SOMERLEY CAPITAL LIMITED
20/F., China Building, 29 Queen's Road Central, Hong Kong
Telephone: 2869 9090 Fax: 2526 2032 E-Mail: somerley@somerley.com.hk

28 January 2025

To: the Independent Board Committee

Dear Sirs,

(1) PROPOSED PRIVATISATION OF LIFESTYLE CHINA GROUP LIMITED BY FORTUNE SPIRIT GROUP LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 86 OF THE COMPANIES ACT AND (2) PROPOSED WITHDRAWAL OF LISTING OF LIFESTYLE CHINA GROUP LIMITED

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the Amended Proposal and the Scheme, details of which are set out in the letter from the Board contained in the Scheme Document to the Shareholders dated 28 January 2025, of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Scheme Document.

On 2 December 2024, the Offeror requested the Board to put forward the Proposal with the Original Cancellation Price of HK$0.913 to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under section 86 of the Companies Act. On 16 January 2025, the Offeror and the Company jointly issued the Amended Proposal Announcement in relation to, among other things, the proposed increase in the Original Cancellation Price from HK$0.913 to the Revised Cancellation Price of HK$0.980 per Scheme Share (representing an increase of approximately 7.3% over the Original Cancellation Price) and the request of the Offeror to the Company to put forward the Amended Proposal to the Scheme Shareholders. If the Amended Proposal is approved and implemented, the Scheme Shares will be cancelled and extinguished on the Effective Date in exchange for the payment by the Offeror to each Scheme Shareholder as at the Scheme Record Date of the Revised Cancellation Price of HK$0.980 in cash for each

Scheme Share cancelled and extinguished. The Amended Proposal and the Scheme will become effective and binding on the Company and all Shareholders, subject to the fulfilment or waiver (as applicable) of the Conditions as set out in the section headed "3. Conditions of the Amended Proposal and the Scheme" in Part VII — Explanatory Memorandum of the Scheme Document on or before the Long Stop Date, failing which the Scheme will not become effective and the Amended Proposal will lapse.

The Independent Board Committee, comprising the non-executive Director and all independent non-executive Directors, namely Ms. Chan Chor Ling, Amy, Ms. Cheung Mei Han, Mr. Cheung Yuet Man, Raymond and Mr. Lam Kwong Wai, has been established by the Board to make recommendations to the Independent Shareholders as to whether the Amended Proposal and the Scheme are, or are not, fair and reasonable, and whether to vote in favour of the Scheme at the Court Meeting and the resolutions in connection with the implementation of the Amended Proposal at the General Meeting. We, Somerley, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in the same regard.

As at the Latest Practicable Date, we are not in the same group as the financial or other professional advisers (including a stockbroker) to the Offeror or the Company. Apart from the existing engagement in connection with the Amended Proposal and the Scheme, we confirm that we did not have any significant connection, business, financial or otherwise, with the Company and/or Offeror or the controlling shareholders of either of them within two years prior to the commencement of the offer period up to the Latest Practicable Date, of a kind reasonably likely to create, or create the perception of, a conflict of interest or reasonably like to affect the objectivity of our advice. Save for normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. We consider ourselves independent to form our opinion in respect of the Amended Proposal and the Scheme.

In formulating our opinion and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group (collectively, "**Management**"), which we have assumed are true, accurate and complete in all material aspects as at the Latest Practicable Date and will remain so up to the time of the Court Meeting and the General Meeting. Should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have reviewed the annual reports of the Company for the year ended 31 December 2022 (the "**2022 Annual Report**") and 2023 (the "**2023 Annual Report**"), and the interim report of the Company for the six months ended 30 June 2024 (the "**2024 Interim Report**"), and the information contained in the Scheme Document. We have sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to doubt the truth, accuracy or completeness of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information which we have received is sufficient for us to reach an informed view. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Offeror and their respective subsidiaries or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied.

We have not considered the taxation implications or regulatory implications on the Scheme Shareholders of acceptance of the Amended Proposal since these are particular to their individual circumstances. In particular, the Scheme Shareholders who are overseas Shareholders or subject to overseas taxation or regulatory requirements on securities dealings should consider their own tax position and observe applicable legal or regulatory requirements and, if in any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation on the Amended Proposal and the Scheme, we have taken into account the following principal factors and reasons:

1. Information on the Group

The Company is an exempted company incorporated in the Cayman Islands with limited liability and is listed on the main board of the Stock Exchange since 2016. The Group is principally engaged in the operation of department stores and other related retailing business (i.e. revenue from contracts with customers in table 1 below, which accounted for 77.5% of the Group's revenue in 2023) and property investment (i.e. rental income in table 1 below, which accounted for 22.5% of the Group's revenue in 2023) in the PRC.

1.1. Financial performance

Set out below are the summarised consolidated income statements of the Group with year-on-year changes ("**YoY Changes**") for (i) the three years ended 31 December 2021, 2022 and 2023 ("**2021**", "**2022**" and "**2023**", respectively) as extracted from the 2022 Annual Report and the 2023 Annual Report; and (ii) the six months ended 30 June 2023 and 2024 ("**1H2023**" and "**1H2024**", respectively) as extracted from the 2024 Interim Report:

TABLE 1: SUMMARISED CONSOLIDATED INCOME STATEMENTS OF THE GROUP

(RMB '000)	**1H2024** (unaudited)	*YoY Changes*	**1H2023** (unaudited)	**2023** (audited)	*YoY Changes*	**2022** (audited)	*YoY Changes*	**2021** (audited)
Revenue	**644,603**	*(7.3)%*	**695,235**	**1,348,975**	*19.6%*	**1,127,588**	*(13.2)%*	**1,299,736**
Revenue from contracts with customers	482,992	*(12.4)%*	551,556	1,046,112	*15.8%*	903,041	*(24.3)%*	1,192,212
• Sales of goods — direct sales	262,424	*(6.7)%*	281,139	523,341	*21.6%*	430,287	*(24.3)%*	568,676
• Income from concessionaire sales	202,619	*(19.4)%*	251,249	481,262	*9.1%*	440,992	*(24.7)%*	585,289
• Service income	17,949	*(6.4)%*	19,168	41,509	*30.7%*	31,762	*(17.0)%*	38,247
Rental income	161,611	*12.5%*	143,679	302,863	*34.9%*	224,547	*108.8%*	107,524

(RMB '000)	**1H2024** (unaudited)	*YoY Changes*	**1H2023** (unaudited)	**2023** (audited)	*YoY Changes*	**2022** (audited)	*YoY Changes*	**2021** (audited)
Gross Profit	**362,066**	*(8.1)%*	**394,070**	**785,434**	*19.3%*	**658,104**	*(16.7)%*	**790,362**
Gross profit margin	*56.2%*		*56.7%*	*58.2%*		*58.4%*		*60.8%*
Share of profits of associates	160,557	*(37.1)%*	255,196	308,939	*69.6%*	182,205	*(23.2)%*	237,251
Profit/(loss) attributable to Shareholders	**41,668**	*(67.4)%*	**127,622**	**87,767**	*n.a.*	**(24,441)**	*n.a.*	**143,393**
Dividend per Share (RMB)	**Nil**		**Nil**	**Nil**		**Nil**		**Nil**

a. Revenue

2022 vs 2021

The Group's revenue decreased from RMB1,299.7 million for 2021 to RMB1,127.6 million for 2022, representing a year-on-year decrease of 13.2%. Such decrease was mainly due to a 24.3% decrease in direct sales from RMB568.7 million for 2021 to RMB430.3 million for 2022 and a 24.7% decrease in income from concessionaire sales from RMB585.3 million for 2021 to RMB441.0 million for 2022, but was lifted by a 108.8% increase in rental income from RMB107.5 million for 2021 to RMB224.5 million for 2022. The decrease in retail sales was primarily attributable to the severe disruption to the Group's business caused by the recurring outbreaks of COVID-19 whereas the increase in rental income was mainly attributable to the full year effect of leasing of the retail and office spaces at the Shanghai Jiuguang Center ("**JGC**"), a commercial complex developed by the Group which commenced operations in late November 2021.

2023 vs 2022

The Group's revenue increased from RMB1,127.6 million for 2022 to RMB1,349.0 million for 2023, representing a year-on-year increase of 19.6%. Such increase was mainly driven by (i) a 21.6% increase in direct sales from RMB430.3 million for 2022 to RMB523.3 million for 2023 and a 9.1% increase in income from concessionaire sales from RMB441.0 million for 2022 to RMB481.3 million for 2023; and (ii) a 34.9% increase in rental income from RMB224.5 million for 2022 to RMB302.9 million for 2023. The increase in retail sales was largely attributable to the full resumption of the Group's operations following lifting of epidemic prevention and control measures as well as the Group's effective operating initiatives and strategies. Nevertheless, the Group recorded a 10.3% drop in revenue from contracts with customers in the second half of 2023 ("**2H2023**") as compared to 1H2023 as the slowdown of the economy since the middle of the year prompted consumer sentiment to become more cautious. Furthermore, the increase in rental income was primarily attributable to rise in occupancy rate of office spaces at the JGC from nearly 40% to approximately 60%.

1H2024 vs 1H2023

For 1H2024, the Group's revenue decreased by RMB50.6 million to RMB644.6 million, representing a decrease of 7.3% as compared to corresponding period in 2023. Such decrease was primarily due to (i) a 19.4% decrease in income from concessionaire sales from RMB251.2 million for 1H2023 to RMB202.6 million for 1H2024; and (ii) a 6.7% decrease in direct sales from RMB281.1 million for 1H2023 to RMB262.4 million for 1H2024, but was lifted by a 12.5% increase in rental income from RMB143.7 million for 1H2023 to RMB161.6 million for 1H2024. The decline in retail sales was a continuation of the situation in 2H2023 which was primarily attributable to reduced consumer spending across the board, with (i) JGC decreasing by 12.9% from RMB208 for 1H2023 to RMB181 for 1H2024; (ii) Shanghai Jiuguang department store decreasing by 6.4% from RMB404 for 1H2023 to RMB378 for 1H2024; and (iii) Suzhou Jiuguang department store decreasing by 2.8% from RMB496 for 1H2023 to RMB482 for 1H2024 as the consumers were cautious in their spending amid the deteriorating economic conditions in the PRC which was evidenced by the consumer confidence index in the PRC decreased from an average of 90.4 points for 1H2023 to 88.0 points for 1H2024.

b. *Gross profit and gross profit margin*

The Group recorded gross profit of RMB790.4 million for 2021, RMB658.1 million for 2022 and RMB785.4 million for 2023, representing a year-on-year decrease of 16.7% and an increase of 19.3% respectively. For 1H2024, the Group's gross profit dropped by RMB 32.0 million to RMB362.1 million, representing a decrease of 8.1% as compared to the corresponding period in 2023. The change in gross profit was generally in line with the revenue change. The gross profit margin of the Group slightly declined from 60.8% for 2021 to 58.4% for 2022 and remained stable for 2023. For 1H2024, the Group's gross profit margin was stable at around 56%, similar to that of the previous corresponding periods.

c. *Profit/(loss) attributable to Shareholders*

2022 vs 2021

The Group recorded a net profit attributable to Shareholders of RMB143.4 million for 2021 and a loss attributable to Shareholders of RMB24.4 million for 2022. The reverse from profit to loss was mainly due to (i) a decline in sales which was affected by stringent epidemic control measures as well as rental and guaranteed sales commission concessions provided by the Group to its business partners to tide over the difficult times; (ii) interest expense of RMB101.5 million relating to bank loan for JGC being expensed as it could no longer be capitalised following commencement of its operations in late November 2021; (iii) increase in selling and distribution costs primarily due to additional depreciation/amortisation charges from the newly opened JGC; and (iv) a decrease in the share of profits of RMB32.0 million from the Group's associate, Shijiazhuang Beiguo Renbai Group Company Limited (the "**Beiren Group**"), business of which was severely impacted by the pandemic particularly in the second half of 2022.

2023 vs 2022

As opposed to a net loss attributable to Shareholders of RMB24.4 million for 2022, the Group recorded a net profit attributable to Shareholders of RMB87.8 million for 2023. The turnaround was primarily attributable to (i) the improvement in sales performance after the Group's full resumption of business operation (the Group suspended certain operations and occasionally shortened the opening hours during the period from April 2022 to May 2022 due to anti-pandemic measures in the PRC); and (ii) a substantial year-on-year increase of 68.9% to RMB185.0 million in respect of the Group's share of profit from its associates, the Beiren Group, mainly due to a one-off gain from land disposal which is not a recurring item.

1H2024 vs 1H2023

For 1H2024, the Group's profit attributable to Shareholders fell to RMB41.7 million, representing a substantial year-on-year decline of 67.4%. This fall in net profit was mainly due to: (i) a 37.0% year-on-year decrease in the Group's share of profit from its associate, the Beiren Group, mainly due to the absence of the one-off gain arising from land disposal in 1H2023; (ii) a decrease in the Group's revenue as explained above; and (iii) an increase in finance charges related to the increase in lease liabilities following renewal and extension of another 20 years in respect of the lease for the Shanghai Jiuguang Property on 20 March 2023, about 1.5 years ahead the expiry of the existing lease, resulting in remeasurement of lease liabilities arising from the new and existing leases for Shanghai Jiuguang Property on 20 March 2023 as well as the finance cost thereafter.

d. Dividend per Share

The Board did not recommend any distribution of dividend(s) since the Company's listing as, as advised by the Management, (i) the share of profits of associates were not distributable as the associates paid insignificant dividend to the Group over the years; and (ii) the cash generated from the Group's own operations before the COVID-19 pandemic had been reserved for the capital expenditures and payment of loan interest in respect of the development of the JGC, which was only completed and put into commercial operation in late 2021. Last but not least, in view of the uncertainties over the Chinese economy and the Group's business outlook after the pandemic, the Management considers that the Group is likely to maintain a prudent dividend policy in the near future if the Amended Proposal does not proceed.

1.2. Financial position

Set out below are the summarised consolidated statement of financial position of the Group as at 31 December 2021, 2022 and 2023 and 30 June 2024 as extracted from the 2022 Annual Report, 2023 Annual Report and 2024 Interim Report:

TABLE 2: SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE GROUP

(RMB '000)	**As at 30 June 2024** (unaudited)	**As at 31 December 2023** (audited)	**2022** (audited)	**2021** (audited)
Total assets	**16,958,578**	**17,036,933**	**14,448,660**	**15,032,372**
Non-current assets	13,760,166	13,811,755	12,409,720	12,675,847
• Property, plant and equipment	5,001,330	5,042,882	5,267,550	5,501,009
• Investment property	1,215,472	1,230,863	1,261,645	1,292,427
• Right-of-use assets	3,498,089	3,569,973	2,237,164	2,404,868
• Investments in associates	3,629,805	3,572,148	3,272,654	3,095,104
Current assets	3,198,412	3,225,178	2,038,940	2,356,525
• Cash and cash equivalents	2,230,368	2,242,826	1,609,097	1,858,198
• Structured bank deposits	537,500	580,800	—	—
Total liabilities	**5,811,121**	**6,020,395**	**3,649,796**	**4,252,026**
• Bank borrowings	3,258,000	3,278,000	2,240,000	2,340,000
• Lease liabilities	1,586,586	1,611,870	188,407	288,928
• Trade and other payables	825,060	959,356	1,094,625	1,461,974
Equity attributable to Shareholders ("NAV")	**9,440,251**	**9,398,580**	**9,310,793**	**9,335,057**
NAV per Share (RMB) *(Note)*	**6.45**	**6.42**	**6.36**	**6.37**

Note: The figures are calculated based on the NAV of the respective year/period divided by the number of Shares in issue at the end of the respective year/period.

a. Total assets

As at 31 December 2021, 2022 and 2023, the total assets of the Group were RMB15,032.4 million, RMB14,448.7 million and RMB17,036.9 million, respectively, representing a decrease of 3.9% from 2021 to 2022 and an increase of 17.9% from 2022 to 2023. The decrease for 2022 was principally attributable to decrease in (i) property, plant and equipment of RMB233.5 million mainly arising from depreciation charge; and (ii) cash and cash equivalents of RMB249.1 million due to reduced cash flow from operations in 2022. The increase for 2023 was mainly due to the increase in (i) right-of-use assets of RMB1,332.8 million resulting from the renewal of the lease for the Shanghai Jiuguang Property; and (ii) cash and cash equivalents of RMB633.7 million and structured bank deposits of RMB580.0 million respectively as a result of improved operations in 2023 as well as surplus cash from the drawdown of the RMB3,300 million 15-year banking facility after repayment of the project loan of RMB2,240 million. The Group's total assets as at 30 June 2024 was RMB16,958.5 million which was at a similar level to that of 31 December 2023.

Property, plant and equipment and investment property

Property, plant and equipment and investment property accounted for 45.2%, 45.2%, 36.8% and 36.7% of the total assets as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively. Property, plant and equipment are stated in the Group's consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses. Investment property is measured in the Group's consolidated statement of financial position at cost including transaction cost, less accumulated depreciation and accumulated impairment losses. The properties under "property, plant and equipment" mainly consist of the retail and carpark portion of JGC, Suzhou Jiuguang Property, Dalian Property and Shenyang Property, while the "investment property" is the office portion of JGC.

The property interests of the Group (the "**Properties**") have been valued by Knight Frank, an independent and duly qualified Hong Kong valuer. The full text of the independent property valuation report prepared by Knight Frank (the "**Property Valuation Report**") is set out in Appendix III to the Scheme Document. The market value of Properties as at 30 November 2024 (the "**Valuation Date**") was RMB11,192.0 million (or equivalent to approximately HK$12,119.0 million, calculated based on the exchange rate of HK$1:RMB0.92355).

We have reviewed the Property Valuation Report and noted that Knight Frank has adopted (i) income approach (term and reversion method) in valuing the office portion of JGC (held by the Group for investment purpose) and retail and carpark portion of JGC and Suzhou Jiuguang Property (held by the Group for operation of department stores and retailing businesses); and (ii) market approach in valuing Dalian Property and Shenyang Property (held by the Group but remaining vacant).

We have discussed with Knight Frank and were advised that the income approach, which capitalises the net income shown on tenancy schedules and make provisions for reversionary income potential, is suitable for valuation of (i) Properties held for investment as they are income-generating properties and their future incomes could be substantiated by tenancy schedules as well as referenced to market rents; and (ii) self-occupied Properties (other than Dalian Property and Shenyang Property) as they are used by the Group for daily operation of department stores and retailing businesses. We have obtained and reviewed the valuation workings in this regard including comparables considered and yields adopted, and noted that (i) Knight Frank capitalised the income stream of existing leases of the subject Properties as at the Valuation Date and added up the capitalised reversionary interests on the assumption that vacant units are fully let and expired leases are renewed at market rents as at the Valuation Date; (ii) the market rents adopted have been determined with reference to the asking rental rates of the office premises, or retail shops in same or nearby regions or the existing rental rate for carparking spaces; and (iii) the reversionary yields and term yields for office and retail properties have been determined with reference to yields implied by comparable market sales in 2024 in relation to office and retail properties in same or nearby regions and differences between reversionary yields and term yields adopted by other Hong Kong listed companies in property valuation, and the reversionary yields for carparking spaces has been determined based on Knight Frank's professional knowledge and their previous valuation experience.

As advised by Knight Frank, the market approach, which determines the appraised value of a property by comparing the property with identical or similar assets for which price information is available, is suitable for the valuation of Shenyang Property and Dalian Property as (i) they have remained vacant since 2015 and 2018 respectively due to weak local consumer market environment, no suitable business opportunities have been identified by the Management so far and no income has been generated from them ever since, but they are located in prime commercial regions and remain in good conditions for sale; and (ii) it is consistent with the approach adopted by the then independent valuer in valuing Shenyang Property as set out in the Company's listing document dated 30 June 2016. We have obtained and reviewed the valuation workings in this regard including comparables considered and adjustments made, and noted that (i) Knight Frank has collected market sales in 2023 and 2024 in relation to retail properties and carparking spaces in the same or nearby regions; and (ii) adjustments have been made to comparable sales to take account of the discrepancies between the subject properties and collected comparables, including discrepancies in terms of location, age, size, transaction time and building quality.

Based on the above and considering Knight Frank is a well-recognised valuer and a member firm of RICS and the person-in-charge has over 15 years' experience in real estate industry and has conducted various assignments for different types of properties in PRC, United Kingdom and Asia Pacific region for various valuation purpose, we consider the valuation methodology, bases and assumption adopted for the valuation to be fair and reasonable and nothing has come to our attention that will cause us to doubt the fairness and reasonableness of the valuation.

Cash and cash equivalents and structured bank deposits

As at 30 June 2024, the Group had a total cash of RMB2,767.9 million, being the aggregate of cash and cash equivalents and structured bank deposits, or RMB1.89 per Share (equivalent to HK$2.05 per Share), representing 109.2% higher than the Revised Cancellation Price. However, taking into account the Group's total borrowing of RMB3,258.0 million as at 30 June 2024 as set out in Table 2 above, the Group was in a net debt position, that is, no cash remains if all debts were paid off.

b. Total liabilities

The Group's total liabilities as at 31 December 2022 were RMB3,649.8 million, representing a decrease of 14% as compared to 31 December 2021 while the total liabilities as at 31 December 2023 were RMB6,020.4 million, representing an increase of 65% as compared to 31 December 2022. The decrease for 2022 was mainly due to the decrease in trade and other payables by RMB367.3 million mainly consisting of decrease in construction payable of RMB177.3 million and decrease in concessionaire sales payable of RMB166.4 million. The significant increase for 2023 was mainly due to (i) an increase in lease liabilities of RMB1,423.5 million resulting from the renewal of the lease for the Shanghai Jiuguang Property which has extended the lease term for a further 20 years; and (ii) a net increase in the bank borrowings of RMB1,038 million. The Group's total liabilities as at 30 June 2024 slightly declined by 3.5% as compared to 31 December 2023, totaling

RMB5,811.1 million, which was largely due to decrease in trade and other payables by RMB134.3 million as a result of a decrease in concessionaire sales payables.

c. *NAV and adjusted NAV*

The NAV of the Group were RMB9,335.1 million, RMB9,310.8 million, RMB9,398.6 million and RMB9,440.3 million as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively. The slight changes in the NAV of the Group were due to the loss incurred in 2022 and profit made in 2023 and 1H2024, respectively. As a result, the NAV per Share decreased from RMB6.37 per Share as at 31 December 2021 to RMB6.36 per Share as at 31 December 2022, but increased to RMB6.42 per Share as at 31 December 2023 and further to RMB6.45 per Share as at 30 June 2024.

Taking into account the effect of revaluation surplus arising from the valuation of the aforementioned Properties, set out below is the calculation of the adjusted unaudited net asset value of the Group (the "**Adjusted NAV**") and Adjusted NAV per Share:

	RMB'000
NAV as at 30 June 2024 (unaudited)	9,440,251
Adjustments:	
Add: Revaluation surplus of the Properties(1)	3,066,367
Less: Deferred tax on revaluation surplus of the Properties(2)	(766,592)
Adjusted NAV	11,740,026
Adjusted NAV per Share (RMB)(3)	8.017
Adjusted NAV per Share (HK$)	8.681
Revised Cancellation Price per Scheme Share (HK$)	0.980
Discount to Adjusted NAV per Share	**(88.7)%**

Notes:

1. Based on the valuation of the Properties as at the Valuation Date as set out in the Independent Valuation Report and the carrying values of the Properties as at 30 June 2024.

2. Adjustment for the potential deferred tax arising from the revaluation surplus of the Properties as provided by the Management.

3. The calculation is based on the total issued shares of the Company of 1,464,448,500 as at the Latest Practicable Date.

As set out in the above table, the Revised Cancellation Price of HK$0.980 per Scheme Share represents a discount of (88.7)% to the Adjusted NAV per Share of HK$8.681.

Comments

As discussed above and taking into account the industry landscape as discussed in the section 1.3 below, the business performance of the Group, which focuses on the operation of department stores and retailing businesses in the PRC, are closely related to the PRC economy. As discussed in section 1.3 below, the rebound in the PRC retail market after the lifting of pandemic related restrictions and improved PRC economic performance in early 2023 lost steam soon as evidenced by double-digit YoY Changes in early 2023 turning to single-digit or even negative YoY Changes starting from 2nd half of 2023. The recent PRC economic downturn from 2022 coupled with the quick dissipation of pent-up demand has taken a toll on the Group's revenue from contracts with customers as evidenced by a 12.4% decrease in 1H2024 as compared to a 15.8% increase in 2023.

We are given the understanding by the Management that some Properties held by the Group are for operation of department stores or retailing businesses (retail and carpark portion of JGC and Suzhou Jiuguang Property) or investment income (office portion of JGC) and some Properties are vacant (Dalian Property and Shenyang Property). We have discussed with the Management and are advised that amid continued sluggish economy coupled with lingering impact of the pandemic, the Group has been identifying and evaluating from time to time business opportunities for the vacant properties with an aim to generate operating income and improve its overall profitability but without success over the years. In addition, the Management has been reviewing and will continue to review and consider the strategy of the Group under part of the Group's usual and ordinary course of business and may, from time to time, explore and implement business and operational initiatives, including consider divesting the vacant properties when such opportunities arise. However, in light of the continued sluggish economy, particularly the relatively weak property market and retailing environment in the PRC, the Management is of the view that the likelihood of selling the vacant properties is low in the foreseeable future. The Offeror has stated that it intends to continue with the existing businesses of the Group and does not intend to introduce major changes to the business of the Group (including redeployment of the fixed assets of the Group). We have discussed with the Management and were advised that, in view of the challenging retail market, the Management considers sufficient cash should be preserved to maintain and further improve the Group's business operations. Consequently, the assumption that the assets of the Group may be sold in the market based on its NAV or Adjusted NAV is not realistic or assumption that the Group may distribute most of its cash to Shareholders is unlikely.

We note that the Group's auditor has issued a qualified opinion on the impairment of the trade receivables balance due from debtors in the Beiren Group (the "**Trade Receivables**") as at 31 December 2019, 2020, 2021 and 2022, as the auditor was unable to obtain adequate evidence with respect to the current financial conditions of the debtors, guarantor, including latest financial information of the debtors, details of other assets (including nature, amounts, and claims or pledges against such assets, if any) of the guarantor that could be pursued to settle the Trade Receivables. According to 2023 Annual Report, the Group only holds a non-controlling interest in Beiren Group and has to rely on the management of the Beiren Group to take necessary actions. Despite that, the Group has sought independent legal advice from a PRC lawyer on the debtor's and/or guarantor's ability to repay the Trade Receivables in 2023 (the "**PRC Legal Opinion**"). According to the PRC Legal Opinion, the likelihood of recoverability of any balance of the Trade Receivables is very low. The Management has provided the auditor with the PRC Legal Opinion, based on which the auditor concurred with the Group's assessment that the Trade Receivable were not recoverable as at 31 December 2023 and therefore has not issued a qualified opinion on the Group's consolidated financial position as at 31 December 2023. However, the auditor was still unable to obtain sufficient appropriate audit evidence to assess the recoverable amount of the Trade Receivable as at 1 January 2023 which could have a consequential effect on (i) the Group's share of profit of associates for the year ended 31 December 2023; and (ii) the Group's profit attributable to the Shareholders and profit attributable to non-controlling interests for the year ended 31 December 2023. On these bases, we are of the view that nothing has come to our attention to doubt the fairness of the presentation of the Group's consolidated financial statements and such qualification does not carry much weight on our analysis or consideration before arriving at our opinion.

1.3. Industry overview

The Group is principally engaged in the operation of "Jiuguang" department stores and related retailing business as well as property investment in the PRC. Based on 2023 Annual Report and 2024 Interim Report, sales of goods through direct sales and income from concessionaire sales contributed 75% or above of the Group's revenue in 2022–2023 and 1H2024.

Set out below are the YoY Changes of PRC offline sales and PRC online sales:

TABLE 3: YOY CHANGES IN PRC OFFLINE SALES AND PRC ONLINE SALES

	2022		**2023**		**2024**	
	Offline sales[(1)(2)]	**Online sales[(2)]**	**Offline sales[(1)]**	**Online sales**	**Offline sales[(1)(2)]**	**Online sales[(2)]**
January & February[(3)]	4.9%	12.3%	2.6%	6.8%	5.9%	4.2%
March	(5.5)%	2.7%	8.5%	16.6%	6.1%	(4.9)%
April	(14.1)%	(1.0)%	17.1%	22.3%	3.2%	(0.3)%
May	(13.3)%	14.3%	13.5%	10.8%	5.1%	0.3%
June	1.0%	8.2%	1.5%	6.7%	7.4%	(10.0)%
July	0.6%	10.1%	1.2%	6.6%	(1.0)%	13.7%
August	3.1%	12.8%	3.6%	7.6%	2.5%	0.9%
September	(1.2)%	14.5%	5.1%	6.6%	4.5%	(0.3)%
October	(7.8)%	22.1%	9.3%	3.7%	6.6%	0.3%
November	(10.5)%	3.9%	11.1%	8.1%	4.4%	0.2%
December	(7.3)%	15.6%	7.2%	8.0%	4.3%	2.3%
Average	**(3.8)%**	**10.6%**	**6.9%**	**9.2%**	**4.6%**	**0.9%**

Source: Website of National Bureau of Statistics of the PRC

Notes:

(1) Offline sales is the difference between the retail sales and online sales as shown on website of National Bureau of Statistics of the PRC ("**NBS**").

(2) The figures in brackets signify negative figures.

(3) No separate monthly data for each of January and February is available.

According to the data published on the website of NBS, while the initial recovery after the outbreak of pandemic was strong registering a gross domestic product (GDP) growth of 8.6% in 2021, the PRC economy grew by only 2.8% year-on-year in 2022. The economic slowdown coupled with pandemic related restrictions dampened consumer confidence and significantly reduced foot traffic in offline shops. In 2022, offline sales recorded YoY Changes ranging from (14.1)% to 4.9% with an annual average of (3.8)%. Online sales growth, however, significantly outperformed offline sales growth in 2022 with most of months exhibiting positive growth ranging from 2.7% to 22.1% to reach an annual average of 10.6%, which might benefit from pandemic related restrictions that forced consumers to switch to online shopping.

In 1H2023, the PRC GDP grew by 5.5% year-on-year, including a 6.3% year-on-year increase in the 2nd quarter of 2023. Furthermore, all COVID-19 restrictions got lifted in February 2023. Fueled by pent-up consumer demand following the PRC GDP's improved performance and the lifting of pandemic related restrictions, offline sales bounced back and online sales showed robust growth momentum in 1H2023 as evidenced by their double-digit YoY Changes in April–May 2023. However, the growth in retail sales moderated in 2H2023, which, as reported by market intelligence firms including S&P Global, was due to weakening consumer confidence, persistent concerns over economic stability and changes in shopping patterns. During this period, the GDP growth slowed down as compared to 1H2023, resulting in a 5.3% GDP growth for the whole year.

In 2024, the offline sales continued to increase at a single digit growth rate, but online sales showed a slower or even negative growth as compared to earlier years of rapid expansion except for July 2024. It is reported by market intelligence firms and newspapers including S&P Global, PWC and Wallstreet Journal that the deceleration or negative growth in online sales was attributable to (i) market saturation in urban areas and increased competition among e-commerce platforms; and (ii) rising demand for in-person shopping experiences post-COVID. During this period, according to the data published on the website of NBS, PRC's GDP grew by 5.3% year-on-year in the first quarter of 2024 and then the growth moderated to 4.7% and 4.6% in the second quarter and third quarter of 2024 respectively.

Comments

The overall retail sales are closely tied to broader GDP performance and influenced by changing consumer preferences. Hoping to boost the economy to align the annual target of 5% GDP growth for 2024, according to State Council's September Key Policies (國務院9月重要政策) (the "**Key Policies**") published on the website of the State Council of the People's Republic Of China on 30 September 2024, Chinese government in late September 2024 has announced a raft of stimulus measures including interest rate cuts and elimination of certain restrictions on home purchases and debt swaps to ease the burden on local governments, the effectiveness of which, however, remains to be proven over time. As advised by the Management, the Group mainly focuses on providing physical shopping experiences to consumers and diverting consumption to offline physical stores by increasing promotion interactions with consumers through online apps. According to 2024 Interim Report, the Group's department stores and shopping mall in Shanghai are actively negotiating with a number of new brands to open their first store in Shanghai in the second half of the year, as well as to bring in more healthcare and nourishing health-preserving brands to cater for the needs of health-conscious consumers. The Group will (i) formulate and implement precisive marketing and optimise its VIP membership program after analysing the consumption preferences and buying habits of customers and closely monitoring consumption trends and (ii) bolster the Jiuguang brand by using online social media platforms. Facing economic slowdown, e-commerce disruption and rapidly changing customer behaviour, the Management considers, and we concur, that continuous investments in marketing and data analysis with an aim to optimising product mix and improving quality of services would be important for the Group to stay competitive in the PRC's ever-evolving retail landscape, and the Amended Proposal provides an opportunity for the Scheme Shareholders to cash out their investments in the Company.

2. Principal terms of the Amended Proposal

Under the Amended Proposal, if the Scheme is approved and implemented, the Scheme Shares will be cancelled and extinguished and, in consideration therefor, each Scheme Shareholders as at the Scheme Record Date will be entitled to receive the Revised Cancellation Price of HK$0.980 in cash for each Scheme Share cancelled and extinguished.

For each Scheme Share .... HK$0.980 in cash

The total consideration payable to the Scheme Shareholders for the Scheme Shares cancelled and extinguished will be paid by the Offeror.

As at the Latest Practicable Date, the Company had not declared any dividend, or other distribution and/or other return of capital which remains unpaid, and the Company did not intend to make, declare and/or pay any dividend, or make other distribution and/or other return of capital on or before the Effective Date or the date on which the Scheme is not approved, or the Amended Proposal otherwise lapses (as the case may be). In the event that any dividend and/or other distribution and/or other return of capital is announced, declared or paid in respect of the Scheme Shares after the Latest Practicable Date, the Offeror reserves the right to reduce the Revised Cancellation Price in compliance with the Takeovers code, in which case, any reference in the Amended Proposal Announcement, the Scheme Document, or any other announcement(s) or document(s) to the Revised Cancellation Price will be deemed to be a reference to the Revised Cancellation Price as so reduced.

The Offeror will not further increase the Revised Cancellation Price and does not reserve the right to do so. Shareholders and potential investors of the Company should be aware that, following the making of this statement, the Offeror will not be allowed to increase the Revised Cancellation Price.

Major Conditions of the Amended Proposal

The Amended Proposal and the Scheme will only become effective and binding on the Company and all Shareholders, subject to the fulfilment or waiver (as applicable) of the following Conditions:

(a) the approval of the Scheme (by way of poll) at the Court Meeting by Scheme Shareholders representing not less than 75% in value of the Scheme Shares held by the Scheme Shareholders entitled to vote at the Court Meeting, present and voting in person or by proxy at the Court Meeting in accordance with the requirements of section 86 of the Companies Act as at the date of the Court Meeting;

(b) (i) the approval of the Scheme (by way of poll) at the Court Meeting by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders entitled to vote at the Court Meeting that are cast either in person or by proxy at the Court Meeting; and (ii) the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by the Independent Shareholders;

(c) the passing of a special resolution by a majority of at least 75% of the votes cast by the Shareholders present and voting in person or by proxy at the General Meeting (i) to approve and give effect to any reduction of the issued share capital of the Company by the cancellation and extinguishment of the Scheme Shares and (ii) to approve the simultaneous maintenance of the share capital of the Company at the amount immediately prior to the cancellation of the Scheme Shares by allotting and issuing to the Offeror such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme; and (iii) to approve the application of the credit arising in the Company's books of accounts as a result of the cancellation and extinguishment of the Scheme Shares in paying up in full at par value the new Shares issued to the Offeror; and

(d) the Grand Court's sanction of the Scheme (with or without modification) under section 86 of the Companies Act, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration.

Further details of the Conditions are contained in "Explanatory Memorandum" in Part VII of the Scheme Document. The Offeror reserves the right to waive all or any of the Conditions (except for (a) — (d)) as set out above in whole or in part, which is not uncommon in Hong Kong privatisation cases by way of a scheme of arrangement and thus we consider to be fair and reasonable.

As at the Latest Practicable Date, none of the Conditions have been fulfilled or waived. All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the Scheme will not become effective and the Amended Proposal will lapse. If the Conditions are satisfied or (where applicable) waived and if the Scheme is approved, the Scheme will be binding on the Company and all the Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting or the General Meeting.

Withdrawal of listing of the Shares and Intention of the Offeror with regard to the Group

As at the Latest Practicable Date, the Offeror intends to continue the existing businesses of the Group, which principally comprise of operation of department stores and other related retailing businesses and property investment in the PRC. The Offeror does not have any plan to make any material change to:

(a) the existing principal businesses of the Group, including any major redeployment of the fixed assets of the Group; or

(b) the continued employment of the employees of the Group (other than in the ordinary course of business),

as a result of the implementation of the Amended Proposal and the Scheme.

After completion of the Amended Proposal, the Offeror will continue to review and consider the strategy of the Group under part of the Group's usual and ordinary course of business and may, from time to time, explore and implement business and operational initiatives with the objective of aiming to enhance the business operations of the Group as and when such opportunities arise.

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and extinguished (with the equivalent number of new Shares being issued as fully paid to the Offeror) and the share certificates for the Scheme Shares cancelled and extinguished will thereafter cease to have effect as documents or evidence of title. The Company will make an application for the listing of the Shares to be withdrawn from the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules, with effect as soon as practicable after the Effective Date.

3. Reasons for and benefits of the Amended Proposal

As disclosed in "Explanatory Memorandum" in Part VII of the Scheme Document, in view of (i) downward trend of the trading price of the Shares in recent years and (ii) low trading liquidity of the Shares since its listing, the Board considers that the Amended Proposal (i) represents an opportunity for the Scheme Shareholders to monetise their Shares for cash at a premium amidst challenging and uncertain market conditions and low trading liquidity of the Shares; and (ii) which entails the delisting of the Company from a listing platform of limited usage, is also expected to reduce the administrative costs and management resources associated with maintaining the Company's listing status and compliance with ongoing regulatory requirements as listed company.

Comments

The Company was listed by way of introduction in 2016 and previously a wholly-owned subsidiary of Lifestyle International Holdings Limited ("**Lifestyle International**"), a company previously listed on the Stock Exchange. The separate listing was effected solely by way of distribution in specie, that is, the shareholders of Lifestyle International were allotted the Shares without payment and became the Shareholders immediately before the listing of the Company. Lifestyle International was privatised by the same ultimate owner of the Offeror in 2022 and the Shareholders theoretical exited their investment in Lifestyle International. As discussed in section 1.1 above, the Company has not declared any dividend since its listing due to reservation of cash for the development of JGC until 2021 and non-distributable share of profits of the Group's associates, which were substantially higher than the profit attributable to Shareholders in 2021-2023 and 1H2024.

The limited usefulness of a listed platform to raise funds for financing business development has been a common reason for the recent privatisation proposals in Hong Kong, principally due to depressed valuations. Against this backdrop, listed companies (including the Company) are receiving proposals from their controlling shareholders at offer prices representing considerable premiums over the prevailing market prices.

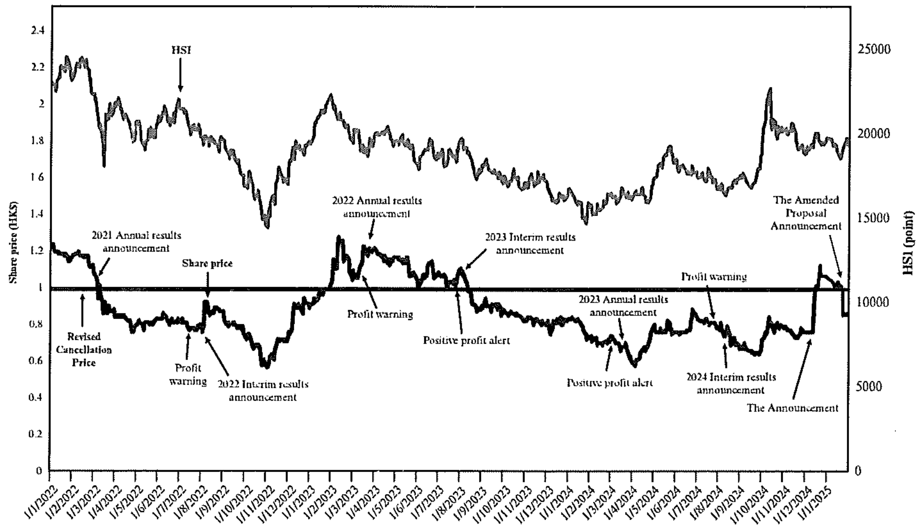
4. Evaluation of the Revised Cancellation Price

4.1. Share analysis

(a) Share price performance

Set out below is the movement of the closing prices of the Shares on the Stock Exchange during the period from 1 January 2022 up to and including the Latest Practicable Date (the "**Review Period**"), which covers recent major announcements of the Company published during the Review Period. The Review Period is considered sufficient to provide a general overview of the recent market performance of the Shares. The Share price performance during the Review Period is illustrated as follows:

FIGURE 1: SHARE PRICE PERFORMANCE COMPARED TO REVISED CANCELLATION PRICE AND HANG SENG INDEX ("HSI")



Source: Bloomberg and website of the Stock Exchange

The Shares closed between HK$0.56 and HK$1.26 commencing from the beginning of the Review Period until the Latest Practicable Date. The Revised Cancellation Price of HK$0.980 has been higher than the closing prices of the Shares in 547 trading days out of a total of 752 trading days during the Review Period. During the Review period, the closing prices of the Shares have generally moved in line with HSI.

As illustrated in the above figure, the Share closing price moved quite in line with HSI. It exhibited a downward trend amid the resurgences of COVID-19 caused by new variants from the beginning of the Review Period until when it hit its lowest at HK$0.56 per Share on 31 October and 1 November 2022. The Share closing price then commenced its uptrend thereafter and reached its highest of HK$1.26 on 8 February 2023 after the PRC government announced the relaxation of COVID-19 restrictions. The Share closing prices fluctuated between HK$1.00 and HK$1.20 until August 2023. On 25 July 2023, the Company issued a positive profit alert that the Group is expected to record net profit of not less than RMB110 million for the six months ended 30 June 2023 as compared to that of RMB27.88 million for the corresponding period in the previous year. Such expected increase was primarily due to the gradual recovery and normalisation of the Group's business operations in Shanghai and Suzhou following abolition of the zero-COVID policy. However, the Share price subsequently resumed its downtrend after 1H2023 results were announced in August 2023 and gradually declined to HK$0.57 on 2 April 2024. On 19 March 2024, the Company reported a 19.6% increase in revenue and turned from loss making in 2022 into profitable of RMB87.8 million in 2023. Taking a closer look, the Group actually suffered from net loss of RMB39.8 million in 2H2023. The Share closing price then oscillated between HK$0.60 and HK$0.87 until late-September 2024, which moved quite in line with the HSI.

On 24 September 2024, the PRC regulatory authorities announced stimulus package aiming at revitalising the economy, which includes cut(s) in mortgage-debt servicing and provision of facilities for stock markets. According to the Key Policies, these actions can enhance disposable income for consumers and encourage investment, thereby boosting overall economic activity and consumer confidence. The Share price surged by 17.2% from HK$0.64 per Share on 24 September 2024 to HK$0.75 on the Last Trading Date (i.e. 2 December 2024).

After the release of the Announcement and up to the last trading day before the Amended Proposal Announcement, the closing price of the Shares was between HK$0.96 and HK$1.11, with an average closing price of HK$1.02. After the publication of the Amended Proposal Announcement, the closing price of the Shares decreased by 14.3% to HK$0.84 on the next trading day. The Share price closed at HK$0.85 as at the Latest Practicable Date. The Revised Cancellation Price of HK$0.980 per Scheme Share represents a premium of approximately 15.3% over the closing price of the Share on the Latest Practicable Date. The Company's announcements of its interim and annual results during the Review Period also did not seem to generate any marked impact on the Share price.

(b) Revised Cancellation Price comparison

A comparison of the Revised Cancellation Price of HK$0.980 per Scheme Share with the recent closing prices of the Shares and NAV per Share is set out as follows:

TABLE 4: SHARE PRICE COMPARISON

	Closing price or average closing price of the Shares	**Premium represented by the Revised Cancellation Price**
Latest Practicable Date	HK$0.850	15.3%
Last Trading Date	HK$0.750	30.7%
5 trading days(1)	HK$0.750	30.7%
10 trading days(1)	HK$0.753	30.1%
30 trading days(1)	HK$0.754	30.0%
60 trading days(1)	HK$0.732	33.9%
90 trading days(1)	HK$0.728	34.6%
120 trading days(1)	HK$0.747	31.2%
180 trading days(1)	HK$0.733	33.7%

	NAV per Share(2)	**Discount represented by the Revised Cancellation Price**
As at 30 June 2024	HK$6.981	(86.0)%

Source: Bloomberg and the website of the Stock Exchange

Notes:

1. Up to and including the Last Trading Date.

2. Calculated based on the Group's NAV as at 30 June 2024 and the number of Shares in issue as at 30 June 2024 using the exchange rate of HK$1 : RMB0.92343, the central parity rate published by the People's Bank of China as at the Last Trading Date.

The Revised Cancellation Price of HK$0.980 represents premiums of approximately 30.0%–34.6% over the closing price of the Share on the Last Trading Date and the average closing prices of the Shares for the 5, 10, 30, 60, 90, 120 and 180 trading days (up to and including the Last Trading Date) before the release of the Announcement. The Revised Cancellation Price represents a discount of 86.0% over the latest NAV per Share as at 30 June 2024.

On the Latest Practicable Date, the Revised Cancellation Price represents a premium of 15.3% over the closing price of the Share. The Share price movement following the publication of the Announcement and the Amended Proposal Announcement is likely to be influenced by the Proposal and the Amended Proposal. As such, we consider that there is no assurance that the Share price will remain at the current levels should the Amended Proposal lapse.

(c) Premium/(discount) of the Share price over/to the NAV per Share

In assessing the fairness and reasonableness of the Revised Cancellation Price, we have reviewed, as set out in the table below, the Share prices, the NAV per Share and premium/(discount) of Share prices over/(to) NAV per Share (based on the interim and annual results announcements and the monthly returns) on a monthly basis during the Review Period:

TABLE 5: PREMIUM/(DISCOUNT) OF THE SHARE PRICE OVER/TO THE NAV PER SHARE

	2022			2023			2024			2025		
	Share price *HK$*	NAV per share[2] *HK$*	Premium/ (Discount) of Share price over/ (to) NAV per Share	Share price *HK$*	NAV per share[2] *HK$*	Premium/ (Discount) of Share price over/ (to) NAV per Share	Share price *HK$*	NAV per share[2] *HK$*	Premium/ (Discount) of Share price over/ (to) NAV per Share	Share price *HK$*	NAV per share[2] *HK$*	Premium/ (Discount) of Share price over/ (to) NAV per Share
January[1]	1.13–1.22	7.81–7.87	(85.6)%–(84.4)%	0.90–1.06	7.18–7.44	(87.5)%–(85.7)%	0.70–0.83	7.08–7.12	(90.1)%–(88.3)%	0.84–1.02	6.97–7.00	(88.0)%–(85.4)%
February	1.10–1.18	7.81–7.90	(86.0)%–(84.9)%	1.03–1.26	7.21–7.47	(85.7)%–(83.0)%	0.68–0.73	7.09–7.10	(90.4)%–(89.7)%			
March	0.84–1.08	7.82–7.93	(89.3)%–(86.4)%	1.04–1.21	7.20–7.31	(85.7)%–(83.3)%	0.59–0.72	7.07–7.11	(91.7)%–(89.9)%			
April	0.75–0.84	7.56–7.87	(90.3)%–(89.3)%	1.11–1.18	7.21–7.27	(84.7)%–(83.7)%	0.57–0.79	7.07–7.09	(91.9)%–(88.8)%			
May	0.76–0.82	7.37–7.62	(89.8)%–(89.0)%	1.00–1.15	7.03–7.23	(85.8)%–(83.9)%	0.74–0.81	7.04–7.07	(89.5)%–(88.5)%			
June	0.79–0.85	7.41–7.51	(89.4)%–(88.7)%	0.98–1.13	6.90–7.03	(86.0)%–(83.7)%	0.74–0.87	7.03–7.06	(89.5)%–(87.6)%			
July	0.76–0.82	7.39–7.47	(89.7)%–(89.0)%	0.98–1.09	6.90–6.97	(85.9)%–(84.3)%	0.76–0.82	7.02–7.03	(89.2)%–(88.3)%			
August	0.75–0.91	7.28–7.45	(89.9)%–(87.7)%	0.86–1.08	6.96–7.05	(87.7)%–(84.7)%	0.66–0.78	7.00–7.07	(90.7)%–(88.9)%			
September	0.73–0.83	7.06–7.29	(89.7)%–(88.6)%	0.84–0.93	7.00–7.04	(88.0)%–(86.8)%	0.63–0.72	7.06–7.15	(91.2)%–(89.9)%			
October	0.56–0.74	6.99–7.07	(92.0)%–(89.5)%	0.81–0.86	7.02–7.03	(88.5)%–(87.8)%	0.74–0.83	7.02–7.15	(89.6)%–(88.4)%			
November	0.56–0.73	6.92–7.11	(92.0)%–(89.5)%	0.79–0.83	7.01–7.08	(88.8)%–(88.2)%	0.72–0.77	6.96–7.06	(89.7)%–(89.0)%			
December	0.74–0.93	7.00–7.17	(89.5)%–(87.0)%	0.74–0.83	7.07–7.11	(89.6)%–(88.3)%	0.75–1.11	6.96–6.98	(89.3)%–(84.1)%			

Notes:

1. Up to and including the Latest Practicable Date for January 2025.

2. It refers to the NAV per Share, which is calculated based on the Group's latest disclosed NAV and the number of Shares in issue as at the end of the respective month and converted to HK$ based on the daily central parity rate published by the People's Bank of China on its website.

During the Review Period, we noted that the NAV per Share in Hong Kong dollar has generally been on a downward trend as illustrated in above table. The NAV per Share decreased from HK$7.93 in March 2022 to HK$6.92 in November 2022, which was primarily due to the depreciation of Renminbi, the reporting currency of the Company, against Hong Kong dollar, from HK$1 : RMB0.80638 as at 4 March 2022 to HK$1 : RMB0.92429 as at 4 November 2022. In early 2023, the Renminbi experienced an appreciation against Hong Kong dollar and the NAV per Share reached its peak in 2023 at HK$7.47 on 2 February 2023. From March 2023 to August 2023, a gradual depreciation of Renminbi was observed, resulting in a gradually decreasing NAV per Share. In late 2023 and 2024, the NAV per Share ranged from HK$6.96 to HK$7.15 as the exchange rate was stable at the range of HK$1 : RMB0.90112 to HK$1 : RMB0.92604.

During the Review Period, the Shares have been traded at discounts within the range of 83.0%–92.0% to the NAV per Share. After publication of the Announcement and the Amended Proposal Announcement, the Shares traded at discounts of 84.1% to 88.0% from December 2024 to the Latest Practicable Date.

The discount represented by the Revised Cancellation Price to NAV per Share as at 30 June 2024 was 86.0% but was still narrower than those represented by the closing price of the Share in 565 days out of 752 days during the Review Period, which implies that, during most of time of the Review Period, (i) the market has persistently valued the Company below its NAV; and (ii) the Revised Cancellation Price offers an opportunity for the Scheme Shareholders to cash out their investment in the Company at a price higher than what the market normally offers. On this basis, we consider the discount represented by the Revised Cancellation Price to NAV per Share to be justifiable.

(d) Trading liquidity

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

TABLE 6: TRADING LIQUIDITY OF THE SHARES

	Monthly total trading volume of the Shares	**Percentage of the monthly total trading volume of the Shares to the total issued Shares** *(Note 1)*	**Percentage of the monthly total trading volume of the Shares to the public float** *(Note 2)*
2022			
January	4,568,500	0.31%	1.24%
February	9,860,000	0.67%	2.69%
March	19,054,000	1.30%	5.19%
April	7,379,500	0.50%	2.01%
May	2,471,500	0.17%	0.67%
June	6,172,686	0.42%	1.68%
July	4,865,500	0.33%	1.33%
August	11,876,814	0.81%	3.24%
September	3,721,000	0.25%	1.01%
October	9,806,500	0.67%	2.67%
November	7,422,000	0.51%	2.02%
December	13,355,500	0.91%	3.64%
2023			
January	8,069,000	0.55%	2.20%
February	44,625,000	3.05%	12.16%
March	25,954,100	1.77%	7.07%
April	5,046,500	0.34%	1.37%
May	7,835,000	0.54%	2.13%
June	5,930,000	0.40%	1.62%
July	9,679,000	0.66%	2.64%
August	10,261,833	0.70%	2.80%
September	3,799,500	0.26%	1.03%
October	6,504,500	0.44%	1.77%
November	5,130,500	0.35%	1.40%
December	4,862,471	0.33%	1.32%

	Monthly total trading volume of the Shares	Percentage of the monthly total trading volume of the Shares to the total issued Shares *(Note 1)*	Percentage of the monthly total trading volume of the Shares to the public float *(Note 2)*
2024			
January	4,618,500	0.32%	1.26%
February	4,172,000	0.28%	1.14%
March	10,810,000	0.74%	2.94%
April	6,407,000	0.44%	1.75%
May	7,310,000	0.50%	1.99%
June	11,042,000	0.75%	3.01%
July	3,849,000	0.26%	1.05%
August	3,126,000	0.21%	0.85%
September	13,013,500	0.89%	3.54%
October	46,638,500	3.18%	12.70%
November	10,185,500	0.70%	2.77%
December *(Note 3)*	92,585,600	6.32%	25.22%
2025			
January (up to and including the Latest Practicable Date) *(Note 4)*	83,346,500	5.69%	22.70%

Source: Bloomberg and the website of the Stock Exchange

Notes:

(1) The calculation is based on the monthly total trading volumes of the Shares divided by the total number of Shares in issue as at the end of each month or the Latest Practicable Date, as applicable.

(2) The calculation is based on the monthly total trading volumes of the Shares divided by the total number of Shares held by the public as at the end of each month or the Latest Practicable Date based on the information provided by the Company, as applicable.

(3) Trading in the Shares was suspended during the period from 3 December 2024 up to and including 6 December 2024 pending the release of the Announcement.

(4) Trading in the Shares was suspended on 16 January 2025 pending the release of the Amended Proposal Announcement.

We have reviewed the Comparable Companies (as defined below) and noted that the average of their total monthly trading volume of shares to public float in 2024 (excluding December) ranged from 0.67% to 3.06%. As such, the liquidity of the Shares during 2024 (excluding December) is within the range of its Comparable Companies. From the Review Period, the monthly turnover of the Shares stayed within the range of 0.17%–1.30% of the total issued Shares and 0.67%–5.19% of the public float save for February 2023, March 2023, October 2024 and December 2024. Surges in trading turnover of the Shares were seen in those months, coupled with fluctuations of Share closing prices. The surge in trading volume observed in February and March 2023 might be attributable to Hong Kong — PRC border reopening in the first quarter of 2023 while the increase in October 2024 might be due to the PRC stimulus package as discussed above. The trading in the Shares was suspended for four days in December 2024. Following the publication of the Announcement, the trading volume surged again in December 2024 to 6.32% of the total issued Shares and 25.22% of the public float, which, in our view, was principally related to the Proposal, and may not continue if the Amended Proposal lapses.

As the Shares cannot be regarded as having been actively traded, the Amended Proposal provides an exit opportunity for the Scheme Shareholders (especially those with relatively sizeable shareholdings) who would like to realise their investments in the Shares at a fixed cash price under the Amended Proposal without disturbing the market price.

Comments

The Share price not only moved quite closely with the HSI but also reacted to the changing operating environment as well as financial performance of the Group in a timely manner. The Share price was on a downward trend since the outbreak of COVID-19 until the lifting of the pandemic-related restrictions by the PRC government in 2023. The Share price reached its highest of HK$1.26 on 8 February 2023 and then moved between HK$1.00 and HK$1.20 until August 2023. On 2 August 2023, the Group reported a net profit of RMB127.6 million for 1H2023. The Share price then fell gradually to HK$0.57 on 2 April 2024. Considerable loss for 2H2023 is seen in the Company's 2023 annual results which was announced on 19 March 2024. Both revenue and net profit of the Group decreased in 1H2024. The Share price closed between HK$0.57 and HK$0.87 during the period from 19 March 2024 when 2023 annual results was announced to 8 August 2024 when 1H2024 results were announced, with an average of HK$0.75. The Share price seems to be sensitive to the change in operating environment of the Group and its financial performance.

The Revised Cancellation Price of HK$0.980 per Scheme Share represents premiums of approximately 30.0% to 34.6% over the closing price of the Share on the Last Trading Date and the average closing price of the Share for 5, 10, 30, 60, 90, 120, and 180 trading days (up to and including the Last Trading Date) before the release of the Announcement. Furthermore, the Revised Cancellation Price of HK$0.980 has been higher than the closing prices of the Shares in 547 trading days out of a total of 752 trading days during the Review Period. The Revised Cancellation Price is 86.0% lower than the NAV per Share as at 30 June 2024. Nevertheless, the discount represented by the Revised Cancellation Price to the latest NAV per Share is narrower than those of the closing Share price in the vast majority of the trading days during the Review Period. On the above basis, the Amended Proposal provides an opportunity for the Shareholders (especially those with relatively sizeable shareholdings) who would like to realise their investments in the Shares at a fixed cash price without disturbing the market price.

The out-performance of the Share closing prices after the Announcement is, in our opinion, due to the Proposal under which the Offeror did not make a "No price increase statement" as many other privatisations do. Speculations about the possible increase in the cancellation price drove up the Share closing prices, which went higher than both Original Cancellation Price and Revised Cancellation Price, during the period between the Announcement and the Amended Proposal Announcement. On 15 January 2025, the Offeror notified the Company its decision to increase the cancellation price from HK$0.913 to HK$0.980 per Scheme Share and **the Revised Cancellation Price will not be further increased**. After the publication of the Amended Proposal Announcement, the closing price of the Shares decreased by 14.3% to HK$0.84 on the next trading day. The Share price closed at HK$0.85 as at the Latest Practicable Date. If the Amended Proposal fails and the Share price reverts to its previous close alignment with the Hang Seng Index, Shareholders should therefore be aware that the current Share price may not continue should the Amended Proposal lapse and the Share price may return to the undisturbed level.

4.2. Comparable companies

Given the Group is principally engaged in the operation of department stores in the PRC, we have endeavored to identify companies listed on the Main Board of the Stock Exchange which are mainly engaged in operation of department stores with over 50% of its latest reported annual revenue generated in the PRC under department store category on the website of AASTOCKS (www.aastocks.com). A total of 7 companies have been identified (the "**Comparable Companies**") based on the aforementioned criteria. The Comparable Companies so far as we are aware of, are exhaustive based on the aforementioned selection criteria.

In conducting our analysis, we have compared the price-to-sales ratio ("**PSR**"), price-to-earning ratio ("**PER**") and price-to-book ratio ("**PBR**") of the Company implied by the Revised Cancellation Price with those of the Comparable Companies, which, we consider, are widely accepted multiples to evaluate a company. Details of the Comparable Companies are set out in the table below:

TABLE 7: COMPARABLE COMPANIES

Company (stock code)	**Market Capitalisation**(1) *(in HK$ million)*	**PSR**(2) *(times)*	**PER**(3) *(times)*	**PBR**(4) *(times)*
Maoye International Holdings Limited (848.HK)	786	0.17	n.a.(5)	0.06
New World Department Store China Limited (825.HK, "**New World China**")	506	0.37	37.99	0.15
Parkson Retail Group Limited (3368.HK)	271	0.08	n.a.(5)	0.08
AEON Stores (Hong Kong) Co., Limited (984.HK)	116	0.01	n.a.(5)	n.a.(6)
Shirble Department Store Holdings (China) Limited (312.HK)	92	0.44	n.a.(5)	0.11
Century Ginwa Retail Holdings Limited (162.HK)	87	0.20	n.a.(5)	0.11
Jiahua Stores Holdings Limited (602.HK)	33	0.08	n.a.(5)	n.a.(6)

Company (stock code)	Market Capitalisation[1] (in HK$ million)	PSR[2] (times)	PER[3] (times)	PBR[4] (times)
	Highest	0.44	n.a.[7]	0.15
	Lowest	0.01	n.a.[7]	0.06
	Average	0.19	n.a.[7]	0.10
	Median	0.17	n.a.[7]	0.11
The Company (2136.HK) based on the Revised Cancellation Price of HK$0.980	**1,098**	**1.03[8]**	**739.95[8]**	**0.11[9]**

Source: Bloomberg and the websites of the Comparable Companies and the Stock Exchange

Notes:

1. The market capitalisation of the Comparable Companies and the Company are calculated based on the closing price of the respective companies as at the Last Trading Date (being the last full trading day on which the Shares were traded on the Stock Exchange immediately prior to the announcement of the Proposal) multiplied by the number of issued outstanding shares based on the latest monthly returns.

2. The PSRs of the Comparable Companies are calculated based on their respective market capitalisation as at the Last Trading Date (being the last full trading day on which the Shares were traded on the Stock Exchange immediately prior to the announcement of the Proposal) divided by their respective revenue for the trailing 12-month period ended 30 June 2024 as referenced from their respective latest published annual and/or interim reports which, in our view, would have taken into account their fluctuation in sales due to seasonal factors, if any.

3. The PERs of the Comparable Companies are calculated based on their respective market capitalisation as at the Last Trading Date (being the last full trading day on which the Shares were traded on the Stock Exchange immediately prior to the announcement of the Proposal) divided by their respective profit attributable to the shareholders for the trailing 12-month period ended 30 June 2024 as referenced from their respective latest published annual and/or interim reports which, in our view, would have taken into account their fluctuation in sales due to seasonal factors, if any.

4. The PBRs of the Comparable Companies are calculated based on their respective market capitalisation as at the Last Trading Date (being the last full trading day on which the Shares were traded on the Stock Exchange immediately prior to the announcement of the Proposal) divided by their respective net assets attributable to the shareholders as referenced from their respective latest published financial reports.

5. Not applicable as the subject company recorded net loss.

6. Not applicable as the subject company was in net liability position.

7. Not applicable as New World China is the only comparable company recorded net profit attributable to shareholders for the trailing 12-month period ended 30 June 2024.

8. The PSR and PER of the Company implied by the Revised Cancellation Price are calculated based on the Revised Cancellation Price of HK$0.980 and the total number of Shares in issue as at the Last Trading Date divided by revenue and net profit for the trailing 12-month period ended 30 June 2024 as referenced from its latest published annual and interim reports, in our view, would have taken into account their fluctuation in sales due to seasonal factors, if any.

9. The PBR of the Company implied by the Revised Cancellation Price are calculated based on the Revised Cancellation Price of HK$0.980 and the total number of Shares in issue as at the Last Trading Date divided by the Adjusted NAV.

All Comparable Companies except for New World China reported loss for the latest trailing 12-month period. The PER of the Company, based on the Revised Cancellation Price and its net profit for latest 12-month period, produces anomalies result of 739.95 times, which, in our view, is not appropriate for analysis purpose.

The PSRs and PBRs of the Comparable Companies range from 0.01 times to 0.44 times with an average of 0.19 times and a median of 0.17 times and from 0.06 times to 0.15 times with an average of 0.10 times and a median of 0.11 times, respectively. The PSR of the Company implied by the Revised Cancellation Price of 1.03 times is substantially higher than those of the Comparable Companies while the PBR of the Company implied by the Revised Cancellation Price of 0.11 times falls within the range of those of the Comparable Companies and is above the average and equal to median of those of the Comparable Companies.

Comments

All Comparable Companies except for New World China reported loss in the latest 12-month period and therefore no PER could be appraised. It has further proved that department store operators have been struggling with insufficient consumption and sluggish growth which led to an overall loss of profitability. The bumpy profitability of the Company resulted in exceptionally high PER which made it inappropriate for analysis purpose.

On the basis that the PSR of the Company implied by the Revised Cancellation Price is substantially higher than those of the Comparable Companies and the PBR of the Company implied by the Revised Cancellation Price falls within the range of the Comparable Companies and close to the average and median of those of the Comparable Companies, we consider the Revised Cancellation Price of HK$0.980 to be acceptable.

4.3. Privatisation precedents

To assess the fairness and reasonableness of the Revised Cancellation Price, we have researched all successful privatisation proposals involving companies listed on the Main Board of the Stock Exchange that were announced and completed during the Review Period (the "**Privatisation Precedents**"). Although the Privatisation Precedents may involve an offeree company with different business nature, scale, industries, financials, historical price performance, the Privatisation Precedents, in our view, provide a comprehensive overview of the recent pricing of recent transactions of this type and the premiums or discounts that most of independent shareholders are willing to accept for tendering their shares in a privatisation transaction. The Privatisation Precedents represent an exhaustive list of privatisation proposals meeting the aforesaid criteria, a summary of which is set out in the table below.

TABLE 8: PRIVATISATION PRECEDENTS

Date of initial announcement[2]	Company name (stock code)	Last full trading day[3]	Premium or (discount) represented by offer/cancellation price over/to closing share price/average share price on/over[1] 5-trading day[4]	10-trading day[4]	30-trading day[4]	60-trading day[4]	90-trading day[4]	120-trading day[4]	180-trading day[4]	Premium or (discount) represented by offer/cancellation price over/to latest NAV per share/ adjusted NAV per share[5]
16 July 2024	Samson Holding Ltd. (531)	77.8%	86.8%	105.4%	150.1%	186.7%	184.5%	172.8%	150.6%	(47.1)%
19 June 2024	Asia Standard Hotel Group Limited (292) ("ASH")	52.8%	48.6%	41.0%	57.1%	71.9%	71.9%	64.2%	48.7%	(98.6)%[6]
12 June 2024	A8 New Media Group Limited (800)	162.8%	159.0%	168.7%	185.7%	185.7%	174.8%	155.3%	126.4%	(48.1)%
27 May 2024	Huafa Property Services Group Company Limited (982)	30.6%	36.8%	40.1%	70.6%	82.4%	88.3%	89.5%	104.2%	970.1%
29 April 2024	L'Occitane International S.A. (973)	30.8%	36.1%	40.6%	49.9%	60.8%	60.5%	52.4%	53.8%	593.5%
18 April 2024	Kin Yat Holdings Limited (638)	33.3%	43.4%	47.3%	51.5%	53.6%	55.9%	63.5%	72.1%	(57.4)%
28 March 2024	SciClone Pharmaceuticals (Holdings) Limited (6600)	33.9%	36.0%	36.2%	47.5%	47.9%	48.7%	58.1%	67.1%	228.4%
9 February 2024	IntelliCentrics Global Holdings Ltd. (6819)[7]	20.5%	20.4%	19.3%	13.6%	11.4%	10.7%	2.8%	(4.4)%	NA[8]
26 January 2024	Bank of Jinzhou Co., Ltd. (416)	0.0%	(0.6)%	(1.0)%	0.3%	15.4%	34.8%	43.0%	36.5%	(71.9)%
14 December 2023	Sinosoft Technology Group Limited (1297)	29.4%	30.4%	31.2%	31.1%	22.5%	15.0%	11.4%	14.2%	(78.9)%
4 December 2023	Weiqiao Textile Company Limited (2698)	104.7%	104.9%	102.7%	111.1%	142.9%	147.5%	143.6%	144.9%	(78.3)%
28 November 2023	CIMC Vehicles (Group) Co., Ltd. (1839)	16.5%	17.9%	21.0%	25.4%	19.1%	15.9%	15.2%	12.6%	(6.3)%
20 November 2023	Vinda International Holdings Limited (3331)	20.1%	19.7%	21.4%	21.3%	25.7%	29.2%	26.9%	22.0%	145.2%
6 October 2023	Haitong International Securities Group Limited (665)	114.1%	111.1%	108.2%	126.5%	122.2%	124.5%	125.2%	110.5%	(39.3)%
6 October 2023	Pine Care Group Limited (1989)	(1.1)%	0.7%	0.9%	1.5%	8.9%	22.9%	29.9%	43.8%	(7.9)%
15 September 2023	Lansen Pharmaceutical Holdings Limited (503)	26.8%	24.1%	22.5%	20.0%	15.4%	20.8%	21.6%	23.3%	22.1%
1 September 2023	CST Group Limited (985)	61.3%	24.4%	21.4%	36.6%	(1.4)%	(14.9)%	(24.0)%	(33.8)%	(60.7)%
27 June 2023	Dali Foods Group Company Limited (3799)	37.9%	36.4%	39.4%	30.2%	21.8%	18.7%	14.7%	13.0%	151.7%
27 June 2023	Poly Culture Group Corporation Limited (3636)	77.6%	112.5%	125.2%	133.1%	129.8%	129.0%	126.0%	138.4%	(30.9)%
23 June 2023	Yongsheng Advanced Materials Company Limited (3608)	58.7%	55.8%	61.0%	52.9%	38.5%	34.4%	29.9%	28.7%	(46.5)%
11 June 2023	Mason Group Holdings Limited (273)	20.7%	20.7%	19.4%	19.0%	16.2%	12.7%	13.9%	19.0%	(60.1)%

Date of initial announcement[2]	Company name (stock code)	Last full trading day[3]	Premium or (discount) represented by offer/cancellation price over/to closing share price/average share price on/over[1] 5-trading day[4]	10-trading day[4]	30-trading day[4]	60-trading day[4]	90-trading day[4]	120-trading day[4]	180-trading day[4]	Premium or (discount) represented by offer/cancellation price over/to latest NAV per share/ adjusted NAV per share[5]
28 May 2023	Golden Eagle Retail Group Limited (3308) ("**Golden Eagle**")	63.4%	66.6%	61.5%	55.3%	49.9%	54.6%	49.2%	45.2%	(47.4)%
8 May 2023	Hailan Holdings Limited (2278)	5.0%	5.0%	5.0%	5.0%	5.0%	8.7%	14.7%	3.7%	(60.2)%
29 March 2023	Inner Mongolia Yitai Coal Co., Ltd. (3948)	54.9%	58.7%	63.7%	67.3%	64.2%	65.1%	66.2%	63.2%	(6.0)%
21 February 2023	Jiangnan Group Limited (1366)	83.5%	100.0%	106.2%	107.3%	102.0%	91.4%	83.5%	77.8%	(63.8)%
17 February 2023	AAG Energy Holdings Limited (2686)	10.1%	10.1%	9.3%	10.8%	24.2%	27.2%	25.9%	25.9%	(27.5)%
24 October 2022	Kingston Financial Group Limited (1031)	47.8%	48.4%	47.6%	39.4%	33.3%	29.9%	26.6%	11.0%	(80.2)%
8 August 2022	EVOC Intelligent Technology Company Limited (2308)	52.2%	49.6%	48.3%	45.8%	52.2%	53.5%	50.9%	47.1%	(55.4)%
5 August 2022	Lifestyle International (1212)	62.3%	75.9%	81.9%	70.1%	58.7%	48.1%	38.7%	30.0%	(52.8)%
9 June 2022	China VAST Industrial Urban Development Company Limited (6166)	30.4%	29.2%	28.8%	31.4%	36.9%	42.1%	45.8%	30.7%	(41.9)%
2 June 2022	Xiamen International Port Co., Ltd. (3378)	97.4%	90.7%	110.3%	139.4%	152.8%	155.7%	161.6%	161.6%	(14.8)%
16 March 2022	Yashili International Holdings Ltd. (1230)	160.9%	153.2%	150.5%	138.5%	134.2%	127.3%	124.4%	114.6%	(2.9)%
24 January 2022	Guodian Technology & Environment Group Corporation Limited (1296)	107.7%	107.7%	107.7%	96.4%	107.7%	92.9%	100.0%	120.4%	(13.6)%
14 January 2022	AKM Industrial Company Limited (1639)	15.2%	24.5%	29.1%	25.8%	29.0%	41.1%	51.7%	60.4%	70.9%
	Highest	**162.8%**	**159.0%**	**168.7%**	**185.7%**	**186.7%**	**184.5%**	**172.8%**	**161.6%**	**970.1%**
	Lowest	**(1.1)%**	**(0.6)%**	**(1.0)%**	**0.3%**	**(1.4)%**	**(14.9)%**	**(24.0)%**	**(33.8)%**	**(98.6)%**
	Average	**52.9%**	**54.3%**	**56.5%**	**60.8%**	**62.6%**	**62.5%**	**61.0%**	**58.3%**	**29.8%**
	Median	**42.8%**	**40.1%**	**40.8%**	**48.7%**	**48.9%**	**48.4%**	**50.1%**	**46.1%**	**(41.9)%**
6 December 2024	**The Company (2136)**	**30.7%**	**30.7%**	**30.1%**	**30.0%**	**33.9%**	**34.6%**	**31.2%**	**33.7%**	**(88.7)%**

Source: Bloomberg and the website of the Stock Exchange

Notes:

1. The figures are quoted from the respective offer/scheme document or if such data is not available, calculated based on the offer/cancellation price divided by the closing price per share on the last full trading day or average closing price per share during various periods.

2. The date of the Takeovers Code Rule 3.5 announcement or Rule 3.7 announcement, whichever is earlier.

3. The last undisturbed full trading day as disclosed in the respective offer/scheme document or last full trading day prior to the release of the initial announcement.

4. Up to and including the last full trading day.

5. It represents the premium or (discount) represented by the offer/cancellation price over the NAV per share (or adjusted NAV per share, if available) quoted from the respective offer/scheme document.

6. The adjusted NAV per share of ASH is based on an undiluted basis as disclosed in its scheme document dated 29 August 2024.

7. We consider the proposal relating to the delisting of IntelliCentrics Global Holdings Ltd. (stock code: 6819) is akin to privatisation of companies listed in Hong Kong and thus include it as one of the Privatisation Precedents and treat the interim dividend involved as the cancellation price.

8. Not applicable as the subject offeree company was in net liability position.

9. Subject to rounding differences.

(a) Premiums or (discounts) over/to the prevailing share prices

The premiums or (discounts) represented by the offer/cancellation price of the Privatisation Precedents are (i) (1.1)%–162.8%, with an average of 52.9% and a median of 42.8% over/to their respective share closing price on the last undisturbed full trading day; (ii) (0.6)%–159.0%, with an average of 54.3% and a median of 40.1% over/to their respective 5-trading day average share closing price; (iii) (1.0)%–168.7%, with an average of 56.5% and a median of 40.8% over/to their respective 10-trading day average share closing price; (iv) 0.3%–185.7%, with an average of 60.8% and a median of 48.7% over their respective 30-trading day average share closing price; (v) (1.4)%–186.7%, with an average of 62.6% and a median of 48.9% over/to their respective 60-trading day average share closing price; (vi) (14.9)%–184.5%, with an average of 62.5% and a median of 48.4% over/to their respective 90-trading day average share closing price; (vii) (24.0)%–172.8%, with an average of 61.0% and a median of 50.1% over/to their respective 120-trading day average share closing price; and (viii) (33.8)%–161.6%, with an average of 58.3% and a median of 46.1% over/to their respective 180-trading day average share closing price. The premiums of

30.0%–34.6% represented by the Revised Cancellation Price over the closing Share prices on the Last Trading Date and average closing Share prices for various trading periods all fall within the ranges of those of the Privatisation Precedents.

(b) Premiums or (discounts) over/to the NAV per share

The premiums or (discounts) represented by the offer/cancellation price of the Privatisation Precedents over/to their respective NAV per share range from (98.6)% to 970.1%. The Revised Cancellation Price representing a discount to the Adjusted NAV per Share of (88.7)% is within the range of those of the Privatisation Precedents.

Out of the 33 Privatisation Precedents (after having excluded the case involving an offeree company in net liability position), 7 cases had offer/cancellation prices that represent premiums over their respective NAV per share and 26 cases had offer/cancellation prices represent discounts to their respective NAV per share. Offer/cancellation prices pitched at discounts to NAV per share are not uncommon in privatisation transactions.

Comments

We consider the Privatisation Precedents during the Review Period provide a general overview of the pricing of the recent successful privatisation transactions in Hong Kong and serve as a reference when assessing the fairness and reasonable of the Revised Cancellation Price. As the Privatisation Precedents' premiums or (discounts) have wide ranges which may be due to the different business nature, scale and industries in which the companies involved operate, as well as their own historical trading prices which may have been impacted by the then market sentiment and other extenuating circumstances specific to each of the Privatisation Precedents, they give a reference point on recent pricing on privatisation transactions which are acceptable for the respective independent shareholders to tender their shares.

Among the companies involved in the Privatisation Precedents, Golden Eagle and Lifestyle International were also engaged in operation of department stores. The premiums represented by their cancellation prices over their share closing price on the last full trading day and 5-, 10-, 30-, 60-, 90-, 120- and 180-trading day average share closing price ranged from 30.0% to 81.9%, which are significantly higher than those of the Amended Proposal. The discounts represented by their cancellation prices over their NAV per share were 47.4% and 52.8%, much lower than that of the Amended Proposal. However, it is noted that (i) Golden Eagle case was announced in May 2023 when the retail market was fuelled by the pent-up consumer demand following the lifting of pandemic related restriction as discussed in section 1.3 above; and (ii) Lifestyle International ran its department store business mainly in Hong Kong. The operating environment and the industry prospects at the relevant time would affect the pricing of privatisation of Golden Eagle and Lifestyle International. Last but not least, the Company went public in 2016 by distribution in specie of its entire share capital to the then shareholders of Lifestyle International, which was successfully taken private in 2022. In other words, the then shareholders of Lifestyle International became the Shareholders without making any payment and theoretical exited their investment in Lifestyle International in 2022. Balancing the aforementioned factors and having considered that (i) the premiums represented by the Revised Cancellation Price over the closing Share price on the Last Trading Date and average Share closing prices for various trading periods are within the ranges of those of the Privatisation Precedents; and (ii) the discount represented by the Revised Cancellation Price to the Adjusted NAV per Share falls within the range of the Privatisation Precedents, the Revised Cancellation Price of HK$0.980, in our view, is acceptable.

DISCUSSION

In forming our opinion and recommendations below, we have taken into account the factors set out above, none of which can be considered in isolation. We would like to draw the attention of the Scheme Shareholders in particular to the points summarised below:

(a) The Company — listed by way of distribution in specie of its entire issued share capital

The Company, listed in 2016, was spun-off from Lifestyle International, a company previously listed on the Stock Exchange and delisted by way of privatisation in 2022. At such time, the separate listing was effected solely by way of distribution in specie. In other words, the shareholders of Lifestyle International were allotted the Shares without payment and became the shareholders of the Company immediately before its listing. The separate listing was to, amongst others, facilitate the then shareholders of Lifestyle International to invest in both or either of the groups; and the Company to access the debt and equity capital markets directly.

The Company's issued share capital reduced from 1,602,586,500 at the time of its listing to 1,464,448,500 Shares as at the Latest Practicable Date. Such decrease was due to the cancellation of Shares after Share repurchases conducted in 2018.

(b) Cautious consumer spending and weak domestic consumption due to overall lack of economic vitality

Following its listing in 2016, the Group had streamlined its operation by closure of Dalian Property in 2017 and standalone supermarket in 2024 and cessation of restaurant business in 2018. The Group currently operates JGC and two department stores (in Shanghai and Suzhou), and holds some investment properties and equity investment in another department store operator in Shijiazhuang. The property interests are the commercial buildings in Shenyang and Dalian which were the venues of the Group's previous department stores, Suzhou Jiuguang Property (held by the Group for operation of department stores and retailing businesses) and JGC comprising an eight-storey shopping mall and two office towers which was opened in 2021.

The financial performance of the Group is closely tied to changing operating environment and consumer preference. The Group rode on a short-term boom in the PRC retail market after the lifting of all epidemic prevention and control measures in the first quarter of 2023 to report a 50.7% year-on-year increase in sales in 1H2023. As the slowdown of the economy since middle of the year prompted consumer sentiment to become more cautious, sales growth in 2H2023 slowed to approximately 5.8% year-on-year. In 1H2024, the total sales proceeds dropped 11.5%. The decline in sales proceeds was mainly due to the retail market becoming more cautious as impacted by the macroeconomic environment, leading to fall in average spending of consumers. As discussed in section 1.3, the industry in which the Group operates continues to be challenging amid economic slowdown, e-commerce disruption and rapidly changing customer behaviour in the PRC.

JGC, which has been positioned as a leisure experience and lifestyle hub, is a photo-taking hotspot for the public in Shanghai. Despite the average footfall grew by 22.3% year-on-year in 1H2024, both stay-and-buy ratio and sales decreased slightly year-on-year. It commenced recruiting tenants in 2021 and about 70% and 10% of the two office towers had been leased out. Dalian and Shenyang commercial properties have been vacant after cessation of the department stores operation, as the Group is still in the process of seeking a suitable opportunity for transformation in view of continued sluggish economy coupled with lingering impact of the pandemic.

(c) The Scheme presents a good opportunity to realise the Shares

The Revised Cancellation Price of HK$0.980 has been higher than the closing prices of the Shares in 547 trading days out of a total of 752 trading days during the Review Period. The Revised Cancellation Price of HK$0.980 represents premiums of approximately 30.0%–34.6% over the closing price of the Share on the Last Trading Date and the average closing prices of the Shares for the 5, 10, 30, 60, 90, 120 and 180 trading days (up to and including the Last Trading Date) before the release of the Announcement.

The out-performance of the Share closing prices as compared to the Original Cancellation Price or the Revised Cancellation Price is seen after the Announcement when the Offeror did not make a "No price increase statement" as many other privatisations do. The Share closing prices after the Announcement, which were higher than the Original Cancellation Price, in our view, might be due to speculations about the possible increase in the cancellation price. On 15 January 2025, the Offeror notified the Company its decision to increase the cancellation price from HK$0.913 to HK$0.980 per Scheme Share and **the Revised Cancellation Price will not be further increased**.

After the publication of the Amended Proposal Announcement, the closing price of the Shares decreased by 14.3% to HK$0.84 on the next trading day. The Share price closed at HK$0.85 as at the Latest Practicable Date. If the Amended Proposal fails and the Share price reverts to its previous close alignment with the Hang Seng Index, the Share price may in our view retreat to the level before the Announcement, as illustrated in Figure 1 above.

During the 90 consecutive trading days up to and including the Last Trading Date, the daily average trading volume of the Shares was approximately 855,534 Shares, or approximately 0.1% of the number of total issued Shares as at the Last Trading Date. From the start of 2024 to the Latest Practicable Date, the Shares have generally traded at an average daily trading volume of approximately 1,169,701 Shares representing approximately 0.32% of the Company's free float. The Shares have not, in our opinion, been actively traded before the Announcement, which makes the opportunity to exit at a fixed cash price under the Amended Proposal a potentially valuable one (depending on the prevailing market price).

(d) Persistent discount to NAV

Throughout the Review Period before the Announcement, the Shares have traded in the market at a substantial discount to NAV of over 86.0% in 555 and over 88.7% in 361 out of 720 trading days. Over the 12-month period ended on the Last Trading Date, the average discount was approximately 89.5%. The Revised Cancellation Price represents a 86.0% discount to the NAV per Share and 88.7% discount to the Adjusted NAV per Share. The discounts of the closing price to the NAV per Share narrowed after the Company issued the Announcement in our view may not be sustainable at the current level if the Amended Proposal and the Scheme lapses.

The Management has been reviewing and will continue to review and consider the strategy of the Group under part of the Group's usual and ordinary course of business and may, from time to time, explore and implement business and operational initiatives. The Management may consider divesting the vacant properties when such opportunities arise. However, in light of the continued sluggish economy, particularly the relatively weak property market and retail operating environment in the PRC, the Management is of the view that the likelihood of selling the vacant properties is low in the foreseeable future. The Offeror has stated that it intends to continue with the existing business of the Group and has no plan to make any major redeployment of the fixed assets of the Group. We were further advised that, in view of the challenging retail market, the Management considers sufficient cash should be preserved to maintain and further improve the Group's business operations. Consequently, the assumption that the assets of the Group may be sold in the market based on its NAV or Adjusted NAV is not practicable or assumption that the Group may distribute most of its cash to Shareholders is unlikely.

(e) Cross check against the comparable companies

A total of 7 Comparable Companies, which are department store operators with over 50% of revenue derived from PRC market, are identified. All Comparable Companies except for New World China reported loss in the latest 12-month period and therefore no PER could be appraised. It has further proved that department store operators have been struggling with insufficient consumption and sluggish growth which led to an overall loss of profitability. The Company's PER, based on latest trailing 12-month profits of HK$1.8 million, produces anomalous result of over 700 times, which is considered not appropriate for analysis purpose.

The Company's PSR and PBR, which are calculated based on the Revised Cancellation Price, are either substantially higher than those of the Comparable Companies or close to the average and the median of those of the Comparable Companies. On this basis, the Revised Cancellation Price, in our view, is acceptable.

(f) An attractive proposal from another source is unlikely

An alternative general offer or other proposal to acquire the Shares is unlikely as Offeror Concert Parties hold 74.91% of the issued share capital of the Company and the Offeror has indicated that it holds such Shares as a long-term investment. Under Rule 31.1 of the Takeovers Code, if the Amended Proposal does not become unconditional, the Offeror may not normally put forward a similar proposal for at least 12 months from the date on which the Amended Proposal lapses.

(g) Privatisation precedents

The premiums of 30.0%–34.6% represented by the Revised Cancellation Price over the closing Share prices on the Last Trading Date and average closing Share prices for various trading periods all fall within the ranges of the Privatisation Precedents during the Review Period. In addition, we note that offer/cancellation prices pitched at discounts to NAV per share are not uncommon in privatisation transactions as approximately 80% of the Privatisation Precedents (after having excluded the case involving an offeree company in net liability position) have their respective offer/cancellation price lower than NAV per share of the subject offeree company. Despite that Golden Eagle and Lifestyle International, which also operate department stores, were privatised at cancellation prices with relatively higher premiums over their prevailing share prices and relatively narrower discounts to their respective NAV per share, the operating environment and the industry prospects at the relevant time were different from that of the Amended Proposal. Combined with the Company's way of listing back in 2016, we consider the Revised Cancellation Price to be acceptable.

OPINION AND RECOMMENDATION

Having taken into account the principal factors and reasons set out in our letter, we (i) consider that the terms of the Amended Proposal and the Scheme are fair and reasonable so far as the Independent Shareholders are concerned and (ii) advise the Independent Board Committee to recommend the Independent Shareholders to accept the Amended Proposal and vote in favour of the Scheme at the Court Meeting and the resolutions in connection with the implementation of the Amended Proposal at the General Meeting.

Given the prevailing Share closing prices exceeded the Revised Cancellation Price following the release of the Announcement for quite some days, we would also like to remind the Independent Shareholders to closely monitor the market price and liquidity of the Shares before the Court Meeting and General Meeting, and consider selling their Shares in the open market, where possible, instead of accepting the Amended Proposal, if the net proceeds from such sales exceed the net proceeds expected to be received under the Amended Proposal. The last day of dealings in the Shares is expected to be 4 March 2025 if the Amended Proposal proceeds.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Jenny Leung
Director

Ms. Jenny Leung is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activities. She has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.