acceptance of the Offers” of the Composite Document and in the accompanying Forms of Acceptance.

The purpose of this Composite Document (of which this letter forms part) is to provide you with, among other things, (i) further information relating to each of the Group, the Offeror and the Offers; (ii) a letter from the Offeror Financial Advisers containing details of the Offers; (iii) a letter from the Independent Board Committee containing its recommendation and advice to the Offer Shareholders and Optionholders in respect of the Offers; and (iv) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee on whether the Offers are fair and reasonable so far as the Offer Shareholders and Optionholders are concerned and as to acceptance in respect of the Offers.

THE OFFERS

As at the Latest Practicable Date, there were 9,539,704,700 Shares in issue and 45,000,000 outstanding Options.

The Share Offer

As mentioned in the “Letter from the Offeror Financial Advisers” on pages 19 to 38 of this Composite Document, the Offeror Financial Advisers are making the Share Offer to Offer Shareholders for all Offer Shares 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 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, in cash on the applicable Partial Deferred Alternative Second Payment Date.

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 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 also receive an advanced payment (the “**MGO Advanced Payment**”) in a manner corresponding to the Advanced Payment mechanism, such that: (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 also comprise the Base Interest accruing on such relevant outstanding Partial Deferred Alternative Second Payment Price up to the date of such repayment.

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 June 30, 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, which is also set out in the paragraph headed “*If the Original Partial Deferred Settlement Option is elected or no Advanced Payment has been made to the Sellers*” in the sub-section headed “Determination of the Variable Interest” in the “Letter from the Offeror Financial Advisers”. For the avoidance of doubt, this shall mean that: (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 paragraph headed “*If the Original Partial Deferred Settlement Option is elected or no Advanced Payment has been made to the Sellers*” in the sub-section headed “Determination of the Variable Interest” in the “Letter from the Offeror Financial Advisers”; (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 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.

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 this Composite Document and before the close of the Offers.

The Option Offer

As mentioned in the “Letter from the Offeror Financial Advisers” on pages 19 to 38 of this Composite Document, the Offeror Financial Advisers are making the Option Offer 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 consideration for the cancellation of each Option represents the “see-through” price, which is the excess of the Full Upfront Alternative Price over the exercise price of each Option. As at the Latest Practicable Date, 20,000,000 Options had an exercise price of HK\$2.18 and 25,000,000 Options had an exercise price of HK\$1.54. As the exercise prices for those Options are higher than the Full Upfront Alternative Price under the Share Offer, such Options are “out-of-the-money”. As such, the Option Offer will be made with HK\$0.0001 in cash for the cancellation of each such outstanding Option.

Please refer to the “Letter from the Offeror Financial Advisers” and Appendix I – “Further Terms and Procedures of Acceptance of the Offers” to this Composite Document and the accompanying Forms of Acceptance for further information in relation to, among other things, the Offers and acceptance and settlement procedures of the Offers.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

In accordance with Rule 2.1 of 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 consider and, if appropriate, give a recommendation to the Independent Shareholders as to whether the Share Offer is fair and reasonable and as to its acceptance, and to the Optionholders as to its views on the Option Offer.

Mr. HAN Liu and Ms. QIN Yuehong (the “**Former Directors**”), two former non-executive Directors, who resigned on February 27, 2025, were nominated by Alibaba Holding, the holding company of two of the Sellers, and therefore were not part of the Independent Board Committee.

In addition, as approved by the Independent Board Committee, an independent financial adviser, Somerley Capital Limited, has been appointed on January 9, 2025 pursuant to Rule 2.1 of the Takeovers Code to advise the Independent Board Committee in connection with the Offers.

VALUE OF THE OFFERS

As at the Latest Practicable Date, there are 9,539,704,700 Shares in issue and 45,000,000 outstanding Options. Based on the maximum aggregate consideration payable by the Offeror under the Offers and the assumptions that: (a) no further Options are granted and there are no other changes to the share capital of the Company except that all the 2025 Vested Options are exercised before they lapse prior to the close of the Offers, and (b) all Shares issued on the exercise of the 2025 Vested Options are tendered for acceptance and the holders of those Shares have validly elected the Partial Deferred Settlement Alternative, the maximum consideration payable under the Offers is approximately HK\$3,236,298,104.

POSSIBLE COMPULSORY ACQUISITION AND WITHDRAWAL OF LISTING

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 intend to privatize the Company by exercising the compulsory acquisition rights to which it is 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.

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 on the ex-date to the entitlement of the compulsory acquisition consideration pursuant to Rule 6.15(1) of the Listing Rules.

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:–

- a false market exists or may exist in the trading of the Shares; or
- 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.

INFORMATION OF THE GROUP

The Company is a company incorporated in Hong Kong with limited liability, the Shares of which are currently listed on the Main Board (stock code: 6808). The principal activities of the Company are the operation of brick-and-mortar stores and online sales channels where merchandise, mainly fresh products, FMCG (fast moving consumer goods), textile, electric appliance and general goods, are made available for sale, with a coverage of more than 200 cities nationwide and ownership of more than 120 properties in Mainland China.

Your attention is drawn to Appendices II and III to this Composite Document which contain further financial and general information of the Group.

SHAREHOLDING STRUCTURE OF THE COMPANY

	Immediately before the SPA Completion		Immediately after the SPA Completion and as at the Latest Practicable Date		Immediately following completion of the Offers, assuming no Options are exercised and none of the Offer Shares are tendered for acceptance under the Share Offer		Immediately following completion of the Offers, assuming all the 2025 Vested Options are exercised and all Offer Shares are tendered for acceptance under the Share Offer	
	Number of Shares	Approximate shareholding %	Number of Shares	Approximate shareholding %	Number of Shares	Approximate shareholding %	Number of Shares	Approximate shareholding %
Offeror	0	0	4,504,599,949	47.22	4,504,599,949	47.22	6,552,888,068	68.57
SPA Additional Purchaser	0	0	3,003,066,632	31.48	3,003,066,632	31.48	3,003,066,632	31.43
Offeror and its concert parties (including the SPA Additional Purchaser but excluding the Sellers)	0	0	7,507,666,581	78.70	7,507,666,581	78.70	9,555,954,700	100
Sellers								
A-RT Retail Holdings Limited	4,419,731,966	46.33	0	0	0	0	0	0
Taobao China Holding Limited	2,607,565,384	27.33	0	0	0	0	0	0

	Immediately before the SPA Completion		Immediately after the SPA Completion and as at the Latest Practicable Date		Immediately following completion of the Offers, assuming no Options are exercised and none of the Offer Shares are tendered for acceptance under the Share Offer		Immediately following completion of the Offers, assuming all the 2025 Vested Options are exercised and all Offer Shares are tendered for acceptance under the Share Offer	
	Number of Shares	Approximate shareholding %	Number of Shares	Approximate shareholding %	Number of Shares	Approximate shareholding %	Number of Shares	Approximate shareholding %
New Retail Strategic Opportunities								
Investments 1 Limited	480,369,231	5.04	0	0	0	0	0	0
Subtotal of the Offeror and its concert parties (including the Sellers)	7,507,666,581	78.70	7,507,666,581	78.70	7,507,666,581	78.70	9,555,954,700	100
Directors								
HUANG Ming-Tuan ⁽¹⁾	68,334,202	0.72	68,334,202	0.72	68,334,202	0.72	0	0
Other Shareholders	1,963,703,917	20.58	1,963,703,917	20.58	1,963,703,917	20.58	0	0
Total	9,539,704,700	100	9,539,704,700	100	9,539,704,700	100	9,555,954,700	100

Note:

- Ms. LEE Chih-Lan is the spouse of Mr. HUANG Ming-Tuan. Ms. LEE Chih-Lan holds 66,782,964 Shares through Unique Grand Trading Limited and 1,551,238 Shares under her name. Accordingly, Mr. HUANG Ming-Tuan is deemed to be interested in all of the shares held by Ms. LEE Chih-Lan.

Subject to vesting, Mr. SHEN Hui is interested in 25,000,000 Shares underlying 25,000,000 Options granted to him on March 27, 2024 in accordance with the Share Option Scheme. As at the Latest Practicable Date, save as disclosed in this section, no other Director nor any of the Former Directors holds any Shares in the Company.

INFORMATION ON THE OFFEROR

Your attention is drawn to the section headed “Information of the Offeror and the Offeror Designated Entities” in the “Letter from the Offeror Financial Advisers” contained in this Composite Document.

INTENTION OF THE OFFEROR IN RELATION TO THE GROUP

Your attention is drawn to the section headed “Intentions of the Offeror in relation to the Group” in the “Letter from the Offeror Financial Advisers” as set out on pages 19 to 38 of this Composite Document.

The Board is pleased to note that the Offeror (i) 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, (ii) does not have any plans to make any material changes to the continued employment of the employees (other than in the ordinary course of business) as of the Latest Practicable Date, (iii) does not expect there to be a significant redeployment of the fixed assets of the Group as of the Latest Practicable Date and (iv) 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 as of the Latest Practicable Date.

RECOMMENDATION

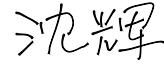
Your attention is drawn to (i) the "Letter from the Independent Board Committee" as set out on pages 48 to 49 of this Composite Document, which contains its recommendation to the Offer Shareholders and the Optionholders in respect of the Offers, and (ii) the "Letter from the Independent Financial Adviser" as set out on pages 50 to 96 of this Composite Document, which contains, among other things, its advice in relation to the Offers and the principal factors considered by it before arriving at its recommendation. The Offer Shareholders and Optionholders are urged to read those letters carefully before taking any action in respect of the Offers.

ADDITIONAL INFORMATION

You are also advised to read the "Letter from the Offeror Financial Advisers", the appendices to the Composite Document and the Forms of Acceptances in respect of the terms and acceptance and settlement procedures of the Offers.

In considering what action to take in connection with the Offers, you should also consider your own tax positions, if any, and in case of any doubt, consult your professional advisers.

By order of the Board of
Sun Art Retail Group Limited

Handwritten signature in Chinese characters, reading '沈辉' (Shen Hui).

Shen Hui
Executive Director
and
Chief Executive Officer