RAINBOW.
RAINBOW CAPITAL (HK) LIMITED
浤 博 資 本 有 限 公 司

14 June 2024

To: the Independent Board Committee and the Independent Shareholders

Hong Kong Technology Venture Company Limited
HKTV Multimedia and Ecommerce Centre
No. 1 Chun Cheong Street
Tseung Kwan O Industrial Estate
New Territories, Hong Kong

Dear Sir or Madam,

CONDITIONAL CASH OFFER BY SOMERLEY CAPITAL LIMITED ON BEHALF OF HONG KONG TECHNOLOGY VENTURE COMPANY LIMITED TO BUY-BACK UP TO 100,000,000 SHARES AT HK$2.15 PER SHARE

APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer and the Whitewash Waiver, details of which are set out in the "Letter from the Board" (the "**Letter from the Board**") of this Offer Document to the Independent Shareholders dated 14 June 2024, 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 this Offer Document.

On 22 May 2024, the Board announced that a conditional cash offer would be made by Somerley on behalf of the Company in compliance with the Codes to buy-back for cancellation up to the Maximum Number, being 100,000,000 Shares, representing approximately 11.25% of the issued Shares as at the Latest Practicable Date, at the Offer Price of HK$2.15 per Share. The Shares to be bought-back by the Company will not exceed the Maximum Number and there is no minimum number of Shares proposed to be bought-back under the Offer.

As at the Latest Practicable Date, there were 888,545,781 Shares in issue, and other than 41,917,962 Share Options granted under the share options scheme of the Company, there are no outstanding options, warrants, derivatives or convertibles which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into Shares. The maximum amount payable by the Company under the Offer is HK$215 million. The Offer will be satisfied by internal resources of the Group. Somerley is satisfied that the Company has sufficient financial resources to enable it to satisfy acceptances of the Offer in full.

Each of Top Group, Mr. Wong, Mr. Cheung, Worship Ltd., Ms. Wong, Mr. Lau and Ms. Zhou has irrevocably undertaken to the Company that (i) he/she/it will not, and will procure the holders of Shares whose Shares he/she/it is deemed to be interested in by virtue of Part XV of the SFO not to, accept the Offer; and (ii) prior to the earlier of the Offer closing or lapsing: (a) he/she/it will not, and will procure any party acting in concert with him/her/it not to, acquire any Share or other securities of the Company; (b) he/she/it will not, and will procure any party acting in concert with him/her/it not to, sell, transfer or encumber any Share; and (c) in the case of Mr. Wong, Mr. Cheung, Ms. Wong, Mr. Lau and Ms. Zhou, he/she will not exercise any Share Option. The 406,478,940 Shares held by such persons which are subject to the Irrevocable Undertakings represent approximately 45.75% of the issued Shares as at the Latest Practicable Date. The Irrevocable Undertakings are binding until the closing, lapse or withdrawal of the Offer. As at the Latest Practicable Date, neither the Company, nor parties acting in concert with it, nor the Top Group Concert Group, had received any irrevocable commitment to accept the Offer.

As at the Latest Practicable Date, the Top Group Concert Group held 406,478,940 Shares, representing approximately 45.75% of the issued Shares as at the Latest Practicable Date. Pursuant to Rule 32 of the Takeovers Code and Rule 6 of the Share Buy-backs Code, if as a result of a share buy-back, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code.

Depending on the level of acceptances received from the Accepting Shareholders pursuant to the Offer, taking into account the Irrevocable Undertakings and assuming that no Share Options will be exercised by their holders prior to completion of the Offer and all the Conditions are fulfilled, the aggregate interests of the Top Group Concert Group may increase to a maximum level of approximately 51.55% upon completion of the Offer, thereby triggering an obligation under Rule 26 of the Takeovers Code for Top Group to make a mandatory general offer for all the Shares not already owned by it and parties acting in concert with it. Accordingly, an application has been made to the Executive by Top Group for the Whitewash Waiver. The Executive has indicated that it will grant the Whitewash Waiver, subject to, among others, approval by the Independent Shareholders at the general meeting by way of poll, to waive any obligations of Top Group to make a mandatory general offer which might result from completion of the Offer.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Lee Hon Ying, John, Mr. Peh Jefferson Tun Lu, Mr. Mak Wing Sum, Alvin and Mr. Ann Yu Chiu Andy, who have no interest in the Offer and the Whitewash Waiver, has been formed to advise the Independent Shareholders on whether the terms of the Offer and the Whitewash Waiver are fair and reasonable and as to the acceptance and voting respectively. We, Rainbow Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in the same regard and such appointment has been approved by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

We are not associated with the Group, the Top Group Concert Group, their respective substantial shareholders or any party/(ies) acting, or presumed to be acting, in concert with any of them. In the last two years, there was no engagement or connection between the Group or the Top Group Concert Group and us other than this appointment concerning the Offer and the Whitewash Waiver. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangement exists whereby we will receive any fees or benefits from the Group, the Top Group Concert Group, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. As such, we are qualified to give independent advice to the Independent Board Committee in respect of the Offer and the Whitewash Waiver pursuant to Rule 2.6 of the Takeovers Code.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have considered, among other things, (i) the information and facts contained or referred to in this Offer Document; (ii) the annual report of the Company for the year ended 31 December 2023 (the "**2023 Annual Report**"); (iii) the information supplied by the Directors and the management of the Group; (iv) the opinions expressed by and the representations of the Directors and the management of the Group; and (v) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in this Offer Document were true, accurate and complete in all material respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in this Offer Document are true in all material respects at the time they were made and continue to be true in all material respects as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in this Offer Document were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of such information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in this Offer Document and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all material respects at the time they were made and continued to be so until the Latest Practicable Date.

The Independent Shareholders will be informed by the Group and us as soon as possible if there is any material change to the information disclosed in the Offer Document during the Offer Period, in which case we will consider whether it is necessary to revise our opinion and inform the Independent Board Committee and the Independent Shareholders accordingly. Should there be any material changes to our opinion after the Latest Practicable Date, the Independent Shareholders would be notified as soon as possible in accordance with Rule 9.1 of the Takeovers Code.

Your attention is drawn to the responsibility statements as set out in the section headed "1. RESPONSIBILITY STATEMENT" of Appendix V to the Offer Document. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Offer Document, save and except for this letter of advice.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in this Offer Document so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, the Top Group Concert Group or any of their respective subsidiaries and associates.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background and terms of the Offer

On 22 May 2024, the Board announced that a conditional cash offer would be made by Somerley on behalf of the Company in compliance with the Codes to buy-back for cancellation up to the Maximum Number, being 100,000,000 Shares, representing approximately 11.25% of the issued Shares as at the Latest Practicable Date, at the Offer Price of HK$2.15 per Share.

The Shares to be bought-back by the Company will not exceed the Maximum Number and there is no minimum number of Shares proposed to be bought-back under the Offer. Upon acceptance of the Offer and upon the basis of the section headed "SALIENT TERMS OF THE OFFER" set out in the letter from Somerley in the Offer Document, the Company will pay the Accepting Shareholders HK$2.15 per Share in cash.

As at the Latest Practicable Date, there were 888,545,781 Shares in issue, and other than 41,917,962 Share Options granted under the share options scheme of the Company adopted by the Company on 31 December 2012, there are no outstanding options, warrants, derivatives or convertibles which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into Shares. The maximum amount payable by the Company under the Offer is HK$215 million. The Offer will be satisfied by internal resources of the Group. Somerley is satisfied that the Company has sufficient financial resources to enable it to satisfy acceptances of the Offer in full.

Further details of the Offer are set out in Appendix I to the Offer Document.

2. Background information of the Group

The Company has been listed on the Main Board of the Stock Exchange since 1997. Established in 1992, the Group has extensive and successful experience in popularising advanced technology and applications as well as telecom market liberalisation. The Group develops, owns and operates HKTVmall, which is the largest 24-hour online shopping mall in Hong Kong. The Group is principally engaged in (i) Hong Kong ecommerce business which covers end-to-end online shopping mall operation (including fulfillment and logistics), multimedia production and other related services; and (ii) new venture and technology business which mainly derives revenue from (a) new venture projects performing research and development activities on technologies, and operating business by adopting the technologies globally; and (b) providing technology solutions to the Group's Hong Kong ecommerce business or external customer to operate online shopping operation.

(i) Historical financial and operational information

Set out below is a summary of the consolidated financial information of the Group for the two years ended 31 December 2023 ("**FY2022**" and "**FY2023**", respectively) as extracted from the audited consolidated financial statements of the Group included in the 2023 Annual Report:

	FY2022 *HK$'000* (audited)	**FY2023** *HK$'000* (audited)	**Year on year change**
Turnover	**3,828,051**	**3,811,706**	**(0.4%)**
– Hong Kong ecommerce business	3,822,694	3,798,962	(0.6%)
– New ventures and technology business	5,357	12,744	137.9%
Cost of inventories	(1,819,490)	(1,865,094)	2.5%
Other operating expenses	(1,868,744)	(1,979,343)	5.9%
Profit before taxation	142,360	38,764	(72.8%)
Profit for the year	**212,204**	**45,321**	**(78.6%)**

	As at 31 December 2022 *HK$'000* (audited)	As at 31 December 2023 *HK$'000* (audited)	Year on year change
Non-current assets, including:	**2,595,997**	**2,458,543**	**(5.3%)**
Property, plant and equipment	1,971,551	1,970,085	(0.1%)
Other financial assets	292,791	201,060	(31.3%)
Current assets, including:	**1,023,515**	**1,003,238**	**(2.0%)**
Other current financial assets	51,742	160,712	210.6%
Time deposits	–	243,028	N/A
Cash and cash equivalents	705,807	330,565	(53.2%)
Total cash balance	**705,807**	**573,593**	**(18.7%)**
Total assets	**3,619,512**	**3,461,781**	**(4.4%)**
Current liabilities, including:	**968,758**	**986,797**	**1.9%**
Accounts payable	354,627	382,760	7.9%
Other payables and accrued charges	443,665	446,926	0.7%
Lease liabilities	164,098	151,351	(7.8%)
Non-current liabilities, including:	**441,961**	**329,636**	**(25.4%)**
Lease liabilities	440,395	321,448	(27.0%)
Total liabilities	**1,410,719**	**1,316,433**	**(6.7%)**
Equity attributable to the Shareholders	**2,208,793**	**2,145,348**	**(2.9%)**

For FY2023, turnover of the Group amounted to approximately HK$3,811.7 million, which remained relatively stable as compared to that of approximately HK$3,828.1 million for FY2022. Despite the decelerating pace of recovery of the Hong Kong retail sector and the competition pressure from large-scale supermarkets and ecommerce platforms in the PRC, the Group's Hong Kong ecommerce business still managed to record stable revenue of approximately HK$3,822.7 million and HK$3,799.0 million for FY2022 and FY2023, respectively, mainly due to the stickiness of the Group's customers and the Group's efforts to expand customer base. The number of monthly active app users of the Group has increased from approximately 1.52 million in December 2022 to approximately 1.68 million in December 2023, and the number of unique customers who made purchase for the Hong Kong ecommerce business has also increased from 1.40 million in FY2022 to 1.51 million in FY2023. On the other hand, revenue from the Group's new ventures and technology business has grown by approximately 137.9% to approximately HK$12.7 million for FY2023. Such increase was mainly due to (a) the rapid growth of Wet Market Express with approximately 10 times increase in monthly gross merchandise value (“**GMV**”) on order intake when comparing January 2023 with December 2023, as a result of the Group’s strategic use of social media; and (b) the establishment of Everuts in January 2023 which has experienced phenomenal growth since its launch. For details of the Group’s new venture projects on Wet Market Express and Everuts, please refer to the sub-section headed “(ii) New ventures and technology business of the Group” below.

On Hong Kong ecommerce business, while there was a slight decrease in revenue from direct merchandise sales, the Group recorded an increase in cost of inventories of approximately 2.5% as the Group deliberately reduced its prices to maintain its online competitiveness to drive sales, which led to increase in the corresponding cost of inventories. Accordingly, the Group’s gross profit margin for direct merchandise sales has decreased from approximately 26.2% for FY2022 to approximately 23.6% for FY2023.

The Group recorded profit of approximately HK$45.3 million for FY2023, representing a significant decrease of approximately 78.6% from approximately HK$212.2 million for FY2022. Such decrease was primarily attributable to (i) the decrease in gross profit margin as mentioned above; and (ii) the increase in other operating expenses by approximately HK$110.6 million due to (a) the implementation of additional promotional activities during 2023 following the recovery from the COVID-19 pandemic in 2023; (b) the increase in online to offline (O2O) shop operating expenses due to less recharge to fulfilment function for shop pick-up orders and full force on shop operations during 2023 in view of the relaxation of COVID-19 measures which has partially shifted the delivery options back to door-to-door last mile delivery, but in the meantime, with increased shop point-of-sales activities; and (c) the increase in operating expenditures and growing business scale for new ventures and technology business.

As at 31 December 2023, the Group’s total cash balance amounted to approximately HK$573.6 million and the total other financial assets amounted to approximately HK$361.8 million. Taking into account that (i) the Group’s significant strategic investment plan and the corresponding capital expenditures will not be carried out and incurred immediately before the completion of the Offer; (ii) the working capital requirement of the Group, in particular the expected cash generation from and usage in operating activities in the near future, with reference to the net cash generated from operating activities of approximately HK$554.0 million and approximately HK$366.7 million in 2022 and 2023 respectively; (iii) net cash position of the Group following completion of the Offer, being approximately HK$352.6 million based on the Unaudited Pro Forma Financial Information; and (iv) Somerley, the financial adviser to the Company in relation to the Offer, is satisfied that the Company has sufficient financial resources to enable it to satisfy acceptances of the Offer in full, we consider that the Group’s total cash balance and the total other financial assets are sufficient to carry out the Offer with maximum amount payable by the Company of HK$215 million. As compared to that of approximately HK$705.8 million and HK$344.5 million respectively as at 31 December 2022, the Group recorded a decrease of approximately 18.7% in its cash balance and approximately 5.0% increase in other financial assets as at 31 December 2023, primarily attributable to the decrease in net profit and the Group's share repurchase in the open market during FY2023.

As disclosed in the 2023 Annual Report, amid a complicated and ever-changing global economy and political environment, the Hong Kong economy and society are constantly evolving. Hong Kong's population, including its demographic composition, educational mindset, income levels, age distribution, etc., is undergoing structural changes. Coupled with the downturn in economic confidence, volatile and softened financial and stock markets, falling property prices and reduced trading volume, the retail consumption atmosphere has been significantly weakened. In parallel with the influence from external and global economic and political environment, it is anticipated that a decline in the local consumer market, in which significant growth as in the past will be unlikely. In addition, citizens have resumed outbound travel together with the change in consumption patterns for some Hong Kong consumers with increasing confidence towards the quality of the PRC's products that lead to a surge in cross-border consumption, the retail industry in Hong Kong, especially in houseware products, supermarket products and groceries, faces competition pressure from physical stores and e-commerce platforms in the PRC.

According to the Census and Statistics Department of Hong Kong, in 2023, the Hong Kong's retail sales experienced a rebound of approximately 16.2% as the COVID-19 pandemic subsided, reaching approximately 94.3% of the pre-pandemic level in 2019. Nevertheless, the retail market of Hong Kong has turned sluggish in 2024. According to the Census and Statistics Department of Hong Kong, in the first quarter of 2024, the total retail sales and online retail sales fell by approximately 1.3% and 10.7%, respectively, compared with the same period in 2023. Such sluggish performance of the Hong Kong retail market's recovery is primarily due to the combined factors of domestic consumption leakage to the PRC, increased outbound travels by local residents, decreased number of visitors and changes in spending patterns of residents and visitors. For further analysis on the Hong Kong retail industry, please refer to the sub-section headed "(iii) Industry overview and outlook" below.

As impacted by the downturn in the retail market of Hong Kong, the Group also experienced slowdown in growth of its Hong Kong ecommerce business. Set out below are the unaudited operational information of the Group for each of the four months ended 30 April 2024 as extracted from the announcements of the Company dated 8 February, 12 March, 12 April and 10 May 2024:

2024	**January** (restated)	**February** (restated)	**March** (restated)	**April**
Average daily order number	52,000	50,300	50,100	50,300
Average order value *(HK$)*	467	429	441	429
Average daily GMV on order intake *(HK$ million)*	24.2	21.6	22.1	21.6
Monthly GMV on order intake *(HK$ million)*	752	626	684	648
Number of unique customers who made purchases at HKTVmall	623,000	587,000	609,000	594,000
Monthly active HKTVmall app uses	1,645,000	1,576,000	1,651,000	1,627,000

2023	**January**	**February**	**March**	**April** (restated)
Average daily order number	45,700	48,400	49,600	47,800
Average order value *(HK$)*	468	458	448	451
Average daily GMV on order intake *(HK$ million)*	21.4	22.2	22.2	21.5
Monthly GMV on order intake *(HK$ million)*	664	621	688	646
Number of unique customers who made purchases at HKTVmall	552,000	542,000	567,000	560,000
Monthly active HKTVmall app uses	1,504,000	1,445,000	1,522,000	1,531,000
Year-on-year percentage change for monthly GMV on order take	13.3%	0.8%	(0.6%)	0.3%

Note: In March 2024, the composition of the Hong Kong ecommerce business of the Group has been updated to better reflect the segment performance and certain historical operation data has been restated to reflect the changes.

As shown in the table above, the operational performance of the Group's Hong Kong ecommerce business had a slight increase of 3.5% in GMV on order intake for the four months ended 30 April 2024 comparing to the same period in 2023, however, moderate drop in the monthly average daily order number, average order value and average daily GMV on order intake was noted in 2024. Save for January 2024, such operation performance also represented generally no or minimum growth from the results in the corresponding month in 2023. In response to this and to cope with the competition pressure from physical stores and ecommerce platforms in the PRC, the Group is expected to require a combination of methods to maintain its competitiveness, such as attracting more merchants outside Hong Kong and may need to engage in price wars to gain market share while increasing operational costs in all aspects. However, as advised by the management of the Group, it is expected even with the aforementioned efforts, the growth rate of GMV on order intake will slow down compared to previous years. On the other hand, the number of unique customers who made purchases at HKTVmall and monthly active HKTVmall app users have been maintained at a stable level in 2024 and is generally higher than the level during the corresponding period in 2023, which indicated a consistent level of engagement and usage of the Group's Hong Kong ecommerce business.

(ii) New ventures and technology business of the Group

Amidst the uncertain development of Hong Kong ecommerce business of the Group, the Group has been actively exploring and developing new projects to expand the horizon of its business. As disclosed in the 2023 Annual Report, in 2023, the Group officially launched various new venture projects and they are under different phases of development and achievements. The major new venture projects currently pursued by the Group includes:

(a) Wet Market Express: officially launched in October 2022, it provides express delivery as quick as three hours for fresh food purchasing services at the same price level as wet markets. Leveraged on the huge existing customer base of HKTVmall and the Group's existing logistic functions, Wet Market Express rapidly developed and recorded GMV on order intake of HK$100.6 million in 2023. This business is yet to generate profit and incurred an adjusted EBITDA (being net profit before income tax plus interest expenses on bank loans, depreciation expenses and amortisation expenses and deduct investment returns, adjusted by major non-cash items, excluded non-recurring items including government subsidies and write-off of receivables and other contract costs, net) loss of approximately HK$50.0 million for FY2023;

(b) Everuts: officially launched in January 2023, it is a social ecommerce platform offering personal shopping services in over 30 countries and regions worldwide. Its business model empowers consumers to break free from the limitations of traditional stores that could not fill the demand for unique and personalised shopping experiences, particularly in oversea purchasing. Everuts is gradually scaling up since its launch and it has a network of personal shoppers exceeded 6,000 as at 31 December 2023. In 2023, Everuts generated GMV on order intake of approximately HK$30.4 million. This business is yet to generate profit and incurred an adjusted EBITDA loss of approximately HK$21.1 million for FY2023;

(c) Self-invented fully automated retail store and system: the first pilot store of the fully automated retail store and system launched in August 2023 in the United Kingdom under the brand "in:Five", which is a new app-powered click and collect convenience store allowing consumers to order products via an app, and collect from the in-store lockers at customers' selected timeslot as quick as in minutes. This system is still in the investment phrase and the project team expects that an additional 1 to 2 years' time is required to continue refining the design of the system and reviewing the store overall operation for future mass scale deployment. This business incurred an adjusted EBITDA loss of approximately HK$44.5 million for FY2023; and

(d) Life science projects: the projects mainly include research and development on various technologies for human organ preservation and for blood production, the prospects and timing of development and commercialisation of such projects are subject to uncertainties. For FY2023, this business incurred an adjusted EBITDA loss of approximately HK$2.5 million.

As shown from the above, all the new ventures and technology business are still under development and the Group is still absorbing the unavoidable start-up losses from these projects. Nevertheless, the Group sees potential in these new ventures though continued investment is required. In respect of Wet Market Express, the Group believes that despite the shifting purchase habits of the customers, in particular of houseware products, supermarket products and groceries, local fresh food and wet market goods still possess certain "irreplaceable" advantages. Accordingly, the Group will accelerate the deployment and investment in Wet Market Express as it is expected to become one of the Group's unique strengths. In respect of Everuts, the Group believes that as the global consumer landscape is constantly evolving, there is a growing demand for unique and personalised shopping experiences, which brings good market potential of the Group's Everuts services as it prioritises customer needs and fosters long-term user adoption.

Although these new venture projects are currently operating at a loss which may continue to expand in the coming years, the Group considers that such situation is similar to the early stage of HKTVmall and that the Group must first increase the business volume in order to further reduce the cost per order and turn losses into profits. Against this backdrop and for the long-term benefit of the Group, the Group is expected to continue investing into new concepts, technologies and business development in the next three to five years.

(iii) Industry overview and outlook

Set out below are gross domestic product ("**GDP**"), value of retail sales and value of online retail sales of Hong Kong during the period from 2018 to 2023:

	2018	**2019**	**2020**	**2021**	**2022**	**2023**
GDP of Hong Kong *(HK$ million)*	2,835,429	2,845,022	2,675,793	2,867,973	2,808,981	2,981,601
Year on year ("**YoY**") change (%)	6.6	0.3	(5.9)	7.2	(2.1)	6.1
Value of retail sales *(HK$ million)*	485,169	431,160	326,451	352,948	349,964	406,649
Value of online retail sales *(HK$ million)*	N/A *(Note)*	N/A *(Note)*	20,586	28,626	34,561	32,538

Source: Census and Statistics Department of Hong Kong

Note: such information is not available on the website of the Census and Statistics Department of Hong Kong

As shown in the table above, Hong Kong GDP has increased from approximately HK$2,835.4 billion in 2018 to approximately HK$2,981.6 billion in 2023 with a compound annual growth rate ("**CAGR**") of approximately 1.0%. In particular, supported by a rebound in inbound tourism and private consumption, Hong Kong's economy continue to recover in 2023, with GDP growing by approximately 6.1% YoY, after contracting by approximately 2.1% in 2022. According to the 2024-25 Budget of Hong Kong, Hong Kong's economy will continue to grow with a projected GDP growth rate of 2.5% to 3.5% in 2024 and an average of 3.2% per annum from 2025 to 2028 (source: https://www.budget.gov.hk/2024/eng/budget03.html#:~:text=Having%20regard%20to%20the%20above,increase%20alongside%20the%20economic%20recovery).

As the COVID-19 pandemic subsided and the re-opening of border between the PRC and Hong Kong, Hong Kong's retail sales has experienced a rebound with CAGR of approximately 7.6% from approximately HK$326.5 million in 2020 to approximately HK$406.6 million in 2023. Nevertheless, the recovery of the Hong Kong retail market has been relatively slow, with the value of retails sales in 2023 only amounted to approximately 83.8% of the level in 2018. In the meantime, Hong Kong's online retail sales has surged drastically at a CAGR of approximately 16.5% from 2020 to 2023.

However, the retail market in Hong Kong turned sluggish in 2024. According to the Census and Statistics Department of Hong Kong, in the first quarter of 2024, the total retail sales and online retail sales fell by approximately 1.3% and 10.7%, respectively, compared with the corresponding period in 2023. Such decelerating pace of the Hong Kong retail market's recovery is primarily attributable to (a) the weakened retail consumption atmosphere brought by the under performance of Hong Kong's financial and stock markets, falling property prices and reduced trading volume; (b) domestic consumption leakage due to the resumption of outbound travel by Hong Kong residents coupled with the change in consumption patterns for some Hong Kong consumers that lead to a surge in cross-border consumption; and (c) slow return of visitors and visitors' changing spending patterns as a result of the appreciation of Hong Kong dollar against Renminbi and the rapid development of the Chinese ecommerce platforms. Taking into account of the above, we consider that the outlook for the retail market in Hong Kong is uncertain in the short term but would be cautiously optimistic in the long term as the economy recovers.

(iv) Overall comment

The Group has built a solid foundation in its ecommerce business with its large customer base and consumer stickiness, which enables the Group to maintain stable revenue despite challenges in the evolving external environment and allows the Group to explore and develop new ventures and technology business with potential prospect. As the Hong Kong economy recovers and the new ventures further develop, we consider the Group's prospects shall be generally positive in the long run. However, with the current weakened retail consumption atmosphere, the competition pressure from physical stores and ecommerce platforms in the PRC, changes in consumer and visitor spending pattern, the growth of the Group's Hong Kong ecommerce business may be limited in the short term. In addition, all the new venture projects of the Group are currently in various investment stages and operating at losses. While these businesses may bring prospects to the Group after they mature, it is anticipated that further investments would still be required in the coming years which may negatively impact the Group's financial performance in the short run. As such, the Group's financial performance may be uncertain in the near future.

3. Reasons for and benefits of the Offer

As disclosed in the Letter from the Board, the Company considers that (i) the current Share price does not reflect the intrinsic value and business prospects of the Group, having considered that the market prices of the Shares in 2024 up to the Last Trading Day were among the lowest level since 2021, with the lowest closing price of HK$1.49 per Share on 16 April 2024 as compared to during 2021 to 2023 where the closing prices of the Shares were in the range of HK$2.42 per Share to HK$16.28 per Share, despite the substantial increase in the Group's gross merchandise value on order intake (from approximately HK$6.6 billion in 2021 to approximately HK$8.4 billion in 2023) and turnover (from approximately HK$3.1 billion in 2021 to approximately HK$3.8 billion in 2023) and the continuous profitability recorded during the same period; (ii) the Offer reflects the Company's confidence in its potential growth and long-term business prospects; (iii) actively optimising the Company's capital structure through implementing the Offer will enhance earnings per Share, net asset value per Share and overall Shareholder's return; and (iv) the Group's investment and development strategy is for its long-term growth and sustainability, such as continuous exploration of different new venture projects, expansion of distribution and sorting capacity, and requires investment over a period of time. The projects under current development by the Group are expected to be sufficiently funded by the Group's strong liquidity and financial resources (after taking into account the expected payment obligations under the Offer). Such strategy may, in the short to mid-term, affect the Group's profit and overall financial performance. Given the wide pool of Shareholders with diverged investment objectives, such strategy may not align with those who seek short-term returns or consistent dividend pay-out. The Offer will offer some opportunities for exit by such Shareholders.

The Company has considered different options to optimise its capital structure and enhance overall Shareholder's return. For instance, in 2023, the Company announced share repurchase programs and repurchased a total of approximately 35.4 million Shares on the Stock Exchange for cancellation at an aggregate consideration of approximately HK$110.2 million (excluding related expenses). As the share repurchase programs would be conducted by way of on-market repurchases, given the low liquidity of the Shares, it would be difficult or require a prolonged period of time for the Company to repurchase further Shares on market of a substantial scale. Given the above, we consider it is fair and reasonable for the Company to pursue the Offer, rather than to conduct on-market share purchases under the new share repurchase program within the existing repurchase mandate. Unlike the Offer, while declaring a special dividend represents one of the means to increase Shareholder's return, it would not have the positive impact on the earnings per Share and net asset value per Share.

As discussed in the section headed "2. Background information of the Group" above, the current weakened retail consumption atmosphere has negatively affected the retail market in Hong Kong and the Group's Hong Kong ecommerce business, such that the Group recorded limited growth in the ecommerce business in the first four months of 2024 and the Group's original mid term GMV on order intake target of 2026 may not be met. In addition, the Group is currently exploring and developing various new venture projects. As further investments and capital expenditures are anticipated to be required to develop these new ventures in the coming years, the Group's financial performance may be adversely impacted in the short run. Consequently, the Group's financial performance may be uncertain in the near future. Taking into account that certain Shareholders may seek short-term returns or consistent dividend pay-out, which does not align with the Company's development strategy, we concur with the Directors that the Offer will offer exit opportunities to such Shareholders.

The Offer Price represents a premium of approximately 20.8% over the closing price of the Shares of HK$1.78 as quoted on the Stock Exchange on 21 May 2024 (being the Last Trading Day), and a premium of approximately 33.2% over the average closing price of the Shares of approximately HK$1.61 as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day. Please refer to the section headed "4. The Offer Price" below for our further analysis on the Offer Price. Further, the trading of the Shares was generally in a low level during 2024. The average daily trading volume of the Shares in the market for each month from January 2024 to April 2024 ranged from approximately 853,163 Shares to approximately 2,266,852 Shares, representing approximately 0.0960% to 0.2551% of the total number of Shares in issue and approximately 0.1770% to 0.4702% of the total number of Shares held by the public, respectively. Given the low trading volume of the Shares in the market compared to the Maximum Number to be bought-back by the Company under the Offer, it is uncertain as to whether there would be sufficient liquidity in the Shares for the Shareholders to dispose of a significant number of Shares in the open market without causing an adverse impact on the market price level of the Shares. As such, the Offer provides an opportunity for the Shareholders to at least partially realise their investments at a premium over the prevailing market prices should they wish to do so.

On the other hand, as advised by the management of the Group, when balancing the long-term growth and short-term profitability, the Group always regards long-term benefits as its higher priority. It is considered that the Group's business strategy of strengthening investments on new technologies and business development and actively exploring new opportunities will bring long-term returns to the Shareholders and the Group's prospects would be generally positive in the long run. In this regard, the Offer provides a mechanism for those Shareholders who do not accept the Offer to increase their proportionate equity interests in the Company by retaining their shareholdings and participate in the future growth of the Group. After completion of the Offer and cancellation of the Shares to be bought back, all Shareholders will benefit from the enhanced earnings per Share and net asset value ("**NAV**") per Share and optimised capital structure. As disclosed in the section headed "5. Financial effect of the Offer on the Group" below, assuming that the Offer had been completed as at 1 January 2023, the unaudited pro forma adjusted basic earnings per Share would be approximately HK$0.055 for FY2023, representing an increase of approximately 12.2% as compared to the basic earnings per Share of approximately HK$0.049 for FY2023. In addition, assuming that the Offer had been completed as at 31 December 2023, the unaudited pro forma adjusted NAV per Share would be approximately HK$2.44 as at 31 December 2023, representing an increase of approximately 1.24% as compared to the NAV per Share of approximately HK$2.41 as at 31 December 2023 as derived from the audited consolidated financial statements of the Group for FY2023.

In light of the above, we concur with the Directors that the Offer (i) reflects the Company's confidence in its potential growth and long-term business prospects; (ii) provides an opportunity for the Shareholders either to sell their Shares at a premium over the prevailing market prices of the Shares and receive cash, or to increase their proportionate interests in the Company by retaining their holdings of the Shares and participating in the future prospects of the Company; and (iii) will enhance the earnings per Share and net asset value per Share of the Group upon completion of the Offer and cancellation of the Shares to be bought back, thus benefiting all Shareholders.

4. The Offer Price

(i) Offer Price comparison

The Offer Price of HK$2.15 per Share represents:

(a) a premium of approximately 27.2% over the closing price of HK$1.69 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;

(b) a premium of approximately 20.8% over the closing price of HK$1.78 per Share as quoted on the Stock Exchange on the Last Trading Day;

(c) a premium of approximately 23.0% over the average closing price of approximately HK$1.75 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including the Last Trading Day;

(d) a premium of approximately 23.1% over the average closing price of approximately HK$1.75 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day;

(e) a premium of approximately 33.2% over the average closing price of approximately HK$1.61 per Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day;

(f) a premium of approximately 23.7% over the average closing price of approximately HK$1.74 per Share as quoted on the Stock Exchange for the last 60 trading days up to and including the Last Trading Day;

(g) a premium of approximately 17.3% over the average closing price of approximately HK$1.83 per Share as quoted on the Stock Exchange for the last 90 trading days up to and including the Last Trading Day;

(h) a discount of approximately 10.8% to the Group's net asset value attributable to the Shareholders of approximately HK$2.41 per Share pursuant to the latest audited consolidated financial statements of the Company as at and for the year ended 31 December 2023, calculated based on the consolidated net asset value attributable to the Shareholders of HK$2,145,348,000 as at 31 December 2023 as derived from the audited consolidated financial statements of the Company as at and for the year ended 31 December 2023 and the Shares in issue as at the Latest Practicable Date; and

(i) a discount of approximately 20.7% to the Group's adjusted unaudited consolidated net asset value attributable to the Shareholders of approximately HK$2.71 per Share, the calculation of which is set out in the section headed "PROPERTY INTERESTS AND ADJUSTED NET ASSET VALUE" in Appendix II to the Offer Document.

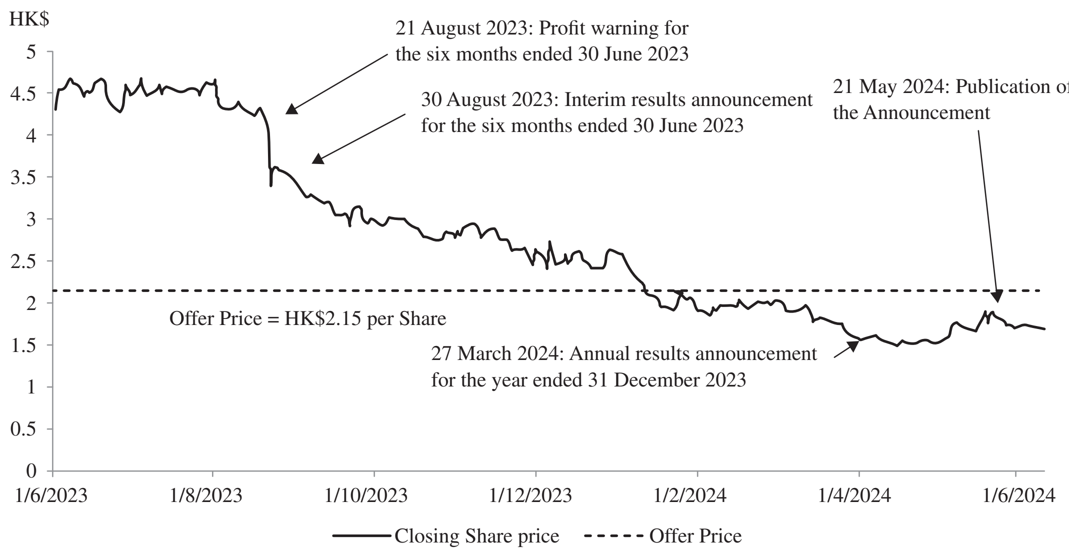
The Offer Price was determined after taking into account, among other things, (i) the historical prices of the Shares traded on the Stock Exchange as set out above; (ii) historical financial information of the Company, in particular its net cash position of approximately HK$573.6 million and investment in other financial assets of approximately HK$361.8 million as at 31 December 2023; (iii) the prevailing market conditions and sentiments as further elaborated in the section headed "REASONS FOR THE OFFER" in the Letter from the Board; and (iv) with reference to all comparable share buy-back by general offer transactions in Hong Kong since 2021 that offered median premiums of approximately 16.3% to 17.7%, and average premiums of approximately 23.1% to 26.8% over the then average closing share prices on the last trading date, and for the last 5, 10 and 30 trading days up to and including the date of their respective buy-back announcement.

The Offer Price of HK$2.15 per Share represents premiums, ranging from approximately 20.8% to 33.2%, over the recent market prices of the Shares during different periods up to and including the Last Trading Day, which are broadly in line with the levels of premiums over the then average closing share prices provided in recent years' share buy-back transactions in Hong Kong, as set out above. The consideration required for the Offer of HK$215 million, if the Offer is accepted in full, represents approximately 23.0% of the Group's total net cash and other financial assets of HK$935.4 million as at 31 December 2023, and the Company considers that completion of the Offer will have no material adverse effect on the Group's financials, as further discussed in the section headed "FINANCIAL EFFECTS OF THE OFFER" in the Letter from the Board.

(ii) Historical Share price performance

Set out below are the movement of the closing prices of the Shares as quoted on the Stock Exchange from 1 June 2023 to the Last Trading Day (i.e. 21 May 2024), being approximately one year preceding the Last Trading Day, and up to the Latest Practicable Date (the "**Review Period**"). We consider the Review Period is adequate to reflect the general market sentiment and illustrates the general trend and level of movement of the daily closing prices of the Shares.

Share price performance



Source: the website of the Stock Exchange

As shown above, during the Review Period, the closing prices of the Shares ranged from HK$1.49 on 16 April 2024, representing a discount of approximately 30.7% to the Offer Price, to HK$4.70 on 7 June 2023, representing a premium of approximately 118.6% over the Offer Price.

The closing prices of the Shares fluctuated between HK$4.70 per Share and HK$4.12 per Share from 1 June 2023 to 21 August 2023. After the publication of the profit warning announcement for the six months ended 30 June 2023 on 21 August 2023, the Share price fell rapidly to HK$3.42 per Share on 22 August 2023 and followed by a downward trend from then on. The Share price hit the lowest of HK$1.49 per Share on 16 April 2024. On the Last Trading Day, the Share price closed at HK$1.78 per Share, over which the Offer price represents a premium of approximately 20.8%. Immediately after the publication of the Announcement, the Share price increased to HK$1.91 per Share on 22 May 2024. As at the Latest Practicable Date, the Share price closed at HK$1.69 per Share, over which the Offer price represents a premium of approximately 27.2%.

We noted the Offer Price is below the closing prices of the Shares on the majority of the trading days during the Review Period (i.e. 152 days out of 252 trading days). The Group's net profit decreased by approximately 61.9% for the six months ended 30 June 2023, mainly due to the decrease in gross contribution from the Hong Kong ecommerce business segment and the decrease in deferred tax credit. In the second half of 2023, the Group's business performance did not improve compared to the first half of 2023. The Group's net profit decreased significantly by approximately 78.6% for FY2023, details of which are set out in the section headed "2. Background information of the Group" above. We believe that the decline in performance has led to a downward trend in the Share price since the publication of the profit warning announcement for the six months ended 30 June 2023. The recent Share prices in 2024 have been generally below the average closing prices of the Share during the Review Period of approximately HK$2.80 per Share.

Taking into account that (a) the Offer Price is above the closing prices of Shares during the period from 12 January 2024 to the Latest Practicable Date; (b) the Offer Price represents premiums of approximately 20.8% and 33.2% over the closing price of the Shares on the Last Trading Day and over the average closing price of the Shares for the last 30 trading days up to and including the Last Trading Day, respectively; (c) the Offer Price represents a premium of approximately 27.2% over the closing price of the Shares as at the Latest Practicable Date; (d) the retail market of Hong Kong has turned sluggish in 2024 due to combination of factors, including the domestic consumption leakage to the PRC, the increased outbound travels by local residents, the decreased number of visitors and changes in spending patterns of residents and visitors, which limited the growth of the Group's Hong Kong ecommerce business; (e) the financial performance of the Group in the coming years may be adversely impacted by the investments and capital expenditures required for the development of new ventures, and thereby investment in the Group may not align with Shareholders who seek for short-term returns; and (f) the Offer Price should be assessed together with the prevailing market conditions and the most recent Share performance of the Group, we consider that the Offer Price is fair and reasonable.

(iii) Historical trading liquidity of the Shares

The following table sets out the average daily trading volume of the Shares for each month or period and the percentages of such average daily trading volume to the total number of Shares in issue and held by the public during the Review Period.

	Number of trading days	Approximate average daily trading volume	Approximate percentage of average daily trading volume to total number of Shares in issue *(Note 1)*	Approximate percentage of average daily trading volume to total number of Shares held by the public *(Note 2)*
2023				
June	21	1,565,205	0.1694%	0.3025%
July	20	1,174,442	0.1271%	0.2270%
August	23	1,894,203	0.2053%	0.3669%
September	19	4,913,873	0.5325%	0.9518%
October	20	907,435	0.1011%	0.1849%
November	22	2,322,458	0.2589%	0.4733%
December	19	10,661,907	1.1999%	2.2117%
2024				
January	22	2,266,852	0.2551%	0.4702%
February	19	928,358	0.1045%	0.1926%
March	20	1,120,882	0.1261%	0.2325%
April	20	853,163	0.0960%	0.1770%
May	21	3,832,043	0.4313%	0.7949%
From 1 June to the Latest Practicable Date	6	738,035	0.0831%	0.1531%

Source: the website of the Stock Exchange

Notes:

1. Based on the total number of the Shares in issue at the end of each month or period.

2. Based on the number of Shares held by public Shareholders at the end of each month or period.

As illustrated in the table above, except for December 2023, the trading of the Shares was at a low level during the Review Period. The average daily trading volume for the respective month or period during the above period ranged from approximately 738,035 Shares for the period from 1 June 2024 to the Latest Practicable Date to approximately 10,661,907 Shares in December 2023, representing approximately 0.0831% to 0.1531% of the total number of the Shares in issue and approximately 0.1531% to 2.2117% of the total number of the Shares held by the public, respectively.

We consider that the high daily trading volume in December 2023 might be attributable to the publication of the Company's announcement dated 30 November 2023 in relation to the implementation of a new share repurchase program, pursuant to which the Company may utilise a maximum amount of funds of HK$40,000,000 for share repurchase during the period from 1 December 2023 to the next annual general meeting of the Company which is tentatively to be held in June 2024.

Given the low level of trading liquidity of the Shares in general as illustrated above, if the Independent Shareholders intend to dispose of a significant shareholding in the Company in the market within a short timeframe, it is possible that a downward pressure would be exerted on the market price of the Shares. In such circumstance, the Offer provides an opportunity for the Independent Shareholders with significant shareholding in the Company to at least partially realise their investments in the Company at a premium over the recent market prices. However, should the market price of the Shares rise above the Offer Price during the Offer Period and the sale proceeds (net of transaction costs) exceed the net proceeds receivable under the Offer, the Independent Shareholders may consider selling their Shares in the open market if they would like to divest the securities of the Company in the short-run.

(iv) Comparison with comparable companies

Price-to-earnings ("**P/E**"), price-to-book ("**P/B**") and price-to-sale ("**P/S**") multiples are the three most commonly used benchmarks in valuing a company. P/E is usually adopted for judging valuations for companies which are profit making. On the other hand, P/B is typically applied for valuing companies which hold liquid assets on their balance sheets and their book values approximate their fair market values such as real estate companies, banks and money lenders whereas P/S is appropriate for valuing companies which have volatile earnings or loss but stable revenue such as retailers offering general merchandise. Given that (a) the Group was profit making for the three years ended 31 December 2023; (b) the Group's total assets as at 31 December 2023 amounted to approximately HK$3,461.8 million, among which property, plant and equipment comprised approximately 56.9% of its total assets, which indicated the Group's business being capital intensive; and (c) the Group's turnover was relatively stable as compared to its fluctuating net profit, we consider the valuation methodologies using all of P/E, P/B and P/S are appropriate in valuing the Group.

Based on (a) the Offer Price of HK$2.15 per Share; (b) 888,545,781 Shares in issue as at the Last Trading Day; (c) the net profit of approximately HK$45,321,000 for FY2023; (d) the adjusted unaudited consolidated net asset value attributable to the Shareholders of approximately HK$2.71 per Share based on the calculation as set out in the section headed "PROPERTY INTERESTS AND ADJUSTED NET ASSET VALUE" in Appendix II to the Offer Document; and (e) the turnover of approximately HK$3,811,706,000 for FY2023, the P/E, P/B and P/S implied by the Offer Price are approximately 42.15 times (the "**Implied P/E**"), 0.79 time (the "**Implied P/B**") and 0.50 time (the "**Implied P/S**"), respectively.

In evaluating the fairness and reasonableness of the Offer Price, we have, based on our search on Bloomberg, identified an exhaustive list of companies (the "**Comparable Companies**") which (a) are principally engaged in ecommerce business in Hong Kong; (b) have their shares listed and traded on the Main Board of the Stock Exchange; and (c) recorded net profit for the latest financial year. Based on the aforesaid criteria, we have identified 2 Comparable Companies.

The following table set out the details of the Comparable Companies:

Company name (stock code)	**Principal activities**	**Market capitalisation on the Last Trading Day** *(HK$ million)*	**P/E** *(Note 1)* *(times)*	**P/B** *(Note 1)* *(times)*	**P/S** *(Note 1)* *(times)*
YOHO Group Holdings Limited (2347)	Sales of consumer electronics and home appliances and lifestyle products via ecommerce platform and retail store network	398.3	25.56	1.51	0.50
YesAsia Holdings Limited (2209)	Sales of fashion, lifestyle and beauty products primarily through online platforms	385.2	6.61	1.43	0.25
		Average	16.09	1.47	0.37

Company name (stock code)	Principal activities	Market capitalisation on the Last Trading Day *(HK$ million)*	P/E *(Note 1)* *(times)*	P/B *(Note 1)* *(times)*	P/S *(Note 1)* *(times)*
The Company (1137)	Ecommerce business, including but not limited to the end-to-end online shopping mall operation, multimedia production and other related services and new ventures and technology solution business	1,581.6	42.15 *(Note 2)*	0.79 *(Note 3)*	0.50 *(Note 4)*

Source: Bloomberg and the website of the Stock Exchange

Notes:

1. Being the P/E, P/B and P/S of the respective Comparable Companies on the Last Trading Day;

2. Being the Implied P/E;

3. Being the Implied P/B; and

4. Being the Implied P/S.

As shown in the table above, the Comparable Companies had an average P/E of approximately 16.09 times, an average P/B of approximately 1.47 times and an average P/S of approximately 0.37 time on the Last Trading Day. The Implied P/E of approximately 42.15 times is higher than those of all the Comparable Companies and the Implied P/S of approximately 0.5 time is higher than the average P/S of the Comparable Companies. It is noted that the Implied P/B is lower than those of the Comparable Companies. In this regard, we noted from the latest financial reports of the Comparable Companies that both of these companies did not own properties for their operation, which may result in their lower P/B and hence may not be directly comparable to the Company and shall be excluded for analysis purpose. Based on the results of the P/E and P/S analysis, we consider that the Offer Price is a fair and reasonable exit for the Shareholders from the perspective of investing in the industry that the Group engages in.

(v) Comparison with comparable transactions

We have performed an analysis of comparable buy-back transactions made by way of a general offer and involved the application of whitewash waiver, excluding privatization transactions, announced on the website of the Stock Exchange since 1 June 2021 and up to the Last Trading Day ("**Comparable Transactions**"). We consider other types of corporate transactions, such as rights issue, open offer and subscription of new shares, involving a whitewash waiver are substantially different from the nature of the Offer. The different purposes may result in different premiums or discounts represented by the offer price. In addition, we consider that a review period covering around three years prior to the Last Trading Day is appropriate as the Comparable Transactions are considered relevant for the purpose of assessing recent market practice in relation to share buy-back that involves the application of whitewash waiver. We had identified a total of four Comparable Transactions that met the said criteria, which represented an exhaustive list. However, we noted that the offer size of the buy-back transaction announced by WH Group Limited (stock code: 288) on 6 June 2021 amounted to approximately HK$14,952 million, which was significantly higher than the Offer of HK$215 million and those of other Comparable Transactions. As such, we consider the buy-back transaction conducted by WH Group Limited was not comparable and was therefore excluded from our analysis.

It should be noted that the Comparable Transactions were conducted under different market conditions. The factors and considerations, such as the business sector and market capitalisation of the companies, that affect the premium or discount of the offer prices vary on a case-by-case basis. However, given that the Comparable Transactions could provide us with a meaningful analysis of the market trend of the pricing of buy-back transactions made by way of a general offer that involves the application of whitewash waiver over the past three years, as well as a meaningful benchmark for the Independent Shareholders when evaluating the premiums provided in the Offer, we consider that the Comparable Transactions relevant in assessing the fairness and reasonableness of the Offer Price.

Set out below is a summary of the Comparable Transactions:

Date of announcement	Company name (stock code)	Percentage of shares to be repurchased	Market capitalisation on the last trading day *(HK$ million)*	Offer size *(HK$ million)*	Premium of offer price over/(Discount) of offer price to: The closing price on the last trading day	The average closing price for last 5 trading days up to and including the last trading day	The average closing price for last 10 trading days up to and including the last trading day	The average closing price for last 30 trading days up to and including the last trading day	The average closing price for last 60 trading days up to and including the last trading day	The average closing price for last 90 trading days up to and including the last trading day	Net asset value or adjusted net asset value (if applicable) attributable to the shareholders per share
11 July 2023	Shougang Fushan Resources Group Limited (639)	2.47%	10,306	300	17.6%	17.6%	20.6%	9.6%	(1.2%)	(2.4%)	(27.7%) *(Note 2)*
23 December 2022 and 28 March 2023	Skyworth Group Limited (751) *(Note 5)*	3.87%	9,281	500	58.2%	64.5%	62.9%	67.2%	66.1%	56.7%	(38.9%) *(Note 3)*
6 January 2023	SciClone Pharmaceuticals (Holdings) Limited (6600)	11.17%	6,131	780	13.9%	14.2%	17.7%	25.1%	40.0%	43.5%	131.3% *(Note 4)*
				Maximum	58.2%	64.5%	62.9%	67.2%	66.1%	56.7%	131.3%
				Minimum	13.9%	14.2%	17.7%	9.6%	(1.2%)	(2.4%)	(38.9%)
				Average	29.9%	32.1%	33.7%	34.0%	35.0%	32.6%	21.6%
				Median	17.6%	17.6%	20.6%	25.1%	40.0%	43.5%	(27.7%)
21 May 2024	The Company	11.25%	1,582	215	20.8%	23.0%	23.1%	33.2%	23.7%	17.3%	(20.7%) *(Note 1)*

Notes:

1. By taking into account the effect of revaluation surplus arising from the valuation of all the property interests held by the Group as at 30 April 2024, the Group's adjusted unaudited consolidated net asset value attributable to the Shareholders amounted to approximately HK$2.71 per Share, the calculation of which is set out in the section headed "PROPERTY INTERESTS AND ADJUSTED NET ASSET VALUE" in Appendix II to the Offer Document.

2. Discount to the audited net asset value attributable to the shareholders of Shougang Fushan Resources Group Limited per share as at 31 December 2022.

3. Discount to the adjusted audited net asset value attributable to the shareholders of Skyworth Group Limited per share as at 31 December 2022, which was adjusted by revaluation surplus based on the valuation of the property interests as at 31 January 2023 as disclosed in its offer document dated 14 April 2023.

4. Premium to the unaudited net asset value attributable to the shareholders of SciClone Pharmaceuticals (Holdings) Limited per share as at 30 June 2022.

5. The offer price comparison of Skyworth Group Limited is based on the revised offer price as announced by Skyworth Group Limited on 28 March 2023, which increased the offer price from HK$3.8 per share to HK$5.0 per share, and the historical share prices immediately prior to the initial announcement for the share buy-back issued by Skyworth Group Limited on 23 December 2022.

A total of three Comparable Transactions have been identified which represent an exhaustive and representative list based on our selection criteria and are considered appropriate for our evaluation. As set out in the table above, the Offer Price represents:

(a) a premium of approximately 20.8% over the closing price of the Shares on the Last Trading Day, which is within the range of the Comparable Transactions and higher than the median of those of the Comparable Transactions;

(b) a premium of approximately 23.0% over the average closing price of the Shares for the last 5 trading days up to and including the Last Trading Day, which is within the range of the Comparable Transactions and higher than the median of those of the Comparable Transactions;

(c) a premium of approximately 23.1% over the average closing price of the Shares for the last 10 trading days up to and including the Last Trading Day, which is within the range of the Comparable Transactions and higher than the median of those of the Comparable Transactions;

(d) a premium of approximately 33.2% over the average closing price of the Shares for the last 30 trading days up to and including the Last Trading Day, which is within the range of the Comparable Transactions and higher than the median of those of the Comparable Transactions;

(e) a premium of approximately 23.7% over the average closing price of the Shares for the last 60 trading days up to and including the Last Trading Day, which is within the range of the Comparable Transactions but lower than the average and median of those of the Comparable Transactions;

(f) a premium of approximately 17.3% over the average closing price of the Shares for the last 90 trading days up to and including the Last Trading Day, which is within the range of the Comparable Transactions but lower than the average and median of those of the Comparable Transactions;

(g) a discount of approximately 20.7% to the adjusted net asset value attributable to the Shareholders per Share taking into account the effect of revaluation surplus arising from the valuation of all the property interests held by the Group as at 30 April 2024, the calculation of which as set out in the section headed "PROPERTY INTERESTS AND ADJUSTED NET ASSET VALUE" in Appendix II to the Offer Document, which is within the range of the Comparable Transactions and is lower than the median of those of the Comparable Transactions.

Although the premiums of the Offer Price to the closing prices of the Shares for various periods before the Last Trading Day are all lower than the averages of those of the Comparable Transactions, we consider that such result was distorted by the sample of Skyworth Group Limited (stock code: 751), which had significantly higher premiums as compared to the other two comparable companies as it increased its offer price after the initial announcement of the offer. Given the limited sample size of the Comparable Transactions, we consider that the average could be distorted by extrema and may not be as representative as the median. Hence, we consider the medians of those the Comparable Transactions are more relevant to our analysis. Given the premiums of the Offer Price to the closing prices of the Shares for various periods in the 30 trading days before the Last Trading Day were higher than the median of those of the Comparable Transactions and the discount of the Offer Price to the adjusted net asset value attributable to the Shareholders per Share was lower than the median of those of the Comparable Transactions, we consider the Offer Price to be fair and reasonable.

(vi) Overall comment

Taking into account that (a) the Offer Price represents significant premiums of approximately 20.8% and approximately 27.2% over the closing price of the Shares on the Last Trading Day and the Latest Practicable Date, respectively; (b) the Implied P/E is higher than those of the Comparable Companies and the Implied P/S is higher than the average P/S of the Comparable Companies; (c) the premiums of the Offer Price to the closing prices of the Shares for various periods in the 30 trading days before the Last Trading Day were higher than the medians of those of the Comparable Transactions; (d) the discount of the Offer Price to the adjusted net asset value attributable to the Shareholders per Share, which takes into account the effect of revaluation surplus arising from the valuation of all the property interests held by the Group as at 30 April 2024, was lower than the median of those of the Comparable Transactions; and (e) given the low level of liquidity in the Shares, it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of Shares in the open market without causing an adverse impact on the market price of the Shares, we consider the Offer Price to be fair and reasonable and that the Offer provides an exit alternative for the Independent Shareholders who would like to at least partially realise their investments in the Shares.

5. Financial effect of the Offer on the Group

The unaudited pro forma financial information of the Group (the "**Unaudited Pro Forma Financial Information**") upon completion of the Offer is set out in Appendix III to the Offer Document.

(i) NAV per Share

As set out in the Unaudited Pro Forma Financial Information, assuming that the Offer had been completed as at 31 December 2023, the unaudited pro forma adjusted consolidated net assets attributable to the Shareholders would be approximately HK$1,924.3 million as at 31 December 2023. As at the Latest Practicable Date, there were 888,545,781 Shares in issue. Assuming no Share Options would be exercised from the Latest Practicable Date up to and including the date of completion of the Offer and assuming 100,000,000 Shares were bought-back under the Offer, there would be

788,545,781 Shares as at the Latest Practicable Date. Based on the unaudited pro forma adjusted consolidated net assets attributable to the Shareholders of approximately HK$1,924.3 million as at 31 December 2023 and 788,545,781 issued Shares, the unaudited pro forma NAV per Share would be approximately HK$2.44 as at 31 December 2023, representing an increase of approximately 1.24% as compared to the NAV per Share of approximately HK$2.41 as at 31 December 2023 as derived from the audited consolidated financial statements of the Group for FY2023.

(ii) Earnings per Share

As set out in the 2023 Annual Report, the profit for the year was approximately HK$45.3 million. Based on the weighted average number of 917,882,894 issued Shares for FY2023, the basic earnings per Share was approximately HK$0.049 for FY2023.

As set out in the Unaudited Pro Forma Financial Information, assuming that the Offer had been completed as at 1 January 2023, the consolidated profit would still be approximately HK$45.3 million for FY2023. Based on the pro forma adjusted weighted average number of Shares of 817,882,894, the unaudited pro forma adjusted basic earnings per Share would be approximately HK$0.055 for FY2023, representing an increase of approximately 12.2% as compared to the basic earnings per Share of approximately HK$0.049 for FY2023.

(iii) Working Capital

The working capital (expressed as net current assets or liabilities) as at 31 December 2023 would be changed from net current assets of approximately HK$16.4 million to net current liabilities of approximately HK$204.6 million.

Nevertheless, after taking into consideration, among others, (i) the working capital requirement of the Group, in particular the expected cash generation from and usage in operating activities in the near future, with reference to the net cash generated from operating activities of approximately HK$554.0 million and approximately HK$366.7 million in 2022 and 2023 respectively, (ii) net cash position of the Group following completion of the Offer, being approximately HK$352.6 million based on the Unaudited Pro Forma Financial Information, and (iii) the uncommitted banking facilities available to the Group amounting to approximately HK$1,016.6 million as at 31 December 2023, we concur with the Directors that the Group will have sufficient working capital to meet its normal operating requirements after completion of the Offer assuming full acceptance of the Offer.

6. Whitewash Waiver

As at the Latest Practicable Date, the Top Group Concert Group held 406,478,940 Shares, representing approximately 45.75% of the issued Shares. Pursuant to Rule 32 of the Takeovers Code and Rule 6 of the Share Buy-backs Code, if as a result of a share buy-back, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code.

Each of Top Group, Mr. Wong, Mr. Cheung, Worship Ltd., Ms. Wong, Mr. Lau and Ms. Zhou has irrevocably undertaken to the Company that (a) he/she/it will not, and will procure the holders of Shares whose Shares he/she/it is deemed to be interested in by virtue of Part XV of the SFO not to, accept the Offer; and (b) prior to the earlier of the Offer closing or lapsing: (i) he/she/it will not, and will procure any party acting in concert with him/her/it not to, acquire any Share or other securities of the Company; (ii) he/she/it will not, and will procure any party acting in concert with him/her/it not to, sell, transfer or encumber any Share; and (iii) in the case of Mr. Wong, Mr. Cheung, Ms. Wong, Mr. Lau and Ms. Zhou, he/she will not exercise any Share Option. The 406,478,940 Shares held by such persons which are subject to the Irrevocable Undertakings represent approximately 45.75% of the issued Shares. The Irrevocable Undertakings are binding until the closing, lapse or withdrawal of the Offer.

Depending on the level of acceptances received from the Accepting Shareholders pursuant to the Offer, taking into account the Irrevocable Undertakings and assuming that no Share Options will be exercised by their holders prior to completion of the Offer and all the Conditions are fulfilled, the aggregate interests of the Top Group Concert Group may increase to a maximum level of approximately 51.55% upon completion of the Offer, thereby triggering an obligation under Rule 26 of the Takeovers Code for Top Group to make a mandatory general offer for all the Shares not already owned by it and parties acting in concert with it. Accordingly, an application has been made to the Executive by Top Group for the Whitewash Waiver. The Executive has indicated that the it will grant the Whitewash Waiver, subject to, among others, approval by the Independent Shareholders at the EGM by way of poll, to waive any obligations of Top Group to make a mandatory general offer which might result from completion of the Offer.

The Offer will be conditional upon approval by more than 50% of the votes cast by the Independent Shareholders, in person or by proxy, by way of poll at the EGM, the Whitewash Waiver being approved by at least 75% of the votes cast by the Independent Shareholders, in person or by proxy, by way of poll at the EGM and the Whitewash Waiver being granted by the Executive. If the Offer or the Whitewash Waiver is not approved by the Independent Shareholders, or if the Whitewash Waiver is not granted by the Executive, the Offer will not proceed and will immediately lapse.

The Whitewash Waiver is a condition to the Offer which cannot be waived. The approval of the Whitewash Waiver by the Independent Shareholders will therefore be necessary for the Offer to proceed to completion and for the Shareholders to enjoy the benefits brought about by the Offer. Shareholders should note that if the Whitewash Waiver is not granted by the Executive or is not approved by the Independent Shareholders, the Offer will not become unconditional and the Company will not proceed with the Offer and the Offer will be terminated. In other words, a general offer obligation on the part of the Top Group Concert Group will not arise if Top Group fails to obtain the Whitewash Waiver.

OPINION AND RECOMMENDATION

The Offer

Taking into account the principal factors and reasons as discussed above, in particular:

(i) the Offer provides the Shareholders an option either to tender Shares at a premium over recent market prices, or to increase their proportionate equity interests in the Company by retaining their shareholdings and participating in the future prospects of the Group with enhanced NAV per Share and earnings per Share after the Offer;

(ii) although the retaining Shareholders can increase their proportionate interests in the Company and participating in the future prospects of the Company with enhanced NAV per Share and earnings per Share after the Offer, the outlook for the retail market in Hong Kong is uncertain in the short term, which may impact the growth of the Group's Hong Kong ecommerce business. The financial performance of the Group in the coming years may also be adversely impacted by the investments and capital expenditures required for the development of new ventures, and hence the investment in the Group may not align with Shareholders who seek for short-term returns;

(iii) the Offer Price represents premiums of approximately 20.8% and approximately 27.2% over the closing prices of HK$1.78 and HK$1.69 per Share on the Last Trading Day and the Latest Practicable Date, respectively;

(iv) the premiums of the Offer Price over the closing prices of the Shares for various periods in the 90 trading days before the Last Trading Day were significant, in the range of approximately 17.3% to 33.2%;

(v) given the low level liquidity in the Shares, it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of Shares in the open market without causing an adverse impact on the market price of the Shares;

(vi) the Implied P/E is higher than all the Comparable Companies and the Implied P/S lies toward the high end of the Comparable Companies; and

(vii) the premiums of the Offer Price to the closing prices of the Shares for various periods in the 30 trading days before the Last Trading Day were higher than the medians of those of the Comparable Transactions and the discount of the Offer Price to the adjusted net asset value attributable to the Shareholders per Share, which takes into account the effect of revaluation surplus arising from the valuation of all the property interests held by the Group as at 30 April 2024, was lower than the median of those of the Comparable Transactions, we consider that the terms of the Offer (including the Offer Price) are fair and reasonable and in the interest of the Independent Shareholders. Accordingly, we recommend the Independent Board Committee to advise, and we ourselves advise, the Independent Shareholders to vote in favour of the resolution with respect to the approval of the Offer and to accept the Offer.

Nevertheless, Independent Shareholders who are optimistic about the future financial performance of the Group after the Offer, may, having regard to their own circumstances, consider retaining all or any part of their Shares.

The Independent Shareholders are also advised to closely monitor the market price and liquidity of the Shares during the Offer Period, and consider selling their Shares in the open market if they would like to divest the securities of the Company in the short-run, where possible, instead of accepting the Offer, in the event that the market price of the Shares rises above the Offer Price during the Offer Period and the sale proceeds (net of transaction costs) exceed the net proceeds receivable under the Offer.

Independent Shareholders should closely monitor the market price and liquidity of the Shares during the Offer Period and carefully consider the relevant risks and uncertainties based on their individual risk preference and tolerance level. Those Independent Shareholders who decide to retain part or all of their investments in the Shares should also carefully monitor the financial performance of the Group.

The Whitewash Waiver

As aforementioned, the Offer will not proceed if the Whitewash Waiver is not granted by the Executive or the Offer as well as the Whitewash Waiver are not approved by the Independent Shareholders at the EGM.

In view of (i) the aforesaid reasons for and benefits of the Offer; and (ii) that the terms of the Offer are fair and reasonable, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for proceeding with the Offer, is (i) in the interests of the Company and the Shareholders (including the Independent Shareholders); and (ii) is fair and reasonable for the purpose of proceeding with the Offer.

Accordingly, we recommend the Independent Board Committee to advise, and we ourselves advise, the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Offer and the Whitewash Waiver.

As different Shareholders would have different investment criteria, objectives and/or circumstances, we would recommend any Shareholders who may require advice in relation to any aspect of the Offer Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited

Larry Choi
Managing Director

Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over 10 years of experience in the corporate finance industry.