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11 March 2025

To: the Independent Board Committee

Dear Sirs,

UNCONDITIONAL MANDATORY CASH OFFER BY SHANGGU SECURITIES LIMITED FOR AND ON BEHALF OF BEIJING TONG REN TANG (CAYMAN) LIMITED FOR ALL THE SHARES IN CLSA PREMIUM LIMITED (OTHER THAN THOSE SHARES ALREADY OWNED BY OR AGREED TO BE ACQUIRED BY BEIJING TONG REN TANG (CAYMAN) LIMITED AND/OR PARTIES ACTING IN CONCERT WITH IT)

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the Offer, details of which are set out in the Composite Document dated 11 March 2025, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

As mentioned in the Joint Announcement, the Offeror and the Vendor entered into the Share Transfer Agreement on 18 February 2025, pursuant to which the Vendor had conditionally agreed to transfer, and the Offeror had conditionally agreed to acquire, a total of 813,316,000 Sale Shares, for a total consideration of HK$97,994,000 (equivalent to approximately HK$0.1205 per Sale Share), comprising (i) the Completion Payment of HK$29,398,200 paid by the Offeror on 18 February 2025, and (ii) the Deferred Payment of HK$68,595,800 payable within six months after the effective date of the Share Transfer Agreement on 18 February 2025. Interest is accrued on the Deferred Payment from the Completion Date to the date on which the Deferred Payment is fully settled at 5.5% per annum. The Sale Shares represent 40% of the total issued Shares of the Company as at the Latest Practicable Date. Completion of the Transfer took place on 18 February 2025.

Immediately upon Completion of the Transfer, the Vendor continues to hold the Retained Shares of 386,994,001 Shares, representing approximately 19.03% of the total issued Shares of the Company as at the Latest Practicable Date. The Vendor is presumed to be acting in concert with the Offeror under Class (9) of the definition of "acting in concert" under the Takeovers Code until the full settlement of the Deferred Payment by the Offeror.

Immediately after Completion of the Transfer and as at the Latest Practicable Date, the Offeror and parties acting in concert with it (including the Vendor) were interested in 1,200,310,001 Shares, representing approximately 59.03% of the total issued Shares of the Company. Pursuant to Rule 26.1 of the Takeovers Code, immediately following Completion of the Transfer, the Offeror is required to make an unconditional mandatory cash offer for all the issued Shares (other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it (including the Vendor)).

The Independent Board Committee comprising two independent non-executive Directors who have no direct or indirect interest in the Offer, namely Mr. Wu Jianfeng and Ms. Hu Zhaoxia, was established for the purpose of advising the Independent Shareholders in respect of the Offer. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee on the Offer.

We are not associated with the Company, the Offeror or their respective controlling shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Offer. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror, their respective controlling shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have reviewed, among other things, (i) the Composite Document; (ii) the annual report of the Company for the year ended 31 December 2023 (the "**2023 Annual Report**"); and (iii) the interim report of the Company for the six months ended 30 June 2024 (the "**2024 Interim Report**"). We have relied on the information and facts supplied by the Company and the opinions expressed by the Directors, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us which would render any statement in this letter misleading. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Offeror or any of their respective associates 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. The Company will notify the Independent Shareholders of any material changes to information contained or referred to in the Composite Document as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. The Independent Shareholders will also be informed of any material changes to the information contained or referred to herein as well as changes to our opinion, if any, as soon as practicable throughout the Offer Period in accordance with Rule 9.1 of the Takeovers Code.

We have not considered the tax and regulatory implications on the Independent Shareholders of acceptance or non-acceptance of the Offer, since these depend on their individual circumstances. In particular, Independent Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on security dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE OFFER

Shanggu, for and on behalf of the Offeror and in compliance with the Takeovers Code, is making the Offer on the following terms:

For each Offer Share . . . . HK$0.1229 in cash

The Offer Price of HK$0.1229 per Offer Share is equivalent to the Sale Price payable by the Offeror together with the Interest accruing on the Deferred Payment for a period of six months from the Completion Date of the Transfer, divided by the number of the Sale Shares. Details of the calculation is set out in the section headed "The Offer" in the "Letter from Shanggu" of the Composite Document.

As stated in the "Letter from Shanggu" of the Composite Document, the Offeror will not increase the Offer Price. Shareholders and potential investors should be aware that, following the making of this statement, the Offeror will not be allowed to increase the Offer Price and the Offeror does not reserve the right to increase the Offer Price.

As at the Latest Practicable Date, the Company (i) has not declared any dividend which is not yet paid; and (ii) does not have any intention to declare or pay any future dividend or make other distributions prior to and including the date of closing or lapse of the Offer. If, after the Latest Practicable Date, any dividend or other distribution is made or paid in respect of the Offer Shares, the Offeror reserves the right to reduce the Offer Price by an amount equal to the gross amount of such dividend or other distribution.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Information and prospects of the Group

(i) Background information of the Group

The Group is principally engaged in the healthcare business and its Shares are listed on the Main Board of the Stock Exchange (stock code: 6877). After the Group has completely ceased its margin dealing business since May 2023, the only operating businesses of the Group is its healthcare business, which started to record income in May 2022.

The major categories of products sold by the Group include Chinese healthcare products, fish oil products, vitamins and supplements, ginseng products and bird's nest products. The Group sells its products through business-to-business ("**B2B**") and business-to-consumer ("**B2C**") operation model, and also develops its original design manufacturing ("**ODM**") products. Under the B2B business model, the Group purchases products in bulk from its suppliers and sells the products to offline wholesale customers, which, in turn, on-sell to end consumers. Under the B2C business model, the Group sell its products to online individual customers via four e-commerce stores on two globally renowned e-commerce platforms. As disclosed in the Company's announcement dated 24 October 2023, the Group has entered into a strategic cooperation agreement with Beijing Tong Ren Tang (Hong Kong) Limited, a wholly-owned subsidiary of the Offeror, and 中科分子生物(廣東)股份有限公司 (CasMo Bio-tech (Guangdong) Co., Ltd.). Pursuant to the said agreement, the Group is responsible for designing the ODM products and serving as the global distributor.

Trading in the Shares on the Stock Exchange has been suspended on 25 April 2023 as the Company failed to maintain a sufficient level of operations and assets of sufficient value to support its operations as required under Rule 13.24 of the Listing Rules. With the fulfillment of all resumption guidance, trading of the Shares was resumed around one year and three months later on 19 July 2024.

(ii) Financial information of the Group

(A) Financial performance

The following table sets out a summary of the consolidated statements of profit or loss of the Group for the two years ended 31 December 2022 and 2023, and for the six months ended 30 June 2023 and 2024, as extracted and summarised from the 2023 Annual Report and 2024 Interim Report.

	For the six months ended 30 June		For the year ended 31 December	
	2024	**2023**	**2023**	**2022**
	(unaudited)	(unaudited)	(audited)	(audited)
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Total income	**55,501**	**143,008**	**201,488**	**45,854**
– *Continuing operations*	*55,501*	*141,895*	*199,683*	*39,125*
– *Discontinued operations*	–	*1,113*	*1,805*	*6,729*
Profit/(loss) for the period/year	**6,260**	**5,554**	**9,842**	**(31,052)**
– *Continuing operations*	*6,260*	*6,932*	*12,830*	*(11,018)*
– *Discontinued operations*	–	*(1,378)*	*(2,988)*	*(20,034)*

Note: Discontinued operations represent the margin dealing business of the Group completely ceased in May 2023.

(a) Continuing operations

(i) Total income

The following table sets out a breakdown of income from continuing operations:

	For the six months ended 30 June		For the year ended 31 December	
	2024	**2023**	**2023**	**2022**
	(unaudited)	(unaudited)	(audited)	(audited)
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Total income from continuing operations	**55,501**	**141,895**	**199,683**	**39,125**
– *Sales of goods from healthcare business*	*50,687*	*138,108*	*191,170*	*39,129*
– *Other income, net*	*4,814*	*3,787*	*8,513*	*(4)*

The Group began recording income from its healthcare business in May 2022 which experienced notable volatility since then. Income generated from the healthcare business was approximately HK$191.2 million for the year ended 31 December 2023, representing (a) over 95% of the Group's total income from continuing operations; and (b) an increase of approximately 388.6% from approximately HK$39.1 million for 2022 (the Group started record income from healthcare business since May 2022). According to the 2023 Annual Report, such increase was driven by the growth of the healthcare business, with each of the B2B and B2C channels of the Group have recorded growth of more than 200% in 2023. Other income, net comprises mainly interest income generated from the Group's bank deposits.

For the first half of 2024, income from healthcare business of the Group dropped by approximately 63.3% compared to the same period in 2023. As advised by the management of the Company, such decrease was mainly attributable to decrease in B2B income (from around 71% of total income in the first half of 2023 to around 62% in the first half of 2024) as the Group focused on income from B2C business (from around 29% of total income in the first half of 2023 to around 38% in the first half of 2024) during the first half of 2024, which yield higher margin.

(ii) Total expenses

The following table sets out a breakdown of total expenses for continuing operations:

	For the six months ended 30 June		**For the year ended 31 December**	
	2024	**2023**	**2023**	**2022**
	(unaudited)	(unaudited)	(audited)	(audited)
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Total expenses for continuing operations	**(48,065)**	**(133,659)**	**(185,108)**	**(49,911)**
– Cost of sales from healthcare business	*(31,086)*	*(118,651)*	*(151,077)*	*(31,961)*
– Referral expenses and other charges	*(1,305)*	*(1,086)*	*(3,642)*	*(516)*
– Staff costs	*(1,630)*	*(1,117)*	*(1,934)*	*(2,305)*
– Depreciation – property, plant and equipment for first half of 2024 or right-of-use assets for 2022	*(194)*	–	–	*(757)*
– Other operating expenses	*(13,850)*	*(12,805)*	*(28,455)*	*(14,372)*

Cost of sales from healthcare business

Total expenses for continuing operations in 2023 mainly comprised of cost of sales from healthcare business of approximately HK$151.1 million, representing (a) over 81% total expenses for continuing operations; and (b) an increase of approximately 372.6% comparing to approximately HK$32.0 million in 2022. According to the 2023 Annual Report, such increase was due to the growth of business activities of the healthcare business, from which the Group has only recorded income since May 2022 and thus was still considered at its early stage. Cost to sales ratios in 2022 and 2023 based on (a) sales of goods from healthcare business; and (b) cost of sales from healthcare business, was approximately 81.7% and 79.0% respectively.

Cost of sales from healthcare business was approximately HK$31.1 million for the first half of 2024 compared with approximately HK$118.7 million for the 2023 interim period. Cost to sales ratio decreased from approximately 85.9% in the first half of 2023 to approximately 61.3% in the first half of 2024, reflecting the Group's focus on the high margin B2C business as mentioned above.

Other operating expenses

Other operating expenses of the Group increased by approximately 98.0% to HK$28.5 million in 2023 from approximately HK$14.4 million in 2022. According to the 2023 Annual Report, such increase was mainly attributable to the increase in (a) marketing, advertising and promotion expenses; (b) professional and consultancy fee; and (c) postage and courier expenses for the continuing operations by approximately HK$5.7 million, HK$3.9 million and HK$2.8 million respectively compared to that in 2022.

In first half of 2024, other operating expenses of the Group increased by approximately 8.2% to HK$13.9 million, mainly due to the increase in marketing and promotional expenses by approximately HK$1.8 million.

(iii) Profit/(loss) for the period/year

The Group generated net profit of approximately HK$12.8 million from continuing operations in 2023 compared with the net loss of approximately HK$11.0 million for 2022. Such net profit was mainly attributable to the significant growth of healthcare business in 2023 with a significant increase in sales of healthcare products as explained above.

For the first half of 2024, despite drop in income, the Group focused on the high margin B2C business and maintained net profit from continuing operations of approximately HK$6.3 million compared with net profit of approximately HK$6.9 million for the corresponding period of 2023.

(b) Discontinued operations

The Group completely ceased its margin dealing business in May 2023. Income from the Group's discontinued margin dealing business decreased by approximately 73.2% to HK$1.8 million in 2023 from HK$6.7 million in 2022. The Group recorded net loss of approximately HK$3.0 million from discontinued operations in 2023, as compared with the net loss of approximately HK$20.0 million for 2022.

(c) Dividends

No dividend was declared by the Company for the financial years ended 31 December 2022 and 2023, and for the six months ended 30 June 2024.

(B) Financial position

The following table sets out a summary of the consolidated statement of financial position of the Group as at 31 December 2022 and 2023, and as at 30 June 2024, as extracted and summarised from the 2023 Annual Report and 2024 Interim Report.

	As at 30 June 2024 (unaudited) (HK$'000)	As at 31 December 2023 (audited) (HK$'000)	2022 (audited) (HK$'000)
ASSETS	**262,097**	**251,775**	**284,310**
Non-current assets			
– Property, plant and equipment	194	388	845
Current assets			
– Inventories	9,123	11,916	37,795
– Trade receivables	26,349	12,979	17,991
– Other receivables, prepayments and deposits	1,414	2,914	6,999
– Tax prepayment	4	4	4
– Balances due from agents	–	–	4,651
– Cash and bank balances and client trust bank balances	225,013	223,574	216,025
LIABILITIES	**16,491**	**11,910**	**53,510**
– Income tax payable	3,018	1,842	97
– Trade and other payables	12,322	8,909	51,486
– Derivative financial instruments	–	–	12
– Clients' balances	1,151	1,159	1,915
NET ASSET VALUE	**245,606**	**239,865**	**230,800**
– Net asset value per share (HK$)	0.1208	0.1180	0.1135

(i) Total assets

As at 30 June 2024, the Group's total assets were approximately HK$262.1 million, in which approximately 85.9% or approximately HK$225.0 million was cash and bank balances and client trust bank balances, including (i) fixed deposits with banks of approximately HK$194.3 million; (ii) cash and bank balances of approximately HK$29.6 million; and (iii) client trust bank balances of approximately HK$1.2 million, representing clients' deposits from its discontinued margin dealing business. Other major assets include, among others, (a) trade receivables of approximately HK$26.3 million (10.1% of total assets) mainly from the Group's customers in the healthcare business; and (b) inventories of approximately HK$9.1 million (3.5% of total assets), comprising mainly healthcare products to be sold. According to the 2024 Interim Report, none of the trade receivables as at 30 June 2024 were impaired and the expected credit losses for the trade receivables balance are not significant.

(ii) Total liabilities

As at 30 June 2024, the Group's total liabilities amounted to approximately HK$16.5 million, which consisted of (a) trade and other payables of approximately HK$12.3 million (74.7% of total liabilities) arising mainly from purchases of healthcare products from the Group's suppliers; (b) income tax payable of approximately HK$3.0 million (18.3% of total liabilities); and (c) clients' balances of approximately HK$1.2 million (7.0% of total liabilities), representing deposits received from clients in its discontinued margin dealing business.

(iii) Net asset value and gearing ratio

Net asset value of the Group amounted to approximately HK$245.6 million as at 30 June 2024, or approximately HK$0.1208 per Share. As the Group had a net cash position as at 30 June 2024, the gearing ratio was zero.

The Offer Price of HK$0.1229 per Offer Share represents a premium of approximately 1.74% over the Group's net asset value per Share of approximately HK$0.1208 as at 30 June 2024.

(iv) Financial information as of 31 December 2024 based on the management accounts of the Company

As stated in the section headed "Information on the Group" in the "Letter from the Board" of the Composite Document, according to the unaudited condensed consolidated management accounts of the Company as of 31 December 2024 (the "**2024 Management Accounts**"), net cash position and net assets attributable to equity holders of the Company amounted to HK$205,171,000 (including client trust bank balances of approximately HK$1.2 million) and HK$244,507,000, respectively. Net cash of the Company accounted for approximately 83.9% of the unaudited net asset value as at 31 December 2024.

Based on a total of 2,033,290,000 issued Shares as at 31 December 2024, the unaudited net asset value per Share is approximately HK$0.1203 per Share. The Offer Price of HK$0.1229 per Offer Share represents a premium of approximately 2.16% over the Group's unaudited net asset value per Share of approximately HK$0.1203 as at 31 December 2024.

(C) Our view on the financial information of the Group

The Group has undergone substantial restructuring of its business in recent years. This includes the commencement of its healthcare business in 2022, which is the only major business of the Group currently, and discontinuation of its margin dealing business in 2023. In our view, the new healthcare business is still at its early stage and cannot be regarded as a stabilised business, as reflected in the significant fluctuation in revenue during the above periods under review, and the adjustment in business strategy of focusing on high margin B2C business, which led to the substantial reduction in revenue during the first half of 2024.

The balance sheet of the Group comprised mainly of cash and bank deposits, which constitute vast majority of the Group's latest total assets, while other working capital items (such as trade receivables and payables) represent a much lesser part of the Group's balance sheet. In this connection, we note that the Offer Price of HK$0.1229 per Offer Share is close to the Group's unaudited net asset value of approximately HK$0.1203 per Share as at 31 December 2024.

(iii) Prospects of the Group

The Group only began recording income from healthcare business for a relatively short period since May 2022, which experienced notable volatility since then.

As advised by the management of the Company, the Group will endeavor to develop its healthcare business in 2025. According to the 2024 Interim Report, the Group plans to expand its healthcare business by allocating further resources to enhance supplier networks, offer a wider range of products and broaden its customer network, with a particular focus on its relatively new ODM business. It is expected that the Group's ODM products will be distributed in the PRC and Hong Kong through various channels such as online channels, self-platforms and offline distributors. As people are more health conscious post COVID-19 pandemic and inclined to spend more on healthcare products, the management of the Company is confident in the future sustainability of the healthcare business supported by strategic partnerships with key stakeholders in the industry.

Rising disposable income in both the PRC and Hong Kong, enabling consumers to spend more on non-essential items including health and wellness products, is another driving force for healthcare business. China has experienced rapid economic growth over the past few decades, transforming it into a world class economy. According to the National Bureau of Statistics of China (中國國家統計局), the per capita disposable income of Chinese households has been steadily increasing. For example, the per capita disposable income in China increased by approximately 6.1% and 5.1% year-on-year in 2023 and 2024 respectively, after adjusting for inflation. Hong Kong, as a Special Administrative Region of China, has one of the highest per capita income in the world. According to the Census and Statistics Department of Hong Kong (香港政府統計處), the total disposable income in Hong Kong amounted to approximately HK$3,219 billion in 2023, representing an increase of approximately 8% comparing to 2022.

On the other hand, future business development and prospects of the Group are subject to various uncertainties, including but not limited to (a) global competition in the healthcare industry, particularly from established worldwide e-commence channels; (b) regulatory complexities associated with ensuring product safety and compliance; and (c) the constantly evolving preferences of consumers in the healthcare industry.

The Group commenced its healthcare business in May 2022 and, as a result, has relatively limited experience in the industry. Since the commencement of this business, income and profit/(loss) generated from selling healthcare products have been subject to significant volatility. Future prospects of the Group will highly depend on its ability to, among other factors, adapt promptly to change in economic conditions, industry dynamics and evolving consumer preferences.

2. Information on the Offeror and its intention regarding the Group

As set out in the section headed "Information of the Offeror" in the "Letter from Shanggu" of the Composite Document, the Offeror is a limited liability company established in the Cayman Islands, and is an enterprise which combined innovative health and ecological via internet. The business of the Offeror Group includes the traditional Chinese medicine internet hospital platform and a cross-border e-commerce platform.

Details of the background of the Offeror are stated in the section headed "Information of the Offeror" in the "Letter from Shanggu" of the Composite Document.

Following the completion of the Offer, the Offeror intends to continue and support the existing principal businesses of the Group and to work closely with the Company's management team to drive both customer and shareholder value. As discussed above in the paragraph headed "Background information of the Group", the Group had entered into a strategic cooperation agreement with, among others, Beijing Tong Ren Tang (Hong Kong) Limited, a wholly-owned subsidiary of the Offeror, in 2023 to develop its ODM business.

As at the Latest Practicable Date, (i) the Offeror does not have any plans to make any material changes to the continued employment of the employees of the Group (other than those in the ordinary course of business); and (ii) the Offeror has no intention to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business. The Offeror will conduct a strategic review of the Group's assets, corporate structure, capitalisation, operations, properties, policies and management to determine if any changes would be appropriate and desirable following the completion of the Offer with a view to optimizing the Group's activities and development, and may make such changes as the Offeror deems necessary, appropriate or beneficial for the Group following its strategic review and/or taking into account any future developments.

As stated in the section headed "Public float and maintaining the listing status of the Company" in the "Letter from Shanggu" of the Composite Document, the Offeror intends to maintain the listing of the Shares on the Stock Exchange following the close of the Offer. The Stock Exchange has stated that if, at the closing of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the total issued Shares (excluding treasury shares), are held by the public, or if the Stock Exchange believes that: (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares. The directors of the Offeror and the new directors to be appointed to the Board (if any) will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares. Further announcement(s) will be made in accordance with the requirements of the Listing Rules and the Takeovers Code as and when appropriate.

As stated in the section headed "The board composition of the Company" in the "Letter from Shanggu" of the Composite Document, the Offeror does not have any intention to nominate new Directors to the Board but may do so in the future. Further announcement(s) will be made by the Company in compliance with the requirements of the Listing Rules as and when there are changes in the composition of the Board.

3. Valuation of 100% equity interest of the Company

The value of the equity interest of the Company has been assessed by (i) China Enterprise Appraisals Consultation Co., Ltd. ("**CEACCL**") and (ii) Odysseus Capital Asia Limited ("**Odysseus**"), being one of the financial advisers to the Company in relation to the Offer. The report from CEACCL, which we understand from management was primarily prepared for the purpose of facilitating the Transfer, valued the equity interest of the Company as at 31 December 2023. The report from Odysseus, on the other hand, valued the equity interest of the Company as at 31 December 2024, which we consider to be more relevant to our analysis. As such, we focus our discussion below with reference to the valuation report prepared by Odysseus (the "**Odysseus Report**"), the full text of which is set out in Appendix VI to the Composite Document.